State Farm®

SPRING 2018

mutual funds INVESTOR

Taking the Long View on Markets

HOW A LONG-TERM STRATEGY CAN HELP YOU MEET GOALS AND AVOID CERTAIN RISKS.

OVER THE PAST NINE DECADES, STOCKS HAVE BEEN THE MAJOR GROWTH DRIVERS IN INVESTMENT PORTFOLIOS.[1] However, stocks also are major sources of short-term portfolio volatility, as share prices can rise and fall dramatically over a matter of days or even hours. This can make investing in stocks challenging for a risk-averse investor who can't stomach a large loss in his or her portfolio's value—even if that loss is only temporary.

One of the keys to successful investing is the ability to ignore the inevitable short-term fluctuations and stay focused on your long-term strategy and goals. This long view is essential for investors just starting out in their careers, but it's also important for those nearing retirement. Because even as a new retiree, your time horizon is probably longer than you believe it to be.

Why long-term versus short-term matters

Typically, an investor on the verge of retiring may believe the time horizon is short. But life expectancy is on the rise—a 65-year-old woman

[1]Ibboston Classic Yearbook 2015

Continued on page 2

Continued from page 1

HOW TO CONTACT US:

SPEAK TO A REPRESENTATIVE FROM OUR MUTUAL FUNDS RESPONSE CENTER:

Call In — 1.800.447.4930 (for State Farm® Associates call 1.800.447.0740) Mon-Fri 8AM-6PM CT. Or use our interactive voice response system 24 hours a day, 7 days a week.

LET TECHNOLOGY WORK FOR YOU:

Download the State Farm Mobile app for your smartphone or tablet.

- Manage mutual fund accounts.
- View transaction history.
- View pending transactions.

VISIT STATEFARM.COM TO:

- Sign up for electronic delivery.
- View your personal portfolio.
- Obtain current values.
- View transaction history.
- View and print statements.
- Purchase, exchange, or redeem shares.

Investing involves risk, including potential for loss.

Before investing, consider the funds' investment objectives, risks, charges, and expenses. Contact State Farm VP Management Corp (1.800.447.4930) for a prospectus or summary prospectus containing this and other information. Read it carefully. AP2018/01/0178

Not FDIC Insured	No Bank Guarantee
	May Lose Value

An electronic version of the *Mutual Funds Investor* newsletter can be accessed on statefarm.com by searching for *Investor Newsletter*.

now has a 25 percent chance of living to age 96.[2] So that investor could be facing a retirement that lasts three decades or more. With such a long time horizon, you can't afford to forgo exposure to stocks.

That's because historically, stocks offer more potential growth than other asset classes such as bonds. Stocks have gained value in every 20-year period since 1926, outpacing bonds' performance in all but one of those periods.[3] So, if your time horizon is longer than 20 years, based on historical performance, your well-diversified stock portfolio may gain in value over that time.

It is in the short term that stocks can be a challenging investment for many investors; a sharp market decline may trigger a sell impulse to avoid additional losses. However, giving in to such an impulse can lead you to lose money, since selling after a loss locks in those losses. What's more, if you reinvest in stocks and you reenter the market after the recovery has begun, you risk missing out on some of those initial gains.

By comparison, an investor who stays focused on the long-term view and is willing to wait out the full market cycle won't lock in losses and will fully participate in the recovery.

The risks of avoiding stocks

Many investors limit their exposure to stocks in the belief that doing so will help protect them from market risk. This may be true, but it also increases other risks, including longevity, inflation, and interest rate exposure.

Longevity risk is the possibility that you may outlive your assets. Stable assets, such as bonds and cash, may not generate enough money to cover your income needs over a retirement lasting 30 years or more. The growth potential from stocks can help offset this risk.

Inflation risk is the potential that inflation will erode your savings' purchasing power. Generally, less volatile asset classes, such as bonds and cash, lack the growth potential needed to consistently outpace inflation. This means that later in life you may not have lost money but your savings may not be sufficient to afford the lifestyle you expect.

Interest rate risk typically impacts fixed-income investments such as bonds. When interest rates rise, bond prices fall. As a result, relying on bond investments alone to reduce your portfolio's short-term volatility could leave you facing losses during a period of rising interest rates.

By taking the long view, you will be better prepared to handle the short-term volatility that comes with investing in stocks. As a result, you'll be more likely to hold an appropriate allocation to stocks, which will help protect you against many other potential risks.

