

Quarterly Commentary – ActivePassive PMC ETF

1st Quarter (Q1) 2024

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Market Environment

The investor optimism that characterized the end of 2023 has persisted into 2024, with global equity markets maintaining strength despite shifts in anticipated interest rate cuts, geopolitical tensions, and regional economic challenges. Economic growth remained a key support for global equity prices, while investors closely monitored signs of a potential soft landing and the associated expectations of lower interest rates. Amidst this backdrop, financial conditions have remained accommodative, despite short-term interest rates hovering around 5.3%. In Q1 2024, equity markets continued their upward trajectory, with notable outperformance in U.S. equities. The S&P 500 Index achieved record highs, supported by a positive economic outlook and the potential for rate cuts, signaling a broadening market rally beyond mega-cap technology stocks and marking the strongest Q1 performance in five years. Emerging markets posted positive absolute returns, but trailed developed markets. Large caps extended their outperformance relative to their smaller cap counterparts. The Federal Reserve (Fed) kept its key federal funds rate unchanged at a range of 5.25–5.50% and indicated it still expects three rate cuts in 2024. The 10-year U.S. Treasury yield increased steadily from 3.88% at the end of 2023 to 4.20% by the end of March 2024, impacting various bond sectors negatively. High-yield assets outperformed investment-grade securities, while short-dated bonds showed resilience. Rising rates posed challenges for global government bonds as well, with the asset class trailing domestic fixed income. Oil, gold, and the Bitcoin rebounded, and the U.S. dollar strengthened against most currencies. Our portfolios posted positive absolute returns in the first quarter, with the more aggressive allocations leading the way, buoyed by the strength of equity markets.

