Quarterly Commentary

Quantitative Portfolio:

Factor-Enhanced All Cap: V + M + Q

Fourth Quarter (Q4) 2023

Market Environment

The US economy grew at a surprisingly fast pace in the third quarter of 2023, posting its fifth consecutive quarter of growth at or above its potential. The economy's resiliency has been mildly surprising to economists, as many had expected the economy to by this time dive into a recession as a result of the steep hike in interest rates implemented by the Federal Open Market Committee (FOMC). Against this backdrop, the Bureau of Economic Analysis released the third estimate of the third quarter 2023 real GDP, a seasonally adjusted annualized rise of 4.9%, a decline from the 5.2% prior estimate, but a marked increase over the previous quarter. The employment situation remained a mixed bag in the quarter. The November employment report showed that employers added 199,000 jobs in the month, and that the unemployment rate was slightly lower at 3.7%. The FOMC maintained its federal funds rate target range at 5.25% to 5.50% as inflation data trends lower. The FOMC provided a dovish outlook on interest rates, and many analysts believe interest rate cuts could begin soon.

Portfolio Commentary

The Factor-Enhanced All Cap: V + M + Q strategy generated a gross total return of 7.62% in the fourth quarter, exceeding the 6.77% return of the CRSP US Total Market Index. For the full year, the strategy posted a return of 22.08%, compared to the benchmark return of 25.98%. The strategy is quantitatively constructed to provide exposures to the primary drivers of return and excess return identified over decades of financial research. These include exposures to the market, as well as to the well-known value, momentum and quality asset pricing factors.

Sector allocation will generally have a relatively minor effect on performance, as the strategy is constructed to be sector-neutral at the time of rebalancing. Such was the case during the latest quarter, as the portfolio's relative performance was driven primarily by individual security selection. Sector allocation positively contributed six basis points, whereas stock selection within sectors contributed 79 basis points during the quarter. The sectors having the most positive relative impact from a security selection perspective were Consumer Discretionary and Financials, and the sectors that contributed the least on a relative basis were Consumer Staples and Materials.

The position providing the largest contribution to the performance of the Factor-Enhanced All Cap: V + M + Q strategy during the quarter was Affirm Holdings, Inc. (AFRM). An overweight to the Financial Services company, which had a return of greater than 140%, contributed 51 basis points to performance as a result of its overweight position. The stock's performance also outpaced the 16.2% return of the Financials sector.

The portfolio's overweight to D.R. Horton, Inc. (DHI) also contributed positively to performance in the quarter. The Household Durables company's stock advanced over 43% on an absolute basis, and also outperformed the 13.2% return of the Consumer Discretionary sector. The position contributed 36 basis points to performance.

Financial Services company Rocket Companies, Inc. (RKT) benefited performance in the quarter as a result of its overweight in the portfolio relative to the benchmark. The stock's gain exceeded 81%, and contributed 23 basis points to performance. It also outperformed the 16.2% return of the broader Financials sector.

The position proving to be the largest detractor from the performance of the strategy during the quarter was Walmart Inc. (WMT). An overweight to the Consumer Staples Distribution and Retail company, which had a negative return of almost 1%, detracted 30 basis points from performance. The stock's performance trailed the 6.4% return of the Consumer Staples sector.

Also detracting from performance was the portfolio's overweight to ON Semiconductor Corporation (ON), which declined close to 11%. The Semiconductors and Semiconductor Equipment company underperformed the 15.7% return of the broader Information Technology sector. The position detracted 22 basis points from performance.

Oil, Gas and Consumable Fuels company Exxon Mobil Corporation (XOM) detracted from performance in the quarter as a result of its overweight in the portfolio relative to the benchmark. The stock's decline exceeded 13%, and detracted 21 basis points from performance. It also underperformed the -4.7% return of the broader Energy sector.

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The consensus for 2024 among economists and analysts is one of cautious optimism, as the FOMC is expected to begin lowering interest rates, and inflation is anticipated to continue to trend lower. Since a large portion of the stock market's gains in 2023 was a result of the performance of a handful of large company stocks, Investors will be paying close attention to market breadth in 2024. In addition, the presidential election campaign will come into increasing focus for many investors.

Model Portfolio Attribution

	Performance Driver	Active Return Contribution	Portfolio Exposure	Average Weight in Model	Comments
Contributors	Affirm Holdings, Inc. (AFRM)	+51 bps	Overweight	0.62%	AFRM posted a gain of 140%, outperforming the general sector in the quarter.
	D.R. Horton, Inc. (DHI)	+36 bps	Overweight	1.56%	DHI, a Consumer Discretionary company, advanced 43% in the quarter, and outperformed the overall sector's return.
	Rocket Companies, Inc. (RKT)	+23 bps	Overweight	0.43%	RKT's gain of 81% outperformed the general sector in the quarter.
	Broadcom Inc. (AVGO)	+22 bps	Overweight	2.10%	AVGO's gain of 34% outperformed the general sector in the quarter.
	Lam Research Corporation (LRCX)	+22 bps	Overweight	2.08%	LRCX posted a gain of 24%, outperforming the general sector in the quarter.
Detractors	Walmart Inc. (WMT)	-30 bps	Overweight	2.93%	WMT, a Consumer Staples company, declined 1% in the quarter, and also underperformed the overall sector's return.
	ON Semiconductor Corporation (ON)	-22 bps	Overweight	1.00%	The stock of the Semiconductors and Semiconductor Equipment firm fell by 11% in the quarter.
	Exxon Mobil Corporation (XOM)	-21 bps	Overweight	1.75%	Underperforming the overall sector's return, the Energy company XOM declined 13% in the quarter.
	Everest Group, Ltd. (EG)	-15 bps	Overweight	1.04%	The Insurance company's stock fell by 5% in the quarter.
	Bristol-Myers Squibb Company (BMY)	-15 bps	Overweight	0.89%	The Pharmaceuticals company's stock fell by 10% in the quarter.

