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Quarterly Commentary

Quantitative Portfolio:
Factor-Enhanced All Cap: V + 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 + Q strategy generated a gross total return of 7.26% in the fourth quarter, outperforming the 6.77% return of the CRSP US Total Market Index. For the entire year, the strategy finished with a return of 21.23%, compared to the 25.98% of the benchmark. 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 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 three basis points, whereas stock selection within sectors contributed 46 basis points during the quarter. The sectors having the most positive relative impact from a security selection perspective were Consumer Discretionary and Information Technology, and the sectors that contributed the least on a relative basis were Consumer Staples and Materials.

Positively contributing to the Factor-Enhanced All Cap: V + Q strategy's performance during the quarter was an overweight to Rocket Companies, Inc. (RKT), which gained more than 81%. The stock also outperformed the 16.2% return of the Financials sector. The Financial Services company contributed 37 basis points to performance.

The portfolio also benefited from having an overweight to PulteGroup, Inc. (PHM). The Household Durables company's stock rose by more than 41%, and contributed 33 basis points to performance. The stock also outperformed the 13.2% return of the Consumer Discretionary sector.

Household Durables company D.R. Horton, Inc. (DHI) benefited performance in the quarter as a result of its overweight in the portfolio relative to the benchmark. The stock's gain exceeded 43%, and contributed 28 basis points to performance. It also outperformed the 13.2% return of the broader Consumer Discretionary sector.

A primary detractor from performance during the quarter was an overweight to Exxon Mobil Corporation (XOM). The Oil, Gas and Consumable Fuels company fell by more than 13%, lagging the -4.7% return of the Energy sector. The overweight position detracted 26 basis points from performance.

Also detracting from performance was the portfolio's underweight to Microsoft Corporation (MSFT), which gained close to 17%. The Software company's stock outperformed the 15.7% return of the broader Information Technology sector. The position detracted 18 basis points from performance.

Cisco Systems, Inc. (CSCO) 's overweight position relative to the benchmark resulted in a 18 basis point detraction from the portfolio's performance. The Communications Equipment company's stock fell by almost 6%, and underperformed the overall Information Technology sector.

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	Rocket Companies, Inc. (RKT)	+37 bps	Overweight	0.70%	RKT posted a gain of 81%, outperforming the general sector in the quarter.
Contributors	PulteGroup, Inc. (PHM)	+33 bps	Overweight	1.47%	The Household Durables company's stock advanced 41% in the quarter.
Contributors	D.R. Horton, Inc. (DHI)	+28 bps	Overweight	1.25%	The Consumer Discretionary company DHI advanced 43% in the quarter, and outperformed the overall sector's return.
Contributors	Lennar Corporation (LEN)	+23 bps	Overweight	1.32%	LEN's gain of 35% outperformed the general sector in the quarter.
Contributors	Broadcom Inc. (AVGO)	+19 bps	Overweight	1.96%	AVGO posted a gain of 34%, outperforming the general sector in the quarter.
Detractors	Exxon Mobil Corporation (XOM)	-26 bps	Overweight	1.87%	XOM, an Energy company, declined 13% in the quarter, and also underperformed the overall sector's return.
Detractors	Microsoft Corporation (MSFT)	-18 bps	Underweight	2.98%	MSFT posted a gain of 17%, outperforming the general sector in the quarter.
Detractors	Cisco Systems, Inc. (CSCO)	-18 bps	Overweight	1.48%	The Communications Equipment company's stock had a negative return of 6% in the quarter.
Detractors	BorgWarner Inc. (BWA)	-13 bps	Overweight	0.48%	BWA's loss of 10% underperformed the general sector in the quarter.
Detractors	Bristol-Myers Squibb Company (BMY)	-12 bps	Overweight	0.77%	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 + 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
**2017-04-01 - 2017-12-31	12.85%	10.37%	14.55%	23	n/a	n/a	n/a	6,220,849	21,625,636	802,232,195	0.78%
2018	-8.81%	-11.53%	-5.24%	49	n/a	n/a	n/a	12,137,327	62,226,254	1,604,283,375	0.76%
2019	30.10%	26.32%	31.02%	54	0.40%	n/a	n/a	18,409,849	102,013,878	2,723,594,504	0.68%
2020	12.37%	9.06%	20.99%	54	6.58%	20.85%	19.41%	22,949,027	99,708,767	4,011,352,178	0.57%
2021	29.21%	25.47%	25.72%	60	1.59%	19.75%	17.92%	28,233,572	115,881,030	5,883,211,018	0.48%
2022	-14.14%	-16.72%	-19.49%	68	1.39%	22.67%	21.49%	25,130,977	91,071,187	5,825,736,102	0.43%
2023	21.23%	17.70%	25.98%	90	1.71%	17.89%	17.48%	43,263,617	130,463,305	9,254,020,860	0.47%

*Presented as supplementary information.
**Partial year.

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The QRG Factor-Enhanced All Cap: V + 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:

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

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