

Quarterly Commentary

Quantitative Portfolio:

Dividend Income strategy

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 Dividend Income strategy generated a gross total return of 5.60% in the fourth quarter, slightly outperforming the 5.43% return of the CRSP US Large Cap Value Index. For the entire year, the strategy finished with a return of 10.53%, compared to the 9.17% of the benchmark. The portfolio's dividend yield at the end of the quarter was 3.76%, compared to the 2.51% yield on the benchmark. The strategy is quantitatively constructed to maintain sector weights and risk characteristics in line with those of the benchmark, while at the same time providing a dividend yield substantially higher than the benchmark.

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. Accordingly, the portfolio's relative performance was driven primarily by individual security selection. Sector allocation accounted for three basis points, whereas stock selection within sectors positively contributed 14 basis points during the quarter. The sectors having the most positive relative impact from a security selection perspective were Real Estate and Consumer Staples. Sectors that contributed the least on a relative basis were Communication Services and Financials.

Positively contributing to the Dividend Income strategy's performance during the quarter was an overweight to Broadcom Inc. (AVGO), which gained more than 34%. The stock also outperformed the 17.9% return of the Information Technology sector. The Semiconductors and Semiconductor Equipment company contributed 34 basis points to performance.

The portfolio also benefited from having an overweight to PACCAR Inc (PCAR). The Machinery company's stock rose by more than 19%, and contributed 25 basis points to performance. The stock also outperformed the 13.5% return of the Industrials sector.

Another positive contributor to portfolio performance was an overweight to Fidelity National Financial, Inc. (FNF), as the stock added more than 31%. The Insurance firm also outperformed the 16.0% return of the overall Financials sector. The overweight position contributed 14 basis points to performance.

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 -5.8% return of the Energy sector. The overweight position detracted 28 basis points from performance.

An overweight to Pfizer Inc. (PFE) during the quarter also negatively impacted performance, as the stock declined almost 14%. The Pharmaceuticals company detracted 21 basis points from performance, and trailed the 4.3% return of the Health Care sector.

Another detractor from portfolio performance was an overweight to Exelon Corporation (EXC), as the stock retreated close to 1%. In addition, the Electric Utilities firm underperformed the 13.9% return of the overall Utilities sector. The overweight position detracted 15 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	Broadcom Inc. (AVGO)	+34 bps	Overweight	4.09%	AVGO posted a gain of 34%, outperforming the general sector in the quarter.
	PACCAR Inc (PCAR)	+25 bps	Overweight	3.21%	PCAR's gain of 19% outperformed the general sector in the quarter.
	Fidelity National Financial, Inc. (FNF)	+14 bps	Overweight	1.07%	The Financials company FNF advanced 31% in the quarter, and outperformed the overall sector's return.
	The Bank of New York Mellon Corporation (BK)	+10 bps	Overweight	1.05%	Outperforming the overall sector's return, the Financials company BK advanced 25% in the quarter.
	Truist Financial Corporation (TFC)	+10 bps	Overweight	0.77%	The stock of the Financials company gained 36% in the quarter, and outperformed the overall sector's return.
Detractors	Exxon Mobil Corporation (XOM)	-28 bps	Overweight	3.61%	XOM, an Energy company, declined 13% in the quarter, and also underperformed the overall sector's return.
	Pfizer Inc. (PFE)	-21 bps	Overweight	1.98%	PFE posted a loss of 14%, and also underperformed the general sector in the quarter.
	Exelon Corporation (EXC)	-15 bps	Overweight	1.50%	The Electric Utilities company's stock had a negative return of 1% in the quarter.
	The Procter & Gamble Company (PG)	-11 bps	Overweight	3.60%	The Household Products company's stock advanced 2% in the quarter.
	LyondellBasell Industries N.V. (LYB)	-8 bps	Overweight	1.36%	LYB's gain of 3% 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 qrg@envestnet.com.

QRG Dividend Income strategy

Period	*Pure Gross Return	Net Return	***CRSP US Large Cap Value 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
**2019-12-01 - 2019-12-31	3.72%	3.47%	2.75%	6	n/a	n/a	n/a	1,485,984	10,441,378	2,723,594,504	0.05%
2020	-3.93%	-6.80%	-0.08%	153	0.28%	n/a	n/a	54,443,543	122,927,249	4,011,352,178	1.36%
2021	24.51%	20.89%	26.51%	166	0.84%	n/a	n/a	65,592,922	163,910,591	5,883,211,018	1.11%
2022	-1.06%	-4.00%	-2.01%	255	3.19%	23.08%	20.81%	112,726,351	236,183,961	5,825,736,102	1.93%
2023	10.53%	7.28%	9.17%	357	2.31%	16.66%	15.67%	141,622,986	313,151,950	9,254,020,860	1.53%

*Presented as supplementary information.

**Partial year.

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The QRG Dividend Income strategy 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 - 0.15%, \$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:

2019 - 100%
2020 - 100%
2021 - 100%
2022 - 100%

2023 - 100%

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