Key Portfolio Drivers

	Q1 2024	Trailing 12 Months
CONTRIBUTORS	<p>Large cap equities posted strong gains in the first quarter, outperforming their smaller cap counterparts. The Russell 1000 Index soared 10.30% vs. gains of 5.18% and 8.60% for the Russell 2000 and Russell Mid Cap indices. What helped propel gains in the large cap index were the Communication Services, and Information Technology sectors.</p> <p>Short duration overweight proved to be another relative contributor for the quarter, as rising yields put pressure on longer duration maturities. The Bloomberg US Aggregate 1-3 Year Index posted a modest gain of 0.45%, while longer dated issues, as represented by the Bloomberg US Aggregate 10+ Year Index, lost 2.44%.</p> <p>Active Management contributed to performance as fixed income and small cap active equity strategies were more likely to outperform passive. Within large cap and international equity asset classes, strategies that were positioned toward momentum and quality factor stocks were more likely to outperform passive.</p>	<p>Large cap equities continued to lead over the trailing 12 months, widening the performance gap with smaller cap stocks. For the majority of the year, the return of the S&P500 Index was largely propelled by a select few large-cap growth stocks. Despite a broadening of the market in the last few months, the Russell 2000 Index concluded the year trailing its larger counterpart. The Russell 2000 Index posted a return of 19.71%, while the Russell 1000 Index outpaced it with a notable gain of 29.87%.</p> <p>Global bonds underweight contributed to relative results over the trailing 12 months as the asset class underperformed domestic bonds. This underperformance was primarily driven by the difference in magnitude and speed of rate hikes between the U.S. and the rest of the world. U.S. dollar strength created a headwind for international securities as well. The Bloomberg Global Aggregate Ex US Index lost 0.71% over the last 12 months, whereas the Bloomberg US Aggregate Bond Index gained 1.7%.</p> <p>Passive Management exposure benefited portfolios as index results were more likely to outpace active management among the major equity asset classes of large cap equities, international developed, and small cap equities. In an up-trending market environment, passive strategies have typically delivered stronger results than active, which has often struggled to keep pace with the higher returns.</p>
	<p>Value equities posted solid gains in the first quarter, but fell short of surpassing the growth segment. The Russell 3000 Value Index gained 8.62%, whereas its growth counterpart rose 11.23%. The performance gap between the two investment styles was particularly pronounced in the small cap space. Our overweight positioning to the value style detracted from relative results.</p> <p>High yield underweight positioning detracted from relative results in the first quarter as lower quality bonds showed resilience and outperformed investment-grade issues. Higher quality issues suffered in the quarter as investors reset rate cut expectations to fewer cuts in 2024. The Bloomberg US Corporate High Yield Index gained 1.47%, while the Bloomberg US Corporate Bond Index lost 0.40%.</p> <p>International equities generally trailed domestic stocks and the U.S. dollar strength created a headwind for the asset class. U.S. equities were helped by bumper Q4 earnings in the U.S. and sustained optimism in AI-related technologies' potential to boost productivity. The Russell 3000 Index soared 10.02% in the quarter, ahead of the MSCI EAFE and MSCI EM indices which gained 5.78% and 2.37%, respectively. Our slight overweight positioning in international equities dragged from performance as a result.</p>	<p>Value equities posted solid gains over the last 12 months, but they couldn't keep pace with the remarkable surge in growth stocks, primarily driven by the Information Technology sector. The Russell 3000 Growth Index soared by an impressive 37.95%, whereas its value counterpart gained 20.18%. Interestingly, outside the U.S., value stocks continued to outperform growth. The performance gap between the two investment styles in the U.S. reflects the high exposure of U.S. growth indices to technology companies. Our overweight positioning to the value style detracted from relative results.</p> <p>International equities trailed domestic equities by a wide margin over the trailing 12 months. The MSCI EAFE and MSCI EM indices rose 15.32% and 8.15% respectively for the year, while the Russell 3000 Index soared 29.29%. Our slight overweight positioning in international equities, both developed and emerging, detracted from relative performance of the portfolios.</p> <p>High yield emerged victorious over their investment-grade counterparts, defying expectations of an impending recession. The Bloomberg US Corporate High Yield Index gained 11.15%, handily outpacing the 4.43% return of the Bloomberg US Corporate Bond Index. The performance gap reflects the resilience of the U.S. economy as well as the lower sensitivity of high yield bonds to rising rates. Our slight underweight to lower quality debt detracted as a result.</p>
Q1 FUND CONTRIBUTORS	<p>ActivePassive International Equity ETF (APIE)—The ActivePassive International Equity ETF posted strong relative results in the first quarter, outpacing the S&P Classic ADR Index, the fund's benchmark, and ranking ahead of more than 80% of its foreign large blend peers. Positive stock selection in the United Kingdom, Taiwan, and Japan helped drive the outperformance. The ETF blends active and passive management styles, incorporating both traditional active and factor active across international developed and emerging market equities. Causeway Capital and Alliance Bernstein serve as traditional active subadvisors and Envestnet Asset Management manages a portfolio of the fund through both a factor active and a passive management approach.</p> <p>ActivePassive U.S. Equity ETF (APUE)—The ActivePassive U.S. Equity ETF posted strong absolute and relative results in the first quarter, ranking ahead of 65% of its U.S. large blend peers and outperforming the fund's benchmark, the CRSP US Total Market Total Return Index. Strong factor results from momentum and quality stocks drove much of the outperformance while the value factor detracted. Positive stock selection within the Industrials and Financial Services sectors contributed to results. The ETF combines both factor active and passive large cap strategies managed by Envestnet Asset Management as well as a strategic allocation to small cap stocks.</p>	
	<p>ActivePassive Intermediate Municipal Bond ETF (APMU)—The ActivePassive Intermediate Municipal Bond ETF posted weak relative results in the first quarter, trailing the Bloomberg Municipal 1-10 Year Blend Index and the majority of its intermediate municipal bond peers. Higher credit quality and slightly longer duration detracted from results as strategies with shorter duration positioning and lower quality bonds performed best in the first quarter. The ETF combines active and passive management of municipal bonds with GW&K serving as a subadvisor and Envestnet Asset Management managing a portion of the portfolio.</p> <p>ActivePassive Core Bond ETF (APCB)—The ActivePassive Core Bond ETF posted losses in the first quarter as yields moved higher. While the fund slightly outpaced the Bloomberg U.S. Aggregate Bond Index it trailed the majority of its intermediate core-plus bond peers. Exposure to corporate bonds contributed to results while mortgage-backed and Treasury exposure detracted. The ETF blends four separate strategies, including actively managed sleeves from Neuberger Berman and Sage Advisory, passive core bond management from Envestnet Asset Management, as well as a strategic allocation to international fixed income within one ETF solution.</p>	

Past performance is not indicative of future results. Indices cannot be invested in directly. Unmanaged index returns assume reinvestment of any and all distributions and do not reflect our fees and expenses. Please refer to Appendix for Definitions and Index Disclosures.

