

## Quarterly Commentary

# Quantitative Portfolio: Market Series Intl ADR

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 Market Series Intl ADR strategy delivered a gross total return of 6.96% in the fourth quarter, outgaining the 6.28% return of the S&P Developed Markets Classic ADR NR. For the full year the strategy generated a return of 19.61%, while the benchmark finished with a 19.39% return. The strategy is quantitatively constructed to maintain sector weights and risk characteristics in line with those of the benchmark.

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 detracted 39 basis points during the quarter, whereas stock selection within sectors accounted for 107 basis points. The sectors having the most positive relative impact from a security selection perspective were Financials and Industrials, and the sectors that contributed the least on a relative basis were Consumer Discretionary and Communication Services.

The primary contributor to the performance of the Market Series Intl ADR strategy during the quarter was an overweight to Dassault Systèmes SE (DAST.Y). The Software company advanced almost 31%, outpacing the 23.8% return of the Information Technology sector. The stock contributed six basis points to performance.

The portfolio's overweight to Ryanair Holdings plc (RYAA.Y) also contributed positively to performance in the quarter. The Passenger Airlines company's stock advanced over 38% on an absolute basis, and also outperformed the 16.7% return of the Industrials sector. The position contributed six basis points to performance.

Another positive contributor to portfolio performance was an overweight to Shin-Etsu Chemical Co., Ltd. (SHEC.Y), as the stock added close to 45%. The Chemicals firm also outperformed the 19.5% return of the overall Materials sector. The overweight position contributed five basis points to performance.

The position proving to be the largest detractor from the performance of the strategy during the quarter was Honda Motor Co., Ltd. (HMC). An overweight to the Automobiles company, which had a negative return of almost 8%, detracted seven basis points from performance. The stock's performance trailed the 8.8% return of the Consumer Discretionary sector.

An overweight to Takeda Pharmaceutical Company Limited (TAK) during the quarter also negatively impacted performance, as the stock advanced in excess of 7%. The Pharmaceuticals company detracted five basis points from performance, and trailed the 6.2% return of the Health Care sector.

The portfolio's overweight to Prosus N.V. (PROS.Y), which gained close to 3%, also detracted from performance, accounting for five basis points of negative contribution.

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	Dassault Systèmes SE (DAST.Y)	+6 bps	Overweight	0.56%	The stock of the Software firm advanced 31% in the quarter.
	Ryanair Holdings plc (RYAA.Y)	+6 bps	Overweight	0.34%	The Passenger Airlines company's stock advanced 38% in the quarter.
	Shin-Etsu Chemical Co., Ltd. (SHEC.Y)	+5 bps	Overweight	0.69%	The Materials company SHEC.Y advanced 45% in the quarter, and outperformed the overall sector's return.
	ASSA ABLOY AB (publ) (ASAZ.Y)	+5 bps	Overweight	0.43%	The Building Products company's stock had a positive return of 36% in the quarter.
	UBS Group AG (UBS)	+5 bps	Overweight	0.95%	The stock of the Capital Markets firm advanced 27% in the quarter.
Detractors	Honda Motor Co., Ltd. (HMC)	-7 bps	Overweight	0.81%	HMC, a Consumer Discretionary company, declined 8% in the quarter, and also underperformed the overall sector's return.
	Takeda Pharmaceutical Company Limited (TAK)	-5 bps	Overweight	0.60%	The stock of the Health Care company declined 7% in the quarter, and also underperformed the overall sector's return.
	Prosus N.V. (PROS.Y)	-5 bps	Overweight	0.73%	While it underperformed the overall sector's return, the Consumer Discretionary company PROS.Y gained 3% in the quarter.
	Subaru Corporation (FUJH.Y)	-4 bps	Overweight	0.31%	The Consumer Discretionary company FUJH.Y declined 6% in the quarter, and also underperformed the overall sector's return.
	Ipsen S.A. (IPSE.Y)	-4 bps	Overweight	0.22%	IPSE.Y's loss of 10% 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.

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If interested in the attribution calculation methodology, or for the full list of portfolio contributors and detractors, please e-mail [arg@envestnet.com](mailto:arg@envestnet.com).



## QRG Market Series Intl ADR

Period	*Pure Gross Return	Net Return	S&P Developed Markets Classic ADR NR 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
**2014-05-01 - 2014-12-31	-9.40%	-11.21%	-7.89%	3	nm	n/a	n/a	2,934,929	3,100,019	36,697,871	8.00%
**2015-01-01 - 2015-08-31	-2.73%	-4.67%	0.28%	3	nm	n/a	n/a	2,830,655	2,830,655	75,758,844	3.74%
**2015-11-01 - 2015-12-31	-3.53%	-4.02%	-2.84%	3	nm	n/a	n/a	2,772,880	2,772,880	137,138,368	2.02%
2016	0.19%	-2.77%	1.08%	3	nm	n/a	n/a	2,195,513	2,195,513	392,256,391	0.56%
2017	22.87%	19.29%	24.18%	3	nm	10.56%	11.08%	2,665,315	2,665,315	802,232,195	0.33%
2018	-13.67%	-16.26%	-13.83%	8	n/a	10.58%	10.97%	3,732,317	9,293,329	1,604,283,375	0.23%
2019	21.41%	17.87%	22.61%	22	n/a	10.82%	11.25%	10,946,864	35,227,499	2,723,594,504	0.40%
2020	8.62%	5.42%	8.01%	41	0.67%	17.49%	18.40%	15,726,908	65,006,608	4,011,352,178	0.39%
2021	13.03%	9.72%	11.97%	110	0.74%	16.61%	17.40%	30,452,734	126,331,080	5,883,211,018	0.52%
2022	-11.81%	-14.45%	-13.42%	164	0.66%	20.14%	20.88%	41,412,773	168,540,393	5,825,736,102	0.71%
2023	19.61%	16.12%	19.39%	243	0.45%	17.06%	17.39%	65,422,466	273,946,153	9,254,020,860	0.71%

\*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 Market Series Intl ADR strategy has an inception and creation date of Apr 01, 2014. The QRG Market Series Intl ADR strategy is comprised of American Depositary Receipts (ADRs) of companies in developed market economies. The strategy is designed to closely track the S&P Developed Markets Classic ADR Index which measures performance of international developed markets.

The QRG Market Series Intl ADR 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 9/1/2015 and 10/31/2015 due to all eligible accounts becoming non-discretionary and exiting 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 - 0.15%, \$500,000 to \$1 million - 0.14%, \$1 million to \$2 million - 0.13%, \$2 million to \$5 million - 0.11%, \$5 million to \$10 million - 0.09%, \$10 million and up - 0.08%. 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.

QRG claims compliance with the Global investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. QRG has been independently verified for the periods December 1, 2013 through December 31, 2023. The verification reports are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the

GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. The firm’s list of composite descriptions is available upon request. Past performance does not guarantee future results.

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

- 2014 - 100%
- 2015 - 100%
- 2016 - 100%
- 2017 - 100%
- 2018 - 100%
- 2019 - 100%
- 2020 - 100%
- 2021 - 100%
- 2022 - 100%
- 2023 - 100%

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