[2] Actuaries Longevity Illustrator http://www.longevityillustrator.org/ 2016

[3] Ibboston Classic Yearbook 2015

EARLY OR LATE:
MAKING THE MOST OF SOCIAL SECURITY

Consider delaying benefits to net a higher sum in retirement.

The longer you delay, the higher your fixed monthly benefits will be.

$$$

And locking in a higher benefit amount can add up over a retirement that could last decades.

62 — **EARLIEST AGE** you can start claiming Social Security benefits

67 — Age at which you **QUALIFY FOR FULL BENEFITS** (for those born in 1960 or later)

70 — Age after which **THERE IS NO ADDITIONAL BENEFIT** for delaying

Claiming a smaller amount early or waiting longer to claim a larger benefit involves a tradeoff that depends in part on your expected longevity.

Data source: ssa.gov
(Based on retirement age of 62, 70, or 72 with life expectancy of 95 years.) These hypothetical charts are for illustrative purposes only and do not represent any specific type of investment. It does not include the impact of expenses or fees, which would have reduced the results of the illustration.

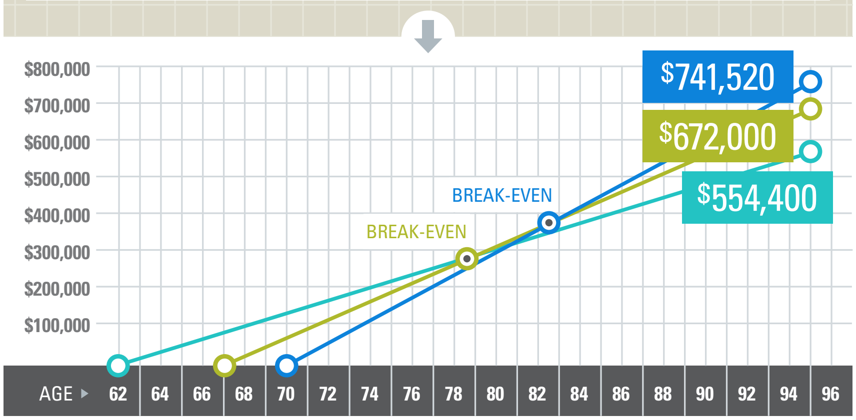
THE EFFECT ON A $2,000 MONTHLY BENEFIT…

CLAIM DATE	AGE	$2,000 MONTHLY BENEFIT WOULD BE…	BREAK-EVEN AGE
EARLY	62	$1,400	
FULL RETIREMENT AGE (FRA)	67	$2,000	78 AND 8 MONTHS
DELAYED	70	$2,480	82 AND 6 MONTHS

↓30% Reduction in your monthly benefit if you **CLAIM AT AGE 62**

62 63 64 65 66 67 68 69 70

↑24% Increase in your benefit if you delay **CLAIMING UNTIL AGE 70**



34% More in total retirement benefits for a 95-year-old who **CLAIMED SOCIAL SECURITY AT AGE 70 VERSUS ONE WHO CLAIMED AT AGE 62**

A number of factors will impact your decision about when to claim your Social Security retirement benefits, including **your current income needs, your expected retirement age and your life expectancy.**

But understanding the value of delaying when you claim your retirement benefits **can help you make a more informed decision about your Social Security strategy.**

