Quarterly Commentary

Quantitative Portfolio: **Factor-Enhanced Large 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 Large Cap: V + M + Q strategy generated a gross total return of 6.64% in the fourth quarter, slightly underperforming the 6.74% return of the CRSP US Large Cap Index. For the entire year, the strategy finished with a return of 20.77%, compared to the 27.28% 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, 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 detracted two basis points, whereas stock selection within sectors detracted eight basis points during the quarter. The sectors having the most positive relative impact from a security selection perspective were Financials and Consumer Staples, and the sectors that contributed the least on a relative basis were Consumer Discretionary and Information Technology.

The strategy strives to capture exposures to the well known value, momentum and quality asset pricing factors. These tilts produced negative results in the quarter, with value, momentum, and quality detracting 121, 12, and 121 basis points from relative performance, respectively.

The position providing the largest contribution to the performance of the Factor-Enhanced Large Cap: V + M + Q strategy during the quarter was D.R. Horton, Inc. (DHI). An overweight to the Household Durables company, which had a return of greater than 43%, contributed 41 basis points to performance as a result of its overweight position. The stock's performance also outpaced the 12.4% return of the Consumer Discretionary sector.

An overweight to Broadcom Inc. (AVGO) during the quarter also benefited performance, as the stock's gain exceeded 34%. The Semiconductors and Semiconductor Equipment company contributed 32 basis points to performance, and in the process also outperformed the 15.9% return of the Information Technology sector.

Another positive contributor to portfolio performance was an overweight to PulteGroup, Inc. (PHM), as the stock added more than 41%. The Household Durables firm also outperformed the 12.4% return of the overall Consumer Discretionary sector. The overweight position contributed 32 basis points to performance.

The position proving to be the largest detractor from the performance of the strategy during the quarter was Bristol-Myers Squibb Company (BMY). An overweight to the Pharmaceuticals company, which had a negative return of almost 10%, detracted 22 basis points from performance. The stock's performance trailed the 6.4% return of the Health Care sector.

An underweight to Amazon.com, Inc. (AMZN) during the quarter also adversely impacted performance, as the stock's gain exceeded 17%. The Broadline Retail company detracted 21 basis points from performance, and in the process also outperformed the 12.4% return of the Consumer Discretionary sector.

Consumer Staples Distribution and Retail company Walmart Inc. (WMT) detracted from performance in the quarter as a result of its overweight in the portfolio relative to the benchmark. The stock declined almost 1%, and detracted 20 basis points from performance. It also underperformed the 6.2% return of the broader Consumer Staples 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	D.R. Horton, Inc. (DHI)	+41 bps	Overweight	1.75%	DHI posted a gain of 43%, outperforming the general sector in the quarter.
	Broadcom Inc. (AVGO)	+32 bps	Overweight	2.74%	AVGO, an Information Technology company, advanced 34% in the quarter, and outperformed the overall sector's return.
	PulteGroup, Inc. (PHM)	+32 bps	Overweight	1.41%	The Consumer Discretionary company PHM advanced 41% in the quarter, and outperformed the overall sector's return.
	Lennar Corporation (LEN)	+28 bps	Overweight	1.60%	LEN's gain of 35% outperformed the general sector in the quarter.
	Host Hotels & Resorts, Inc. (HST)	+15 bps	Overweight	1.43%	HST posted a gain of 25%, outperforming the general sector in the quarter.
Detractors	Bristol-Myers Squibb Company (BMY)	-22 bps	Overweight	1.27%	BMY's loss of 10% underperformed the general sector in the quarter.
	Amazon.com, Inc. (AMZN)	-21 bps	Underweight	0.32%	AMZN posted a gain of 17%, outperforming the general sector in the quarter.
	Walmart Inc. (WMT)	-20 bps	Overweight	2.24%	Posting a loss of 1%, WMT underperformed the general sector in the quarter.
	Exxon Mobil Corporation (XOM)	-19 bps	Overweight	1.81%	XOM's loss of 13% underperformed the general sector in the quarter.
	ON Semiconductor Corporation (ON)	-15 bps	Overweight	0.70%	ON's loss of 11% underperformed the general sector in the quarter.

Disclosure

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The portfolio incorporates sustainability criteria on a best-efforts basis. Envestnet utilizes sustainability data provided by a third party for portfolio management and reporting purposes. All sustainability data are believed to be from reliable sources; however, we make no representation as to its accuracy or completeness. The scores, ratings, and assessments are subjective by nature, and may or may not be accurate, complete, or reflect the beliefs of some investors.

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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.

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

Period	*Pure Gross Return	Net Return	***CRSP US Large Cap 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
**2015-08-01 - 2015-12-31	-2.16%	-3.39%	-2.65%	9	n/a	n/a	n/a	2,618,694	6,190,838	137,138,368	1.91%
2016	11.38%	8.11%	12.05%	26	0.15%	n/a	n/a	9,430,256	15,642,222	392,256,391	2.40%
2017	21.42%	17.88%	21.69%	81	0.81%	n/a	n/a	38,412,634	51,737,817	802,232,195	4.79%
2018	-6.53%	-9.32%	-4.78%	146	0.42%	10.96%	10.96%	56,816,944	87,691,015	1,604,283,375	3.54%
2019	35.08%	31.18%	31.43%	251	0.56%	11.00%	12.05%	138,615,417	198,617,058	2,723,594,504	5.09%
2020	11.00%	7.73%	21.09%	404	0.50%	19.46%	18.87%	240,024,044	457,325,415	4,011,352,178	5.98%
2021	30.56%	26.78%	27.07%	538	0.49%	18.43%	17.47%	283,729,146	682,286,664	5,883,211,018	4.82%
2022	-16.72%	-19.23%	-19.67%	771	0.63%	22.20%	21.16%	337,166,238	731,675,284	5,825,736,102	5.79%
2023	20.77%	17.25%	27.28%	848	2.06%	17.40%	17.40%	416,382,222	986,471,051	9,254,020,860	4.50%

*Presented as supplementary information.
**Partial year.

QRG Capital Management, Inc. (QRG) is an SEC-registered investment adviser, established in 2020. QRG provides fee-based management of equity and portfolios for a broad range of clients on a discretionary and non-discretionary basis. QRG is a subsidiary of Envestnet, Inc., and for the purpose of the Global Investment Performance Standards (GIPS), the firm is defined as all strategies marketed under QRG. The QRG Factor-Enhanced Large Cap: V + M + Q strategy has an inception and creation date of Mar 01, 2018. The QRG Factor-Enhanced Large Cap: V + M + Q strategy is comprised of ***Prior to 1/1/2020 the strategy was benchmarked against the Russell 1000 index. The benchmark was changed to better reflect the investing universe of the strategy. The strategy is designed to capture the well-known asset pricing factors value, momentum and quality. The strategy is designed to closely track the performance of the CRSP US Large Cap index, which measures the performance of the largest US companies. ***Prior to 1/1/2020 the strategy was benchmarked against the Russell 1000 index. The benchmark was changed to better reflect the investing universe of the strategy.

The QRG Factor-Enhanced Large 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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