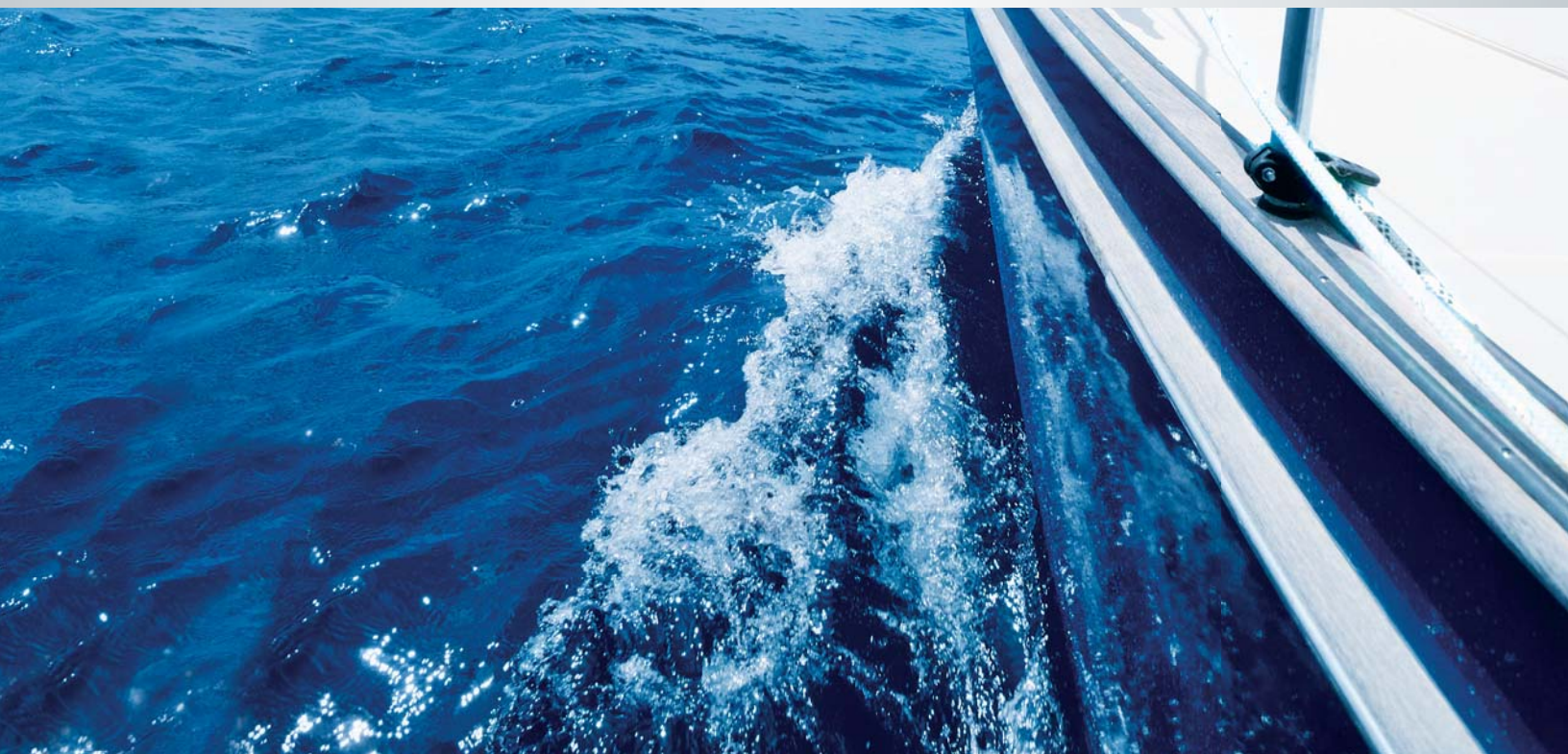




# ML Strategic Balanced Index<sup>®</sup>

Dynamically Blending Equity and Fixed Income  
Indices to Help Stabilize Returns



## What Is the ML Strategic Balanced Index®?

The **ML Strategic Balanced Index**® uses a rules-based approach to blend equity and fixed income indices. By dynamically allocating exposures to equity, fixed income and cash, the ML Strategic Balanced Index® seeks to provide a stable return in changing market environments. It is available with select index annuity and life products issued by American General Life Insurance Company and The Variable Annuity Life Insurance Company, member companies of American International Group, Inc. (AIG).

