

## Quarterly Commentary

### Quantitative Portfolio:

# Factor-Enhanced Small 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 Small Cap: V + Q strategy delivered a gross total return of 9.44% in the fourth quarter, decidedly outgaining the 7.02% return of the CRSP US Small Cap Index. For the full year the strategy generated a return of 24.86%, while the benchmark finished with a 18.09% return. 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.

Due to the strategy's sector-neutral construction at the time of rebalancing, sector allocation will generally have a relatively minor effect on performance. Such was the case during the latest quarter, as the portfolio's relative performance was driven predominantly by individual security selection. Sector allocation contributed 13 basis points during the quarter, whereas stock selection within sectors accounted for 229 basis points. 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 Information Technology and Materials.

The strategy is constructed to favor stocks of companies having high aggregate exposures to the well known value and quality asset pricing factors, which academic research has shown generate positive returns over time. These tilts generally produced negative results in the latest quarter, as value accounted for 29 basis points of underperformance and quality was responsible for 30 basis points of underperformance.

Positively contributing to the Factor-Enhanced Small Cap: V + Q strategy's performance during the quarter was an overweight to Twist Bioscience Corporation (TWST), which gained more than 92%. The stock also outperformed the 15.4% return of the Health Care sector. The Biotechnology company contributed 44 basis points to performance.

An overweight to Affirm Holdings, Inc. (AFRM) during the quarter also benefited performance, as the stock's gain exceeded 140%. The Financial Services company contributed 32 basis points to performance, and in the process also outperformed the 19.9% return of the Financials sector.

PVH Corp. (PVH) 's overweight position relative to the benchmark resulted in a 26 basis point contribution for the portfolio. The Textiles, Apparel and Luxury Goods company's stock advanced more than 62%, outperforming the overall Consumer Discretionary sector.

A primary detractor from performance during the quarter was an overweight to Paylocity Holding Corporation (PCTY). The Professional Services company fell by more than 11%, lagging the 14.9% return of the Industrials sector. The overweight position detracted 19 basis points from performance.

An overweight to EMCOR Group, Inc. (EME) during the quarter also negatively impacted performance, as the stock advanced in excess of 4%. The Construction and Engineering company detracted 16 basis points from performance, and trailed the 14.9% return of the Industrials sector.

Portfolio performance also suffered during the quarter from having an overweight to Pinnacle West Capital Corporation (PNW). The Electric Utilities company's stock gained almost 2%, underperforming the overall Utilities sector's return of 13.8%.

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	Twist Bioscience Corporation (TWST)	+44 bps	Overweight	0.89%	The stock of the Health Care company gained 92% in the quarter, and outperformed the overall sector's return.
	Affirm Holdings, Inc. (AFRM)	+32 bps	Overweight	0.50%	The Financial Services company's stock advanced 140% in the quarter.
	PVH Corp. (PVH)	+26 bps	Overweight	0.84%	PVH's gain of 62% outperformed the general sector in the quarter.
	Builders FirstSource, Inc. (BLDR)	+22 bps	Overweight	1.56%	Outperforming the overall sector's return, the Industrials company BLDR advanced 36% in the quarter.
	Newmark Group, Inc. (NMRK)	+22 bps	Overweight	0.50%	The stock of the Real Estate Management and Development firm advanced 77% in the quarter.
Detractors	Paylocity Holding Corporation (PCTY)	-19 bps	Overweight	1.00%	PCTY, an Industrials company, declined 11% in the quarter, and also underperformed the overall sector's return.
	EMCOR Group, Inc. (EME)	-16 bps	Overweight	1.78%	EME posted a gain of 4%, but underperformed the general sector in the quarter.
	Pinnacle West Capital Corporation (PNW)	-12 bps	Overweight	1.09%	While it underperformed the overall sector's return, the Utilities company PNW gained 2% in the quarter.
	APA Corporation (APA)	-12 bps	Overweight	0.73%	The Energy company APA declined 9% in the quarter, and also underperformed the overall sector's return.
	Vishay Intertechnology, Inc. (VSH)	-11 bps	Overweight	0.80%	The Electronic Equipment, Instruments and Components company's stock fell by 3% 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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## QRG Factor-Enhanced Small Cap: V + 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
**2017-07-01 - 2017-12-31	10.04%	8.42%	9.20%	7	n/a	n/a	n/a	1,194,309	3,339,784	802,232,195	0.15%
2018	-12.99%	-15.60%	-11.01%	3	nm	n/a	n/a	735,640	10,188,734	1,604,283,375	0.05%
2019	23.62%	20.02%	25.52%	8	n/a	n/a	n/a	1,717,781	10,532,809	2,723,594,504	0.06%
2020	8.65%	5.44%	19.07%	2	nm	23.63%	24.82%	590,800	16,561,346	4,011,352,178	0.01%
2021	33.23%	29.38%	17.71%	3	nm	22.21%	22.77%	788,829	18,493,121	5,883,211,018	0.01%
2022	-10.06%	-12.75%	-17.64%	10	n/a	25.23%	25.17%	3,517,064	15,126,812	5,825,736,102	0.06%
2023	24.86%	21.22%	18.09%	13	n/a	21.02%	20.04%	4,636,694	18,980,485	9,254,020,860	0.05%

\*Presented as supplementary information.

\*\*Partial year.

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The QRG Factor-Enhanced Small 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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