

Quarterly Commentary

Quantitative Portfolio: Global Climate Solutions

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 Global Climate Solutions strategy generated a gross total return of 5.81% in the fourth quarter, underperforming the 6.60% return of the Global: 69% CRSP LC/ 31% S&P Developed Markets Classic ADR. For the entire year, the strategy finished with a return of 25.54%, compared to the 24.83% of the benchmark. The strategy is quantitatively constructed to maintain sector weights and risk characteristics in line with those of the benchmark, and seeks to incorporate companies involved in creating solutions for climate related issues while also excluding companies involved in the production and/or distribution of fossil fuels. The portfolio also seeks to avoid companies involved in major environmental controversies.

Due to the lack of exposure to the Energy sector in the Global Climate Solutions strategy, sector allocation relative to the benchmark may have a modest impact on performance. During the latest quarter sector allocation was the predominant driver of the portfolio's relative performance, detracting 42 basis points, whereas stock selection within sectors had a negative impact, detracting 37 basis points. The sectors having the most positive relative impact from a security selection perspective were Consumer Discretionary and Information Technology, and the sectors that contributed the least on a relative basis were Financials and Health Care.

Positively contributing to the Global Climate Solutions strategy's performance during the quarter was an overweight to UBS Group AG (UBS), which gained almost 27%. The stock also outperformed the 13.9% return of the Financials sector. The Capital Markets company contributed 35 basis points to performance.

The portfolio also benefited from having an overweight to The Goldman Sachs Group, Inc. (GS). The Capital Markets company's stock rose by more than 22%, and contributed 28 basis points to performance. The stock also outperformed the 13.9% return of the Financials sector.

Micron Technology, Inc. (MU) 's overweight position relative to the benchmark resulted in a 23 basis point contribution for the portfolio. The Semiconductors and Semiconductor Equipment company's stock advanced almost 26%, outperforming the overall Information Technology sector.

The position providing the largest contribution to the performance of the Global Climate Solutions strategy during the quarter was Johnson & Johnson (JNJ). An overweight to the Pharmaceuticals company had a return of almost 2%, and detracted 29 basis points from performance as a result of its overweight position. However, the stock's performance trailed the 6.4% return of the Health Care sector.

Also detracting from performance was the portfolio's overweight to Tesla, Inc. (TSLA), which declined almost 1%. The Automobiles company underperformed the 11.1% return of the broader Consumer Discretionary sector. The position detracted 20 basis points from performance.

Financial Services company Worldline SA (WRDL.Y) detracted from performance in the quarter as a result of its overweight in the portfolio relative to the benchmark. The stock's decline exceeded 36%, and detracted 18 basis points from performance. It also underperformed the 13.9% return of the broader Financials sector.

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	UBS Group AG (UBS)	+35 bps	Overweight	3.00%	The stock of the Financials company gained 27% in the quarter, and outperformed the overall sector's return.
	The Goldman Sachs Group, Inc. (GS)	+28 bps	Overweight	3.62%	GS's gain of 22% outperformed the general sector in the quarter.
	Micron Technology, Inc. (MU)	+23 bps	Overweight	2.74%	The Semiconductors and Semiconductor Equipment company's stock advanced 26% in the quarter.
	Xylem Inc. (XYL)	+18 bps	Overweight	1.49%	The Machinery company's stock had a positive return of 25% in the quarter.
	Microchip Technology Incorporated (MCHP)	+18 bps	Overweight	4.22%	The stock of the Information Technology company gained 16% in the quarter, but underperformed the overall sector's return.
Detractors	Johnson & Johnson (JNJ)	-29 bps	Overweight	3.72%	The Pharmaceuticals company's stock advanced 2% in the quarter.
	Tesla, Inc. (TSLA)	-20 bps	Overweight	2.54%	The stock of the Consumer Discretionary company declined 1% in the quarter, and also underperformed the overall sector's return.
	Worldline SA (WRDL.Y)	-18 bps	Overweight	0.27%	Underperforming the overall sector's return, the Financials company WRDL.Y declined 36% in the quarter.
	Alstom SA (ALSM.Y)	-18 bps	Overweight	0.21%	ALSM.Y's loss of 43% underperformed the general sector in the quarter.
	Kuraray Co., Ltd. (KURR.Y)	-15 bps	Overweight	0.57%	The Chemicals company's stock fell by 14% 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 Global Climate Solutions

Period	*Pure Gross Return	Net Return	***Global: 69% CRSP LC/ 31% S&P Developed Markets Classic ADR 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
**2020-06-01 - 2020-12-31	30.98%	28.79%	26.46%	3	nm	n/a	n/a	748,398	18,338,397	4,011,352,178	0.02%
2021	27.71%	24.01%	22.28%	24	n/a	n/a	n/a	12,773,589	39,293,429	5,883,211,018	0.22%
2022	-19.32%	-21.76%	-17.66%	32	1.14%	n/a	n/a	15,293,892	28,841,990	5,825,736,102	0.26%
2023	25.54%	21.89%	24.83%	46	2.81%	18.20%	16.84%	23,146,785	53,673,107	9,254,020,860	0.25%

*Presented as supplementary information.

**Partial year.

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The QRG Global Climate Solutions composite is comprised of all fee-paying, discretionary accounts with at least \$200,000 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 \$200,000 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:

2020 - 100%

2021 - 100%

2022 - 100%
2023 - 100%

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