**Important note:** While the ML Strategic Balanced Index's composition and risk controlled nature may lessen the impact of market downturns, it may also lessen the upside potential return of the Index's performance.



# 3 Key Features of the ML Strategic Balanced Index®

The **ML Strategic Balanced Index®** (the “Index”) is a blend of the S&P 500® Index and the Merrill Lynch 10-Year Treasury Futures Total Return Index. It offers:

## 1 Rules-Based Indexing

A non-discretionary process is used to adjust exposures between equity and fixed income indices. Weightings are derived from quantitative rules, allowing allocations to be made systematically without being impacted by biases or emotions.

## 2 Risk Control

The Index employs two layers of risk management. Equity and fixed income are rebalanced semiannually. Cash positions are adjusted on a daily basis<sup>1</sup>.

## 3 Dynamic Allocation

The Index has the flexibility to increase the combined equity and fixed income exposure to as high as 150% to help enhance growth potential.

By combining these key features, the Index offers the potential to deliver **Stable Returns** over time.

**Note: The information contained herein is supplemental to a consumer product brochure and must be used in conjunction with this brochure. The ML Strategic Balanced Index® is only available within an index annuity or index universal life insurance product. These products are not investments in the stock market or any index. They are insurance products that offer individuals the opportunity to earn interest based in part on the performance of a specified index. Please see the back cover for more information.**

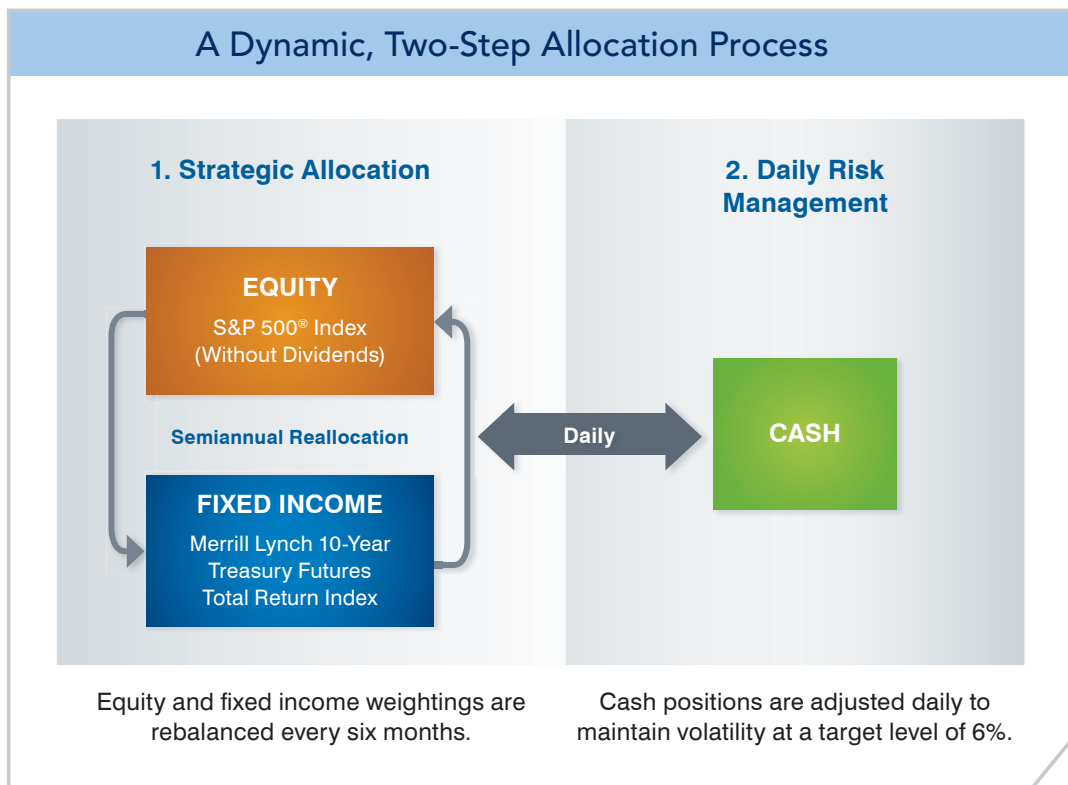
<sup>1</sup> Volatility control measures seek to provide smoother results and mitigate sharp market fluctuations. This type of strategy can lessen the impact of market downturns; it can also lessen the impact of market upturns, therefore limiting upside potential.