Disclosure

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QRG's investment process is guided by systematic, quantitative and rules-based methodologies that helped inform the construction of the portfolio discussed herein using a subset of the constituents of its designated tracking index. The narrative portion of this commentary references the three largest contributors to performance and the three largest detractors from performance. The attribution chart includes the five largest contributors to performance as well as the five largest detractors from performance. The top contributors and detractors to performance may be based on security weightings (positions held or not held, overweight or underweight positions) or sector weightings.

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If interested in the attribution calculation methodology, or for the full list of portfolio contributors and detractors, please e-mail qrg@envestnet.com.

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QRG Factor-Enhanced All Cap: V + M + Q

Period	*Pure Gross Return	Net Return	***CRSP US Total Market Index Return	Number of Portfolios End of Period	Equal Weighted Std. Dev.	Composite 3-year Std. Dev.	Benchmark 3-year Std. Dev.	Total Composite Assets	Total Product Assets	Firm AUM	Composite Assets as Percentage of Total Firm
**2015-09-01 - 2015-12-31	2.84%	1.82%	3.17%	3	nm	n/a	n/a	824,867	2,522,519	137,138,368	0.60%
2016	13.15%	9.83%	12.74%	13	n/a	n/a	n/a	2,699,625	9,216,724	392,256,391	0.69%
2017	19.71%	16.22%	21.13%	84	n/a	n/a	n/a	25,688,383	35,215,673	802,232,195	3.20%
2018	-7.52%	-10.27%	-5.24%	214	0.44%	11.34%	11.18%	63,958,175	79,800,802	1,604,283,375	3.99%
2019	33.69%	29.83%	31.02%	273	0.46%	11.65%	12.21%	100,002,623	137,268,880	2,723,594,504	3.67%
2020	13.16%	9.84%	20.99%	291	2.18%	19.20%	19.41%	127,508,419	191,676,189	4,011,352,178	3.18%
2021	31.51%	27.70%	25.72%	386	1.22%	18.02%	17.92%	197,410,711	328,320,944	5,883,211,018	3.36%
2022	-16.82%	-19.33%	-19.49%	564	1.44%	21.88%	21.49%	230,127,362	368,468,625	5,825,736,102	3.95%
2023	22.08%	18.52%	25.98%	883	1.30%	18.05%	17.48%	430,115,712	702,886,396	9,254,020,860	4.65%

*Presented as supplementary information.
**Partial year.

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The QRG Factor-Enhanced All Cap: V + M + Q composite is comprised of all fee-paying, discretionary accounts with at least $100,000 in assets. Accounts are added to the composite at the beginning of the month after they are fully invested. If the market value and net investment of the account falls below $100,000 it is removed until the next reconciliation and calculation period. Accounts that have a significant cash flow, defined as 20% of the beginning market value, will be removed from the composite until the next reconciliation and calculation period. Financial leverage is not employed as part of the investment strategy.

All information is based in US dollars. Pure gross results are shown gross of all fees and trading expenses. Net results reflect the pure gross return minus a 3% model WRAP fee that includes management fees, trading costs, platform fees, and other administration fees as well as a model custodian fee of 0.25% that includes brokerage commissions, but do not include other administration fees. Clients who access these strategies through a financial intermediary firm may pay additional fees to that firm. Actual fees may vary. The current management fee schedule is as follows: Up to $500,000 - 0.20%, $500,000 to $1 million - 0.18%, $1 million to $2 million - 0.17%, $2 million to $5 million - 0.15%, $5 million to $10 million - 0.12%, $10 million and up - 0.09%. All returns reflect the reinvestment of all dividends and interest income.

Returns are time weighted and calculated using the Modified Dietz method. All cash flows trigger a performance sub-period which are geometrically linked to create monthly returns. Monthly returns are geometrically linked to create quarterly and yearly returns. Neither the composite nor the benchmark returns reflect tax withholding for ordinary income or capital gains. Dispersion is measured by an equal-weighted standard deviation of the pure gross returns of all accounts in the composite for the entire four-quarter period. Internal dispersion is deemed non-material (nm) if fewer than five portfolios are in the composite over the reporting period, or not applicable (n/a) if no accounts are eligible over the entire reporting period. The 3- year standard deviation is calculated using pure gross returns, and is considered not applicable (n/a) for periods with less than three years of performance. Policies for valuing investments, calculating performance, and preparing GIPS reports are available upon request.

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Percentage of strategy assets represented by WRAP accounts at period end:

2015 - 100%
2016 - 100%
2017 - 100%
2018 - 100%
2019 - 100%
2020 - 100%
2021 - 100%
2022 - 100%
2023 - 100%

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