

Quarterly Commentary

Quantitative Portfolio:

Market Series Small Cap Core

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 Small Cap Core strategy delivered a gross total return of 5.86% in the fourth quarter, decidedly lagging the 7.02% return of the CRSP US Small Cap Index. For the full year the strategy generated a return of 15.59%, while the benchmark finished with a 18.09% return. The strategy is quantitatively constructed to maintain sector weights and risk characteristics in line with those of 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 11 basis points, whereas stock selection within sectors detracted 127 basis points during the quarter. The sectors having the most positive relative impact from a security selection perspective were Financials and Utilities. Sectors that contributed the least on a relative basis were Real Estate and Materials.

The position providing the largest contribution to the performance of the Market Series Small Cap Core strategy during the quarter was Simpson Manufacturing Co., Inc. (SSD). An overweight to the Building Products company, which had a return of greater than 33%, contributed 23 basis points to performance as a result of its overweight position. The stock's performance also outpaced the 14.9% return of the Industrials sector.

The portfolio's overweight to Meritage Homes Corporation (MTH) also contributed positively to performance in the quarter. The Household Durables company gained close to 45% on an absolute basis, and also outperformed the 18.2% return of the Consumer Discretionary sector. The position contributed 18 basis points to performance.

Software company Fair Isaac Corporation (FICO) benefited performance in the quarter as a result of its overweight in the portfolio relative to the benchmark. The stock gained almost 35%, and contributed 13 basis points to performance. It also outperformed the 14.0% return of the broader Information Technology sector.

The position proving to be the largest detractor from the performance of the strategy during the quarter was CNX Resources Corporation (CNX). An overweight to the Oil, Gas and Consumable Fuels company, which had a negative return of almost 9%, detracted 14 basis points from performance. The stock's performance trailed the -2.7% return of the Energy sector.

Also detracting from performance was the portfolio's overweight to Fox Factory Holding Corp. (FOXF), which declined almost 31%. The Automobile Components company underperformed the 18.2% return of the broader Consumer Discretionary sector. The position detracted 13 basis points from performance.

Portfolio performance also suffered during the quarter from having an overweight to RLI Corp. (RLI). The Insurance company's stock gained almost 1%, underperforming the overall Financials sector's return of 19.9%.

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	Simpson Manufacturing Co., Inc. (SSD)	+23 bps	Overweight	1.56%	The stock of the Building Products firm advanced 33% in the quarter.
	Meritage Homes Corporation (MTH)	+18 bps	Overweight	0.83%	MTH's gain of 45% outperformed the general sector in the quarter.
	Fair Isaac Corporation (FICO)	+13 bps	Overweight	1.00%	FICO's gain of 35% outperformed the general sector in the quarter.
	TPG Inc. (TPG)	+12 bps	Overweight	0.53%	TPG's gain of 48% outperformed the general sector in the quarter.
	Mueller Industries, Inc. (MLI)	+12 bps	Overweight	1.23%	MLI posted a gain of 28%, outperforming the general sector in the quarter.
Detractors	CNX Resources Corporation (CNX)	-14 bps	Overweight	0.67%	CNX, an Energy company, declined 9% in the quarter, and also underperformed the overall sector's return.
	Fox Factory Holding Corp. (FOXF)	-13 bps	Overweight	0.31%	The stock of the Consumer Discretionary company declined 31% in the quarter, and also underperformed the overall sector's return.
	RLI Corp. (RLI)	-13 bps	Overweight	1.13%	While it underperformed the overall sector's return, the Financials company RLI gained 1% in the quarter.
	ChargePoint Holdings, Inc. (CHPT)	-11 bps	Overweight	0.19%	The Electrical Equipment company's stock fell by 51% in the quarter.
	Iridium Communications Inc. (IRDM)	-10 bps	Overweight	0.50%	IRDM's loss of 7% underperformed the general sector 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-QC-IIMLCESG-0521

QRG Market Series Small Cap Core

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
**2018-10-01 - 2018-12-31	-19.87%	-20.51%	-20.10%	1	nm	n/a	n/a	354,173	834,101	1,604,283,375	0.02%
2019	22.30%	18.74%	23.10%	2	nm	n/a	n/a	249,260	1,171,872	2,723,594,504	0.01%
2020	16.34%	12.93%	19.07%	3	nm	n/a	n/a	680,684	5,796,247	4,011,352,178	0.02%
2021	21.70%	18.15%	17.71%	22	n/a	21.39%	22.87%	4,772,859	24,780,814	5,883,211,018	0.08%
2022	-13.79%	-16.37%	-17.64%	26	0.53%	24.00%	25.17%	5,061,040	33,443,704	5,825,736,102	0.09%
2023	15.59%	12.20%	18.09%	36	0.65%	20.03%	20.04%	7,584,626	50,341,367	9,254,020,860	0.08%

*Presented as supplementary information.

**Partial year.

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The QRG Market Series Small Cap Core 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.

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

2018 - 100%

2019 - 100%

2020 - 100%
2021 - 100%
2022 - 100%
2023 - 100%

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