# 1 Rules-Based Indexing

## Systematic Non-Discretionary Approach

The ML Strategic Balanced Index® employs quantitative rules based on market volatility to adjust exposures between the S&P 500® Index (without dividends) and the Merrill Lynch 10-Year Treasury Futures Total Return Index. **This rules-based process eliminates the impact that emotions may have on allocation decisions, making the process objective and transparent.**

Equity and fixed income allocations are rebalanced semiannually based on the historical volatility of the underlying indices. Volatility is also monitored on a daily basis. Allocations may be shifted to cash when short-term volatility rises above 6% and from cash when volatility falls. The Index seeks to maintain volatility at this level to help balance risk and return.



## Why Use a Rules-Based Approach

The ML Strategic Balanced Index<sup>®</sup> allocation rules are preset and do not change in response to market or economic conditions. The rules-based approach allows the Index to be:

- **Consistent** in how it pursues its objectives.
- **Unbiased** in determining when and how much to adjust the weightings of the underlying indices.
- **Transparent** in how the allocation process works.



### About the Underlying Equity and Fixed Income Indices

The **S&P 500<sup>®</sup> Index** includes 500 of the largest companies in the U.S. market. It is widely regarded as the standard for measuring U.S. stock market performance. **The Merrill Lynch 10-Year Treasury Futures Total Return Index** tracks the performance of a portfolio of near maturity 10-year U.S. Treasury futures contracts. It is used to represent the fixed income market in the ML Strategic Balanced Index.<sup>®</sup>

## 2 Risk Control

### Strategic Allocation

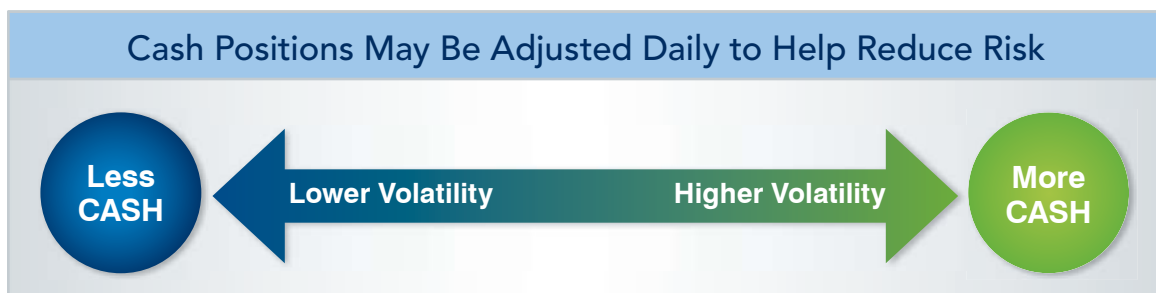
To help manage volatility risk, weightings between the S&P 500® Index (without dividends) and the Merrill Lynch 10-Year Treasury Futures Total Return Index are adjusted using a three-step, rules-based process:

- 1. Analyze** the recent historical volatility of the underlying indices.
- 2. Determine** the index weightings based on this volatility data. Generally, the greater the volatility of an underlying index, the lower the exposure to that index.
- 3. Review** the weightings of the underlying indices after six months and reallocate, if necessary.