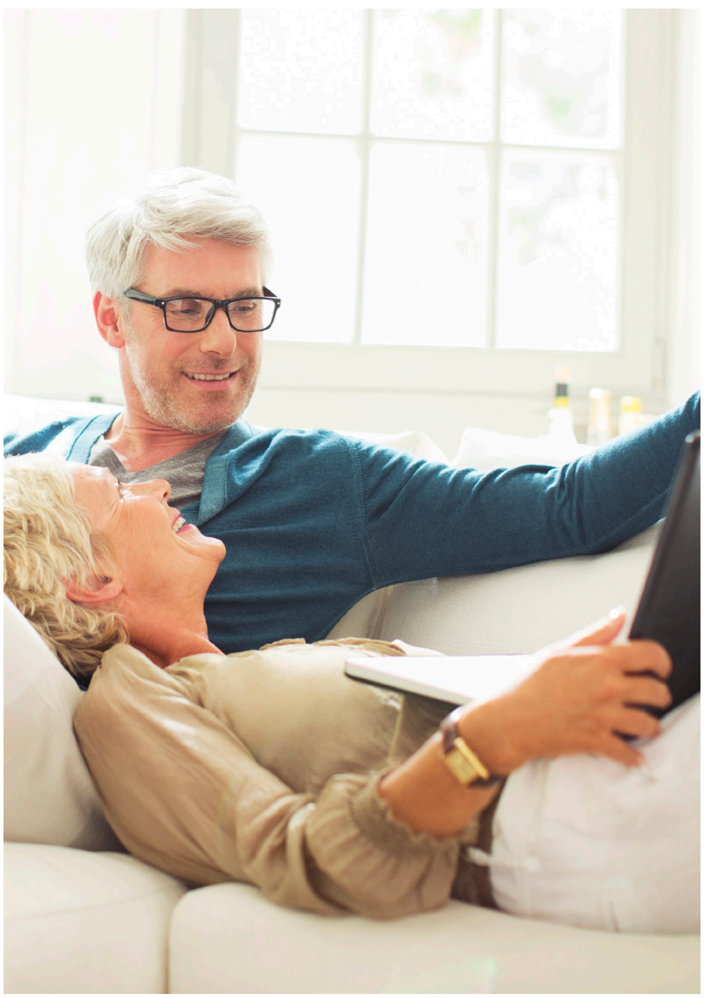
BALANCING MULTIPLE SAVINGS GOALS

Thoughtful planning and a balanced budget can help you achieve your financial objectives.

FROM SAVING FOR RETIREMENT TO SAVING FOR A CHILD'S EDUCATION, YOU PROBABLY HAVE MORE THAN ONE FINANCIAL GOAL ON YOUR MIND. And though the best way to work toward those goals is to save early and often, it can be a challenge to determine how best to allocate your limited savings dollars. Balancing your household budget and setting priorities for each of your financial goals can help you plan more effectively to achieve all of them.

BALANCE YOUR BUDGET

When setting savings priorities, a balanced budget is essential because if your household budget exceeds your household income, you won't be able to save much. Balancing your budget also helps you determine how to spend your discretionary dollars—the money going elsewhere than to essential expenses. Small adjustments in your discretionary budget can help you maximize the amount allocated to your savings goals, which makes setting priorities easier.



CREATE AN EMERGENCY SAVINGS FUND

Along with a balanced budget, a fully funded emergency fund is an essential part of any savings plan. Without one, any unexpected expense, such as a hospital visit or home repair, could derail your savings strategy. An emergency fund can help you cover those expenses without taking on debt or dipping into savings earmarked for other goals. If you don't have an emergency fund, prioritize saving enough to cover six months' worth of expenses.

SET YOUR PRIORITIES

The key to setting priorities is to balance the relative importance of each goal and its time horizon. Also, ask yourself whether you are solely responsible for saving for that goal, as with retirement. Or can alternate funding options make up for any savings shortfalls such as college loans? When your savings budget is limited, your decisions lead to tradeoffs between your long-term goals and your situation.

Consider the following:

Retirement

Saving for retirement must be a priority because there is no alternative to funding your retirement than through savings you set aside now. Ideally you should set aside 15 percent of your income for retirement. But if you can't target that much now, save what you can and commit to increasing your contributions each year. If your employer-sponsored plan offers matching contributions, make it a priority to save enough to qualify for that match.

College

Once you target savings for retirement, determine how much of your discretionary budget you can earmark for other long-term goals such as college savings. Only you can decide whether the tradeoff of saving more for college and less for retirement is worth it.

Short-term goals

Once you've set up a strategy for your longer-term objectives, target your short-term goals such as a down payment on a house or saving for a vacation. Time horizon is important here: Saving for a home in 10 years at the expense of saving for a car you need next year might put you in a tough situation. When it comes to short-term goals, it may make sense to direct more savings where you are likely to need them first.

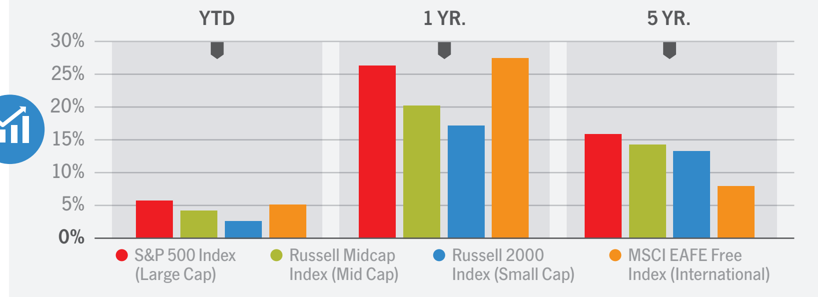
Setting priorities to balance your savings goals isn't a one-time exercise either, given that your goals and situation may change. Take the time to periodically re-evaluate your financial goals.

