

## Quarterly Commentary

### Quantitative Portfolio:

# Sustainable Large Cap Core Portfolio

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 Sustainable Large Cap Core Portfolio strategy generated a gross total return of 6.02% in the fourth quarter, underperforming the 6.74% return of the CRSP US Large Cap Index. For the entire year, the strategy finished with a return of 24.66%, compared to the 27.28% of the benchmark. The strategy is quantitatively constructed, with the dual objective of providing passive beta exposure and high ESG outcomes.

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. However, in the latest quarter, the portfolio's relative performance was driven primarily by its sector weights. Sector allocation accounted for a negative contribution of 83 basis points, whereas stock selection within sectors positively contributed 11 basis points during the quarter. The sectors having the most positive relative impact from a security selection perspective were Consumer Discretionary and Industrials. Sectors that contributed the least on a relative basis were Financials and Health Care.

The position providing the largest contribution to the performance of the Sustainable Large Cap Core Portfolio strategy during the quarter was Monolithic Power Systems, Inc. (MPWR). An overweight to the Semiconductors and Semiconductor Equipment company, which had a return of almost 38%, contributed 47 basis points to performance as a result of its overweight position. The stock's performance also outpaced the 15.9% return of the Information Technology sector.

The portfolio's overweight to Micron Technology, Inc. (MU) also contributed positively to performance in the quarter. The Semiconductors and Semiconductor Equipment company gained close to 26% on an absolute basis, and also outperformed the 15.9% return of the Information Technology sector. The position contributed 12 basis points to performance.

Another positive contributor to portfolio performance was an overweight to Moody's Corporation (MCO), as the stock added close to 24%. The Capital Markets firm also outperformed the 15.5% return of the overall Financials sector. The overweight position contributed 12 basis points to performance.

An overweight position to BorgWarner Inc. (BWA) detracted 41 basis points from the portfolio's return. The Automobile Components company declined by more than 10% during the quarter.

Also detracting from performance was the portfolio's overweight to Rivian Automotive, Inc. (RIVN), which declined close to 1%. The Automobiles company underperformed the 12.4% return of the broader Consumer Discretionary sector. The position detracted 15 basis points from performance.

Portfolio performance also suffered during the quarter from having an underweight to Microsoft Corporation (MSFT). The Software company's stock gained more than 17%, outperforming the overall Information Technology sector's return of 15.9%.

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	Monolithic Power Systems, Inc. (MPWR)	+47 bps	Overweight	1.22%	MPWR posted a gain of 38%, outperforming the general sector in the quarter.
	Micron Technology, Inc. (MU)	+12 bps	Overweight	1.24%	The Semiconductors and Semiconductor Equipment company's stock advanced 26% in the quarter.
	Moody's Corporation (MCO)	+12 bps	Overweight	1.25%	MCO's gain of 24% outperformed the general sector in the quarter.
	Microchip Technology Incorporated (MCHP)	+11 bps	Overweight	3.21%	The Semiconductors and Semiconductor Equipment company's stock had a positive return of 16% in the quarter.
	Blackstone Inc. (BX)	+8 bps	Overweight	0.38%	The stock of the Financials company gained 23% in the quarter, and outperformed the overall sector's return.
Detractors	BorgWarner Inc. (BWA)	-41 bps	Overweight	1.62%	BWA's loss of 10% underperformed the general sector in the quarter.
	Rivian Automotive, Inc. (RIVN)	-15 bps	Overweight	0.13%	RIVN posted a loss of 1%, and also underperformed the general sector in the quarter.
	Microsoft Corporation (MSFT)	-13 bps	Underweight	4.75%	Outperforming the overall sector's return, the Information Technology company MSFT advanced 17% in the quarter.
	Tesla, Inc. (TSLA)	-12 bps	Overweight	2.69%	The Automobiles company's stock fell by 1% in the quarter.
	Verisk Analytics, Inc. (VRSK)	-11 bps	Overweight	1.04%	The Professional Services company's stock advanced 1% 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 Sustainable Large Cap Core Portfolio

Period	*Pure Gross Return	Net Return	***CRSP US Large 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
**2017-03-01 - 2017-12-31	17.91%	15.04%	14.84%	2	nm	n/a	n/a	1,850,597	25,100,978	802,232,195	0.23%
2018	-3.12%	-6.00%	-4.78%	5	n/a	n/a	n/a	8,250,046	25,498,856	1,604,283,375	0.51%
2019	32.38%	28.55%	31.43%	24	n/a	n/a	n/a	34,602,372	40,524,316	2,723,594,504	1.27%
2020	22.83%	19.25%	21.09%	58	3.42%	18.74%	18.87%	50,088,429	64,609,131	4,011,352,178	1.25%
2021	27.11%	23.42%	27.07%	102	1.19%	17.37%	17.47%	44,624,554	113,372,244	5,883,211,018	0.76%
2022	-17.61%	-20.09%	-19.67%	201	0.88%	21.65%	21.16%	85,103,443	132,878,285	5,825,736,102	1.46%
2023	24.66%	21.04%	27.28%	233	2.06%	18.18%	17.40%	74,725,609	187,271,063	9,254,020,860	0.81%

\*Presented as supplementary information.

\*\*Partial year.

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The QRG Sustainable Large Cap Core Portfolio 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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