## Daily Risk Management

As an additional measure of risk control, the Index's combined equity and fixed income weighting may be shifted to and from cash on a daily basis. Generally, cash positions are increased when volatility rises above the 6% threshold for the Index and decreased when volatility declines. **During highly volatile markets, up to 100% of the underlying indices may be allocated to cash to help protect against market downturns.**



### About the Cash Component of the Index

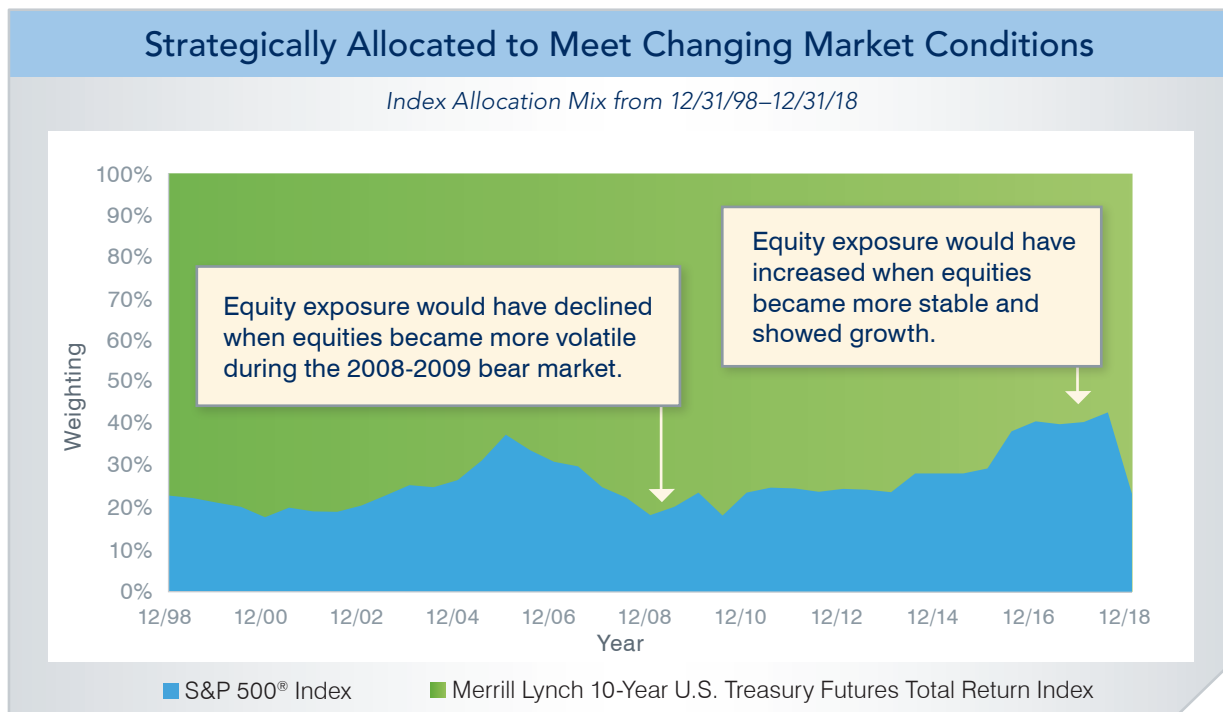
The cash component of the Index is represented by the **3-Month LIBOR**. LIBOR stands for the London Interbank Offered Rate. It is the rate of interest that banks in London charge when they lend money to each other. It is also a standard measure of cash returns in the U.S. and international financial markets.

### 3 Dynamic Allocation

#### Blending Equity and Fixed Income Indices

The ML Strategic Balanced Index<sup>®</sup> adjusts exposure between the equity and fixed income indices to help stabilize returns. Historically, equities and fixed income have low correlation, which means they can produce differing returns under similar market conditions. **When blended together, the mix of equities and fixed income may enhance stability,** since positive returns from one constituent of the Index may help offset negative returns from the other.

The following chart shows the allocation mix between the S&P 500<sup>®</sup> and the Merrill Lynch 10-Year U.S. Treasury Futures Total Return Index, if the ML Strategic Balanced Index<sup>®</sup> had been available over the last 20 years.



**Past performance is not indicative of future results.** The illustrative example above is hypothetical and illustrates how the ML Strategic Balanced Index<sup>®</sup> would have responded to market conditions over the specified time period had it existed. This chart does not represent the current allocations of the ML Strategic Balanced Index<sup>®</sup>. It is only provided as an example of how the allocations would have worked in certain market environments. Asset allocation strategies do not guarantee positive performance or prevent negative performance.