STATE FARM MARKET RECAP As of January 31, 2018

EQUITIES RECAP

- Global equities began the year on a positive note, supported by strengthening economic growth across several regions and the potential benefits from the recently passed tax reform bill in the U.S.
- In the U.S., large-cap stocks led the major indices, with the benchmark S&P 500® Index posting a 5.7% total return, the best opening month to start a year since January 1997.

EQUITIES MARKET PERFORMANCE Total Returns for Period Ending January 31, 2018

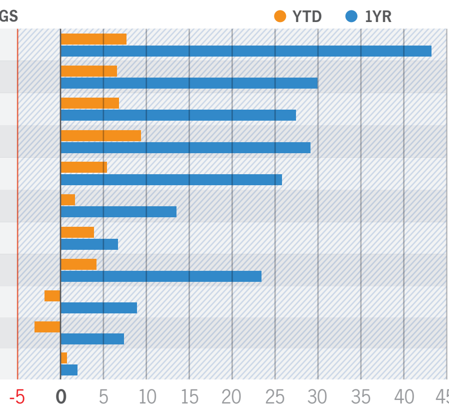


U.S. EQUITIES

- U.S. equity markets kicked off 2018 with a strong performance, as most stocks experienced gains and each major index posted positive returns. January was the best monthly return for the S&P 500 Index since March 2016 (+6.8%), while the tech-heavy NASDAQ Composite Index (not shown) had its best monthly gain since October 2015.
- Helped by the recent passing of the tax reform bill, mid- and small-cap stocks also started the year in positive territory, with the Russell MidCap® Index and Russell 2000® Index posting total returns of 3.8% and 2.6%, respectively. With most of their revenues coming from domestic companies, mid- and small-cap stocks stand to benefit from the lower tax rates.

PERFORMANCE OF S&P 500 INDEX Total Returns for Period Ending January 31, 2018

	WEIGHTINGS
Information Technology	24.2%
Financials	14.9%
Health Care	13.9%
Consumer Discretionary	12.6%
Industrials	10.3%
Consumer Staples	7.9%
Energy	6.0%
Materials	3.0%
Utilities	2.7%
Real Estate	2.7%
Telecommunication Services	1.9%



Ranked by highest to lowest index weighting.

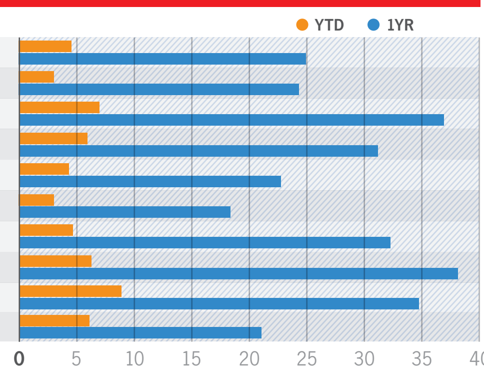
GLOBAL EQUITIES

- International equity markets posted strong results to start the year, as the MSCI EAFE Index increased 5.0%, in U.S. dollars. International economic growth continued to show strength at the end of 2017, with the Eurozone posting gross domestic product (GDP) growth of 2.5% for the full year, its strongest performance since 2007. Meanwhile, emerging markets continued to benefit from positive asset flows and have been primary beneficiaries of the weaker U.S. dollar.

Ranked by highest to lowest country weighting.
Returns are in U.S. dollars with dividends reinvested.
Weightings as of December 31, 2017.