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Definitions & Index Disclosures

The Gross Domestic Product (GDP) rate is a measurement of the output of goods and services produced by labor and property located in the United States. The S&P 500 Index is an unmanaged index comprised of 500 widely held securities considered to be representative of the stock market in general. Russell 1000 Index is a market capitalization-weighted benchmark index made up of the 1000 largest U.S. companies in the Russell 3000 Index. The Russell 3000 Index is an unmanaged index considered representative of the US stock market. The Russell 2000 Index is an unmanaged market-capitalization weighted index measuring the performance of the 2,000 smallest U.S. companies, on a market capitalization basis, in the Russell 3000 Index. The MSCI EAFE Index is an equity index which captures large- and mid-cap representation across the Developed Markets countries around the world, excluding the US and Canada, covering approximately 85% of the free float-adjusted market capitalization in each country. The MSCI Emerging Markets (EM) Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The Russell Midcap Index is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell 3000 Growth Index contains both large and small capitalization companies in the broad U.S. equity universe that exhibit greater than average growth orientation. Bloomberg Capital Global Aggregate ex-U.S. Index is a market capitalization-weighted index, meaning the securities in the index are weighted according to the market size of each bond type. Most U.S. traded investment grade bonds are represented. Municipal bonds, and Treasury Inflation-Protected Securities are excluded, due to tax treatment issues. The index includes Treasury securities, Government agency bonds, Mortgage-backed bonds, Corporate bonds, and a small amount of foreign bonds traded in U.S. Bloomberg Capital U.S. Aggregate Bond Index is an unmanaged index of prices of U.S. dollar-denominated investment grade fixed income securities with remaining maturities of one year and longer. The Bloomberg Commodity Index tracks prices of futures contracts on physical commodities on the commodity markets and is designed to minimize concentration in any one commodity or sector (currently 22 commodity futures in seven sectors). Bloomberg Capital U.S. Corporate High Yield (HY) Index is a market value-weighted index of fixed rate, non-investment grade debt. The HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset weighted based on the distribution of assets in the hedge fund industry. The MSCI EAFE Value Index captures large and mid-cap securities exhibiting overall value style characteristics across Developed Markets countries* around the world, excluding the US and Canada. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield. The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 24 Emerging Markets (EM) countries. Russell 2000 Growth Index is a subset of the Russell 2000 index and includes companies that exhibit higher price-to-book and forecasted earnings. The Russell 1000 Growth Index is a subset of the Russell 1000 index and includes companies that exhibit higher price-to-book and forecasted earnings. The Russell Midcap Growth Index is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell 1000 Value Index refers to a composite of large and mid-cap companies located in the United States that also exhibit a value probability. The MSCI World Index is a broad global equity benchmark that represents large and mid-cap equity performance across 23 developed markets countries. It covers approximately 85% of the free float-adjusted market capitalization in each country and MSCI World benchmark does not offer exposure to emerging markets. The Credit Suisse Leveraged Loan Index is an unmanaged, trader-priced index that tracks leveraged loans. The FTSE World Government Bond Index (WGBI) measures the performance of fixed-rate, local currency, investment-grade sovereign bonds. The MSCI ACWI ex USA Value Index captures large and mid cap securities exhibiting overall value style characteristics across 22 Developed and 24 Emerging Markets countries. The Bloomberg US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by US and non-US industrial, utility and financial issuers. The Russell 3000 Value Index is a market-capitalization weighted equity index maintained by the Russell Investment Group and based on the Russell 3000 Index, which measures how U.S. stocks in the equity value segment perform. The MSCI World Growth Index captures large and mid cap securities exhibiting overall growth style characteristics across 23 Developed Markets (DM) countries. The MSCI World Value Index captures large and mid cap securities exhibiting overall value style characteristics across 23 Developed Markets (DM) countries. The S&P/LSTA U.S. Leveraged Loan Index is designed to reflect the performance of the largest facilities in the leveraged loan market. The Russell Midcap Value Index measures the performance of the mid-cap value segment of the U.S. equity universe. It includes those Russell Midcap® Index companies with lower price-to-book ratios and lower forecasted growth values. The ICE BofAML U.S. High Yield Index tracks the performance of below investment grade, but not in default, US dollar denominated corporate bonds publicly issued in the US domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P.

Disclosure

Past performance is not indicative of future results.

All macroeconomic data was obtained from Bloomberg.

Investors should consider the investment objectives, risks, and charges and expenses of mutual funds carefully before investing. A prospectus or summary prospectus which contains this and other information about these funds can be obtained by contacting your Financial Advisor or the fund company directly. Please read the prospectus carefully before investing.

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