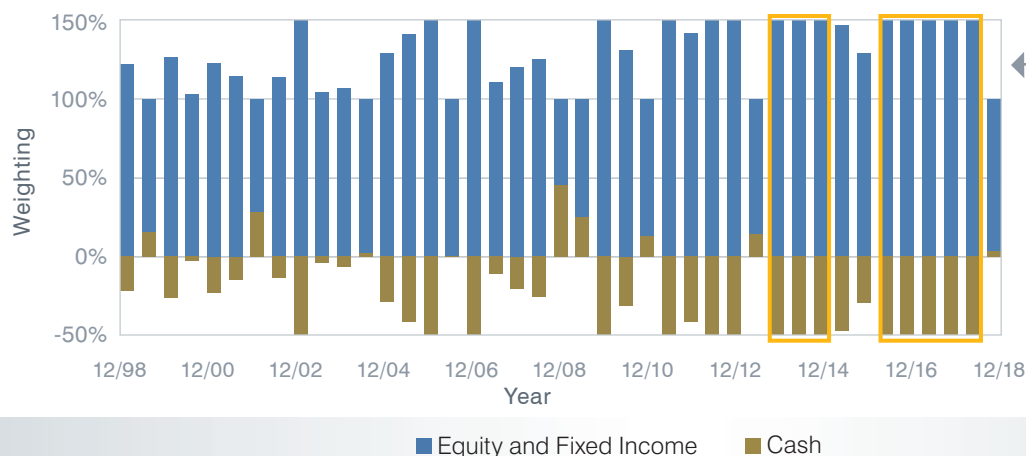
## Flexibility to Overweight Equity and Fixed Income Indices to Access Market Trends

As part of the daily volatility control mechanism, the ML Strategic Balanced Index® has the flexibility to increase the combined weighting of the equity and fixed income indices to as high as 150%. **While this overweighting process may increase risk, it may also allow the Index to participate in market opportunities and potentially enhance returns.** Here's how it works:

Index values for the ML Strategic Balanced Index® are calculated using a formulaic process based on the weightings of the equity, fixed income and cash components. Total weightings in the Index must add up to 100%. For example, at the end of 2013, the Index would have shifted its equity and fixed income exposure to a maximum of 150% to help take advantage of rising market opportunities. In order to maintain this overweighted position in equities and fixed income, cash would have had a negative weighting of -50% (150% minus 50% equals 100%).

### Overweighting May Help Boost Performance

*Hypothetical Allocations between Cash and the Equity and Fixed Income Indices from 12/31/98–12/31/18*



#### Performance Potential

The Index's combined equity and fixed income weighting can be as high as 150%, like it was during the 2013/2014 post-recession market rally, as well as in recent years.

**Past performance is not indicative of future results.** The illustrative example above is hypothetical and does not represent the current allocations of the ML Strategic Balanced Index®. It is only provided as an example of how the allocations would have worked in certain market environments during the specified time frame. Volatility control strategies can lessen the impact of market downturns; they can also lessen the impact of market upturns, therefore limiting upside potential.