PERFORMANCE OF MSCI EAFE INDEX Total Returns for Period Ending January 31, 2018

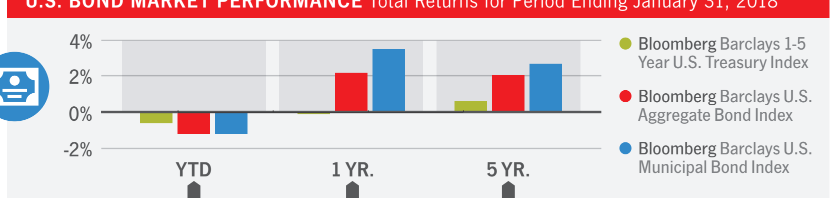
	WEIGHTINGS
Japan	24.0%
United Kingdom	17.8%
France	10.7%
Germany	9.8%
Switzerland	8.0%
Australia	6.9%
Netherlands	3.6%
Hong Kong	3.6%
Spain	3.2%
Sweden	2.7%



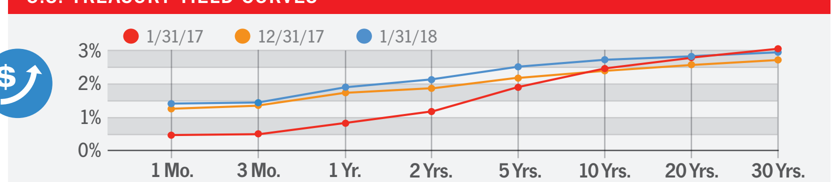
FIXED INCOME RECAP

- In the U.S. fixed income markets, investment-grade bonds experienced modest declines in January, after the Federal Reserve announced it would leave interest rates unchanged, in the range of 1.25% to 1.50%. For the month, the Bloomberg Barclays U.S. Aggregate Bond Index posted a -1.2% total return. Over the longer 1- and 5-year time periods, investment-grade bonds recorded annualized total returns of 2.2% and 2.0%, respectively.
- U.S. municipal bond flows slowed in January, as investors sold off assets due to changes in the tax laws. For the month, the Bloomberg Barclays U.S. Municipal Bond Index posted a -1.2% total return. Over the longer 1- and 5-year time periods, municipal bonds recorded annualized total returns of 3.5% and 2.7%, respectively.

U.S. BOND MARKET PERFORMANCE Total Returns for Period Ending January 31, 2018



U.S. TREASURY YIELD CURVES



MARKET COMMENTARY

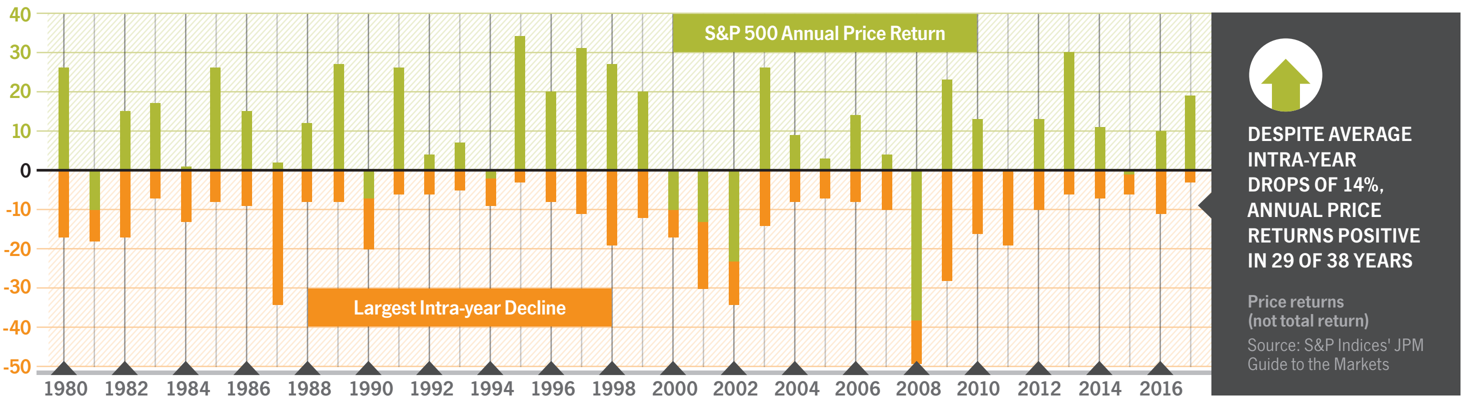
Don't Overreact to Short-Term Market Changes

2017 was another banner year for the U.S. stock market, with the benchmark S&P 500® Index gaining 19.4 % (21.8 % with dividends) and extending the second-longest bull market in U.S. history. The percentage gains were significant, though not unprecedented. What was uncommon about 2017 was the consistency of price appreciation and the absence of volatility throughout the year. In fact, during the year the S&P 500 Index gained or lost more than 1% on just eight trading days (four to the upside and four to the downside), and the lowest the market declined was just -3%.

