

Quarterly Commentary

Quantitative Portfolio:

Factor-Enhanced Small 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 Small Cap: V + M + Q strategy generated a gross total return of 8.53% in the fourth quarter, materially exceeding the 7.02% return of the CRSP US Small Cap Index. For the full year, the strategy posted a return of 25.16%, compared to the benchmark return of 18.09%. 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 typically have a relatively minor effect on performance, as the strategy is constructed to be sector-neutral at the time of rebalancing. However, in the latest quarter, the portfolio's relative performance was driven primarily by its sector weights. Sector allocation accounted for a positive contribution of 130 basis points, and stock selection within sectors positively contributed 21 basis points during the quarter. The sectors having the most positive relative impact from a security selection perspective were Industrials and Consumer Discretionary. Sectors that contributed the least on a relative basis were Health Care and Information Technology.

The strategy strives to capture exposures to the value, momentum and quality asset pricing factors, which academic research has shown generate positive returns over time. These tilts produced varied results in the latest quarter, as value contributed six basis points to the portfolio's relative performance, but momentum and quality detracted 28 and 120 basis points, respectively.

The position providing the largest contribution to the performance of the Factor-Enhanced Small 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 18 basis points to performance as a result of its overweight position. The stock's performance also outpaced the 19.9% return of the Financials sector.

An overweight to Twist Bioscience Corporation (TWST) during the quarter also benefited performance, as the stock's gain exceeded 92%. The Biotechnology company contributed 17 basis points to performance, and in the process also outperformed the 15.4% return of the Health Care sector.

Another positive contributor to portfolio performance was an overweight to DraftKings Inc. (DKNG), as the stock added more than 21%. The Hotels, Restaurants and Leisure firm also outperformed the 18.2% return of the overall Consumer Discretionary sector. The overweight position contributed 14 basis points to performance.

An overweight position to CNX Resources Corporation (CNX) detracted 25 basis points from the portfolio's return. The Oil, Gas and Consumable Fuels company declined by almost 9% during the quarter.

An overweight to Civitas Resources, Inc. (CIVI) during the quarter also negatively impacted performance, as the stock advanced in excess of 10%. The Oil, Gas and Consumable Fuels company detracted 15 basis points from performance, and trailed the -2.7% return of the Energy sector.

Another detractor from portfolio performance was an overweight to Chesapeake Energy Corporation (CHK), as the stock retreated close to 7%. In addition, the Oil, Gas and Consumable Fuels firm underperformed the -2.7% return of the overall Energy sector. The overweight position detracted 13 basis points from performance.

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)	+18 bps	Overweight	0.34%	The stock of the Financials company gained 140% in the quarter, and outperformed the overall sector's return.
	Twist Bioscience Corporation (TWST)	+17 bps	Overweight	0.34%	The Biotechnology company's stock advanced 92% in the quarter.
	DraftKings Inc. (DKNG)	+14 bps	Overweight	0.90%	The Consumer Discretionary company DKNG advanced 21% in the quarter, and outperformed the overall sector's return.
	PennyMac Financial Services, Inc. (PFSI)	+12 bps	Overweight	0.81%	The Financial Services company's stock had a positive return of 35% in the quarter.
	Wingstop Inc. (WING)	+12 bps	Overweight	0.70%	WING posted a gain of 39%, outperforming the general sector in the quarter.
Detractors	CNX Resources Corporation (CNX)	-25 bps	Overweight	1.10%	CNX's loss of 9% underperformed the general sector in the quarter.
	Civitas Resources, Inc. (CIVI)	-15 bps	Overweight	0.69%	CIVI posted a loss of 10%, and also underperformed the general sector in the quarter.
	Chesapeake Energy Corporation (CHK)	-13 bps	Overweight	0.80%	Posting a loss of 7%, CHK underperformed the general sector in the quarter.
	Nelnet, Inc. (NNI)	-12 bps	Overweight	0.91%	The Financials company NNI gained 38 bps in the quarter, but underperformed the overall sector's return.
	Vishay Intertechnology, Inc. (VSH)	-12 bps	Overweight	0.84%	VSH's loss of 3% underperformed the general sector in the quarter.

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

Period	*Pure Gross Return	Net Return	***CRSP US Small 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
**2016-10-01 - 2016-12-31	10.25%	9.45%	8.83%	1	nm	n/a	n/a	121,202	629,732	392,256,391	0.03%
**2017-03-01 - 2017-07-31	4.94%	3.64%	3.36%	8	n/a	n/a	n/a	1,214,826	2,800,255	605,645,493	0.20%
**2017-09-01 - 2017-12-31	9.26%	8.19%	9.79%	9	n/a	n/a	n/a	1,436,663	4,855,492	802,232,195	0.18%
2018	-13.88%	-16.46%	-11.01%	15	n/a	n/a	n/a	3,466,606	7,634,854	1,604,283,375	0.22%
2019	24.04%	20.43%	25.52%	21	n/a	15.47%	15.71%	9,212,028	13,657,140	2,723,594,504	0.34%
2020	13.79%	10.45%	19.07%	23	n/a	22.28%	24.82%	9,891,778	43,898,090	4,011,352,178	0.25%
2021	30.30%	26.53%	17.71%	25	0.47%	20.19%	22.77%	5,314,930	61,006,747	5,883,211,018	0.09%
2022	-13.60%	-16.20%	-17.64%	51	0.59%	23.90%	25.17%	14,665,039	41,389,922	5,825,736,102	0.25%
2023	25.16%	21.52%	18.09%	74	0.43%	20.73%	20.04%	21,927,095	68,819,962	9,254,020,860	0.24%

*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 Small Cap: V + M + Q strategy has an inception and creation date of Oct 01, 2016. The QRG Factor-Enhanced Small Cap: V + M + Q strategy is comprised of domestic US companies in the small capitalization segment of the market. The strategy is designed to capture the well-known asset pricing factors value, momentum and quality. The strategy is constructed to closely track the total return of the CRSP Small Cap Index, which measures the performance of the US small cap market. ***Prior to 1/1/2020 the strategy was benchmarked against the Russell 2000 index. The benchmark was changed to better reflect the investing universe of the strategy.

The QRG Factor-Enhanced Small 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. There was a break in performance between 8/1/2017 and 12/31/2017 due to all eligible accounts becoming non-discretionary and leaving the composite.

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:

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

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