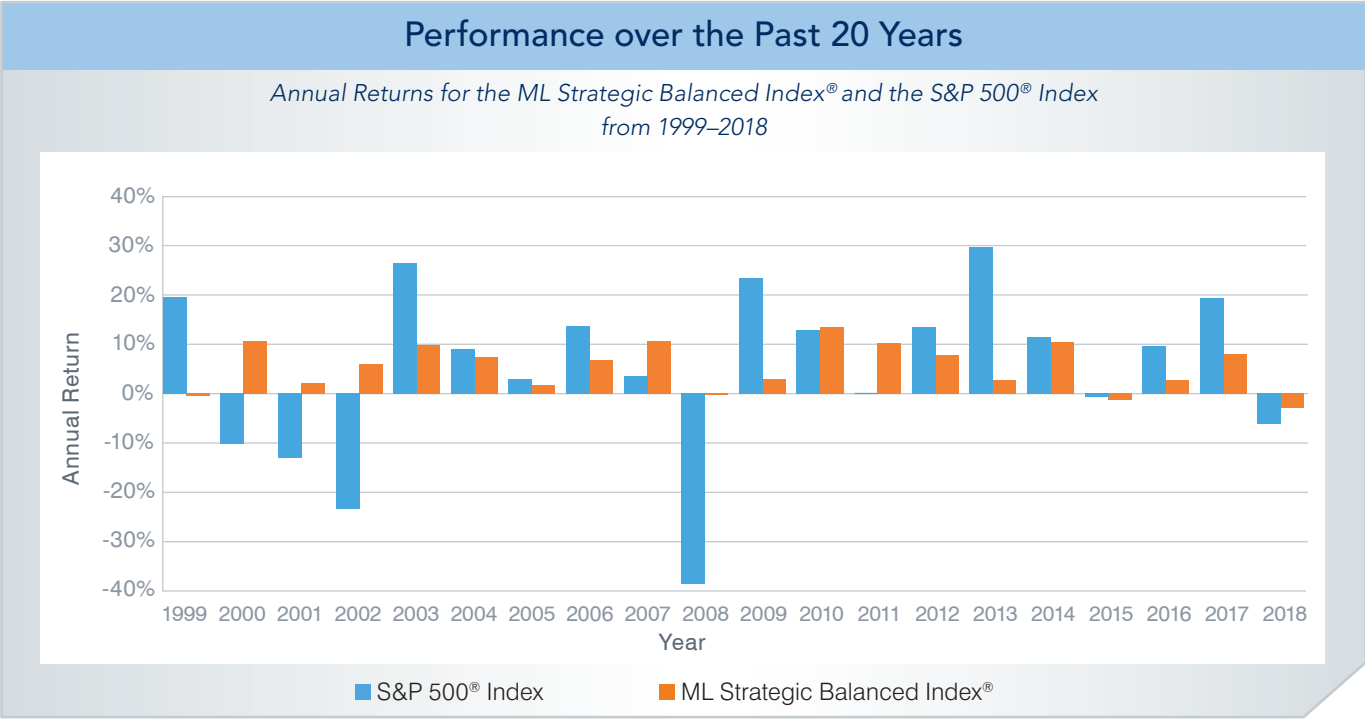
# ML Strategic Balanced Index® Offers the Potential for **Stable Returns**

## The Value of a Dynamic Rules-Based Approach

By diversifying across equity, fixed income and cash and systematically managing these exposures, the ML Strategic Balanced Index® may generate consistent returns over time.

The following hypothetical bar chart shows the hypothetical returns of the ML Strategic Balanced Index® versus the performance of the S&P 500® Index over the last 20 years ending December 31, 2018. During this period, **the Index would have generated solid returns with less volatility than the S&P 500®.**

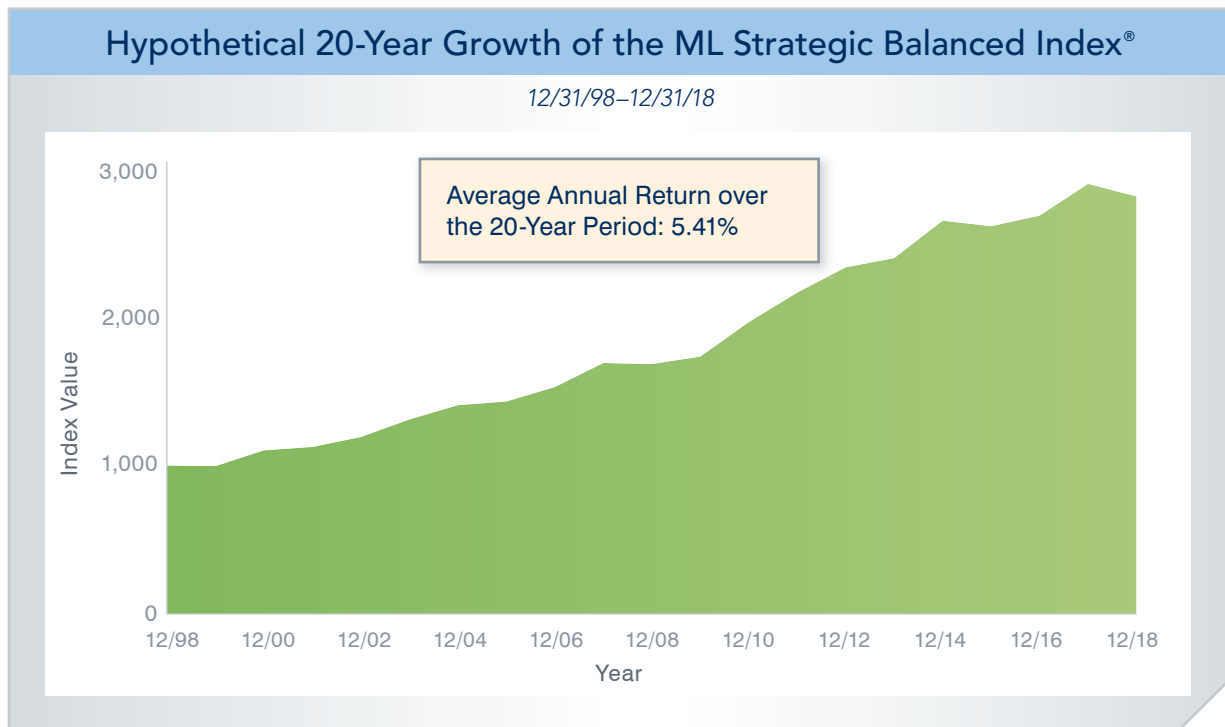
Diversification does not guarantee positive performance or prevent negative performance.



