

Quarterly Commentary

Quantitative Portfolio:

Factor-Enhanced All Cap: V + Q

Third Quarter (Q3) 2022

Market Environment

The US economy continued to have difficulty in the quarter, as surging inflation and the effects of central bank efforts to tame it, have caused growth to turn negative. Against this backdrop, the Bureau of Economic Analysis released the third estimate of the second quarter 2022 real GDP, a seasonally adjusted annualized decline of 0.6%, in line with the prior estimate, and a slight improvement from the 1.6% decrease in the prior quarter. The employment situation continued to show a strong trend in the quarter, as gains modestly exceeded expectations. The August report showed that employers added 315,000 jobs in the month, and that the unemployment rate rose to 3.7%. The Federal Open Market Committee (FOMC), in an effort to aggressively battle surging inflation, twice raised its federal funds rate target range in the quarter, to 3.00% to 3.25%, from a range of 1.50% to 1.75%. The 75-basis point increase on September 21st was the third this year, and many economists expect the FOMC to continue to aggressively raise rates until inflation is under control.

Portfolio Commentary

The Factor-Enhanced All Cap: V + Q strategy delivered a gross total return of -6.99% in the third quarter, decidedly lagging the -4.44% return of the CRSP US Total Market Index. On a year-to-date basis the strategy has generated a return of -23.55%, while the benchmark has posted a -24.86% return. The strategy is quantitatively constructed to provide exposures to the primary drivers of return and excess return identified over decades of financial research. These include exposures to the market, as well as to the well-known value and quality asset pricing factors.

Sector allocation will generally have a relatively minor effect on performance, as the strategy is constructed to be sector-neutral at the time of rebalancing. Such was the case during the latest quarter, as the portfolio's relative performance was driven primarily by individual security selection. Sector allocation positively contributed five basis points, whereas stock selection within sectors accounted for 260 basis points during the quarter. The sectors having the most positive relative impact from a security selection perspective were Real Estate and Energy, and the sectors that contributed the least on a relative basis were Communication Services and Health Care.

Positively contributing to the Factor-Enhanced All Cap: V + Q strategy's performance during the quarter was an overweight to ON Semiconductor Corporation (ON), which gained more than 33%. The stock also outperformed the -6.2% return of the Information Technology sector. The Semiconductors and Semiconductor Equipment company contributed 27 basis points to performance.

The portfolio also benefited from having an underweight to Microsoft Corporation (MSFT). The Software company's stock fell almost 10%, and contributed 20 basis points to performance. However, the stock lagged the -6.2% return of the Information Technology sector.

Bath & Body Works, Inc. (BBWI)'s overweight position relative to the benchmark resulted in a 18 basis point contribution for the portfolio. The Specialty Retail company's stock advanced almost 18%, outperforming the overall Consumer Discretionary sector.

A primary detractor from performance during the quarter was an overweight to Tyson Foods, Inc. (TSN). The Food Products company fell by more than 22%, lagging the -8.0% return of the Consumer Staples sector. The overweight position detracted 41 basis points from performance.

Verizon Communications Inc. (VZ) experienced a 26% decline during the quarter, detracting 37 basis points as a result of its overweight allocation relative to the index.

Intel Corporation (INTC)'s overweight position relative to the benchmark resulted in a 22 basis point deduction from the portfolio's performance. The Semiconductors and Semiconductor Equipment company's stock fell by almost 28%, and underperformed the overall Information Technology sector.

The global economy is currently teetering on the brink of recession after having delivered a strong post-pandemic recovery. Decades-high inflation caused by supply shortages and rising commodity prices have caused the Federal Open Market Committee and other world central banks to aggressively tighten monetary policy. Heightened volatility is likely to continue in the financial markets until there is improvement on the inflation front.

Model Portfolio Attribution

	Performance Driver	Active Return Contribution	Portfolio Exposure	Average Weight in Model	Comments
Contributors	ON Semiconductor Corporation (ON)	+27 bps	Overweight	1.14%	The stock of the Information Technology company gained 33% in the quarter, and outperformed the overall sector's return.
	Microsoft Corporation (MSFT)	+20 bps	Underweight	0.78%	The Software company's stock fell by 10% in the quarter.
	Bath & Body Works, Inc. (BBWI)	+18 bps	Overweight	0.89%	The Specialty Retail company's stock advanced 18% in the quarter.
	Coinbase Global, Inc. (COIN)	+15 bps	Overweight	0.49%	COIN's gain of 32% outperformed the general sector in the quarter.
	Amphenol Corporation (APH)	+12 bps	Overweight	1.57%	The stock of the Electronic Equipment, Instruments and Components firm advanced 5% in the quarter.
Detractors	Tyson Foods, Inc. (TSN)	-41 bps	Overweight	1.85%	The Food Products company's stock fell by 22% in the quarter.
	Verizon Communications Inc. (VZ)	-37 bps	Overweight	1.93%	The stock of the Diversified Telecommunication Services firm fell by 26% in the quarter.
	Intel Corporation (INTC)	-22 bps	Overweight	1.06%	Posting a loss of 28%, INTC underperformed the general sector in the quarter.
	Tesla, Inc. (TSLA)	-19 bps	Underweight	0.88%	TSLA's gain of 17% outperformed the general sector in the quarter.
	Comcast Corporation (CMCSA)	-15 bps	Overweight	1.05%	The Media company's stock fell by 27% 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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If interested in the attribution calculation methodology, or for the full list of portfolio contributors and detractors, please e-mail qrg@envestnet.com.

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QRG Factor-Enhanced All Cap: V + Q

Period	*Pure Gross Return	Net Return	**CRSP US Total Market 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
**2017-04-01 - 2017-12-31	12.85%	10.37%	14.55%	23	n/a	n/a	n/a	6,220,849	21,625,636	802,232,195	0.78%
2018	-8.81%	-11.53%	-5.24%	49	n/a	n/a	n/a	12,137,327	62,226,254	1,604,283,375	0.76%
2019	30.10%	26.32%	31.02%	54	0.40%	n/a	n/a	18,409,849	102,013,878	2,723,594,504	0.68%
2020	12.37%	9.06%	20.99%	54	6.58%	20.85%	19.41%	22,949,027	99,708,767	4,011,352,178	0.57%
2021	29.21%	25.47%	25.72%	60	1.59%	19.75%	17.92%	28,233,572	115,881,030	5,883,211,018	0.48%

*Presented as supplementary information.

**Partial year.

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The QRG Factor-Enhanced All Cap: V + Q 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%

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