While the S&P experienced historic low levels of volatility in 2017, investors shouldn't expect this trend to continue. The chart shows the annualized price returns for the S&P 500 Index from 1980–2017. During this period, the average intra-year decline (or maximum drawdown) was -14%, well below the -3% the market experienced in 2017. Even during years when the stock market records positive annual returns, periods of sharp declines can still appear. For example, in 2009 the market experienced a price return of 23%, while the largest decline was -28%.

While intra-year declines are common, investors should keep market volatility in perspective and stay focused on their long-term goals. Investing to achieve retirement goals requires a long-term focus, and maintaining a disciplined, unemotional investment approach may be your most prudent strategy. State Farm® is here to help you with these and other financial or insurance needs you may have.

Equity Markets Typically Exhibit Much Greater Drawdowns than What Was Experienced in 2017



- **Securities, insurance and annuity products are not FDIC insured, are not bank guaranteed and are subject to investment risk, including possible loss of principal.**
- Past performance is no guarantee of future results.
- It is not possible to invest directly in an index.
- Diversification, Automatic Investment Plans, and Asset Allocation do not assure a profit or protect against loss.
- Investing involves risk, including potential for loss. Current and future portfolio holdings are also subject to risk.
- Bonds are subject to interest rate risk and may decline in value due to an increase in interest rates.
- The stocks of small companies are more volatile than the stocks of larger, more established companies.
- Foreign investments involve greater risks than U.S. investments, including political and economic risks and the risk of currency fluctuations.
- Emerging markets involve greater risks than U.S. investments due to lower trading volume, political and economic instability, and other governmental limitations on foreign investment policy.
- The S&P 500® Index tracks the common stock performance of 500 large U.S. companies.
- Standard & Poor's, S&P, and S&P 500 are registered trademarks of Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies.
- The Russell Midcap® Index measures the performance of the mid-cap segment of the U.S. equity universe and is a subset of the Russell 1000 Index.
- The Russell 2000® Index tracks the common stock performance of the 2,000 smallest U.S. companies in the Russell 3000 Index.
- Russell Investments is the owner of trademarks, service marks, and copyrights related to its respective indexes.
- The Dow Jones Industrial Average® is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.
- The NASDAQ Composite Index® is the market capitalization-weighted index of approximately 3,000 common equities listed on the NASDAQ stock exchange.
- The Morgan Stanley Capital International Europe, Australasia and Far East (MSCI EAFE) Index captures large and mid-cap representation across Developed Markets countries around the world, excluding the U.S. and Canada.
- The MSCI EM (Emerging Markets) Index is a capitalization-weighted index of stocks from 26 emerging markets that only includes issues that may be traded by foreign investors.
- The MSCI Japan Index is designed to measure the performance of the large- and mid-cap segments of the Japanese stock market.
- The Bloomberg Barclays 1–5 Year U.S. Treasury Index measures the performance of short-term U.S. Treasury Securities maturing within one to five years.
- The Bloomberg Barclays U.S. Aggregate Bond Index represents debt securities in the U.S. investment-grade fixed-rate bond market.
- The Bloomberg Barclays Municipal Bond Index is an unmanaged index representative of the tax-exempt bond market.
- Neither State Farm nor its agents provides tax or legal advice.
- **You could lose money by investing in the Money Market Fund. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation ("FDIC") or any other government agency. The Fund's sponsor has no legal obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time.**
- This recap has been prepared by State Farm VP Management Corp. for informational purposes. The information contained herein has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. Any opinions discussed herein reflect our judgment as of the date of publication and are subject to change without notice. This material should not be considered a recommendation to purchase or sell any security.
- **Before investing, consider the funds' investment objectives, risks, charges, and expenses. Contact State Farm VP Management Corp (800-447-4930) for a prospectus or summary prospectus containing this and other information. Read it carefully. Securities are not FDIC insured, are not bank guaranteed and are subject to investment risk, including possible loss of principal. Bonds are subject to interest rate risk and may decline in value due to an increase in interest rates. Neither State Farm nor its agents provide tax, or legal advice.**

State Farm®

State Farm VP Management Corp.
One State Farm Plaza, Bloomington, IL 61710-0001
1-800-447-4930

FS-40436 KS 0118