**Note: Past performance is not a guarantee of future results.** The ML Strategic Balanced Index® was created on August 12, 2014. Levels for the Index before August 12, 2014 represent hypothetical data determined by retroactive application of a back-tested model, itself designed with the benefit of hindsight. The above hypothetical chart only reflects the performance of the S&P 500® Index and the ML Strategic Balanced Index®. It does not reflect the amount of interest credited to an index annuity or index life product during this time. Actual results for a specific insurance contract would depend on the crediting strategy chosen and the spread or participation rate for the time period(s) shown.

## Potential for Steady Growth

As the graph below highlights, if the ML Strategic Balanced Index<sup>®</sup> had existed, it would have provided **positive returns through 20 years of up and down markets.**



**Note: Past performance is not a guarantee of future results.** The ML Strategic Balanced Index<sup>®</sup> was created on August 12, 2014. Levels for the Index before August 12, 2014 represent hypothetical data determined by retroactive application of a back-tested model, itself designed with the benefit of hindsight. The above hypothetical chart is intended only to show the hypothetical growth of the ML Strategic Balanced Index<sup>®</sup> over the 20 years ended 12/31/18. It does not reflect the amount of interest credited to an index annuity or index life product during this time. Actual results for a specific insurance contract would depend on the crediting strategy chosen and the spread or participation rate for the time period(s) shown.

## Important Note

This brochure is intended for educational use only. The ML Strategic Balanced Index<sup>®</sup> is available within select index annuities and index universal life (IUL) products. These products are insurance products, not investments, and they do not represent investments in any index. Index annuities and IUL products provide the potential to earn interest based in part on the performance of an index or indices. Individuals cannot invest directly in an index. Please refer to the corresponding consumer product brochure for more information.

### Additional Disclosures on the ML Strategic Balanced Index<sup>®</sup>

The ML Strategic Balanced Index<sup>®</sup> (the "Index") embeds an annual index cost in the calculations of the change in index value. This "embedded index cost" will reduce any change in index value, and it funds certain operational and licensing costs for the Index. Since it will affect the return of the Index, it may also impact the amount of interest credited to an index annuity or life product; however, it is not a fee paid by you or received by American General Life Insurance Company ("AGL") or The Variable Annuity Life Insurance Company ("VALIC"). AGL or VALIC's licensing relationship with Merrill Lynch, Pierce, Fenner & Smith Incorporated for use of the ML Strategic Balanced Index<sup>®</sup> and for use of certain service marks includes AGL or VALIC's purchase of financial instruments for purposes of meeting its interest crediting obligations. Some portion of those instruments will, or may be, purchased from Merrill Lynch, Pierce, Fenner & Smith Incorporated or its affiliates.

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