

## Quarterly Commentary

### Quantitative Portfolio:

# Factor-Enhanced Emerg Mrkts ADR: 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 Emerg Mrkts ADR: V + Q strategy delivered a gross total return of -11.58% in the third quarter, decidedly outgaining the -13.86% return of the S&P/BNY Mellon EM Classic ADR TR USD. On a year-to-date basis the strategy has generated a return of -29.56%, while the benchmark has posted a -28.67% 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 detracted 56 basis points, whereas stock selection within sectors contributed 284 basis points during the quarter. The sectors having the most positive relative impact from a security selection perspective were Communication Services and Information Technology, and the sectors that contributed the least on a relative basis were Energy and Materials.

The strategy is constructed to favor stocks of companies having high aggregate exposures to the well known value and quality asset pricing factors, which academic research has shown generate positive returns over time. These tilts delivered negative results in the latest quarter, as value and quality detracted 151 and three basis points, respectively.

The position providing the largest contribution to the performance of the Factor-Enhanced Emerg Mrkts ADR: V + Q strategy during the quarter was Perusahaan Perseroan (Persero) PT Telekomunikasi Indonesia Tbk (TLK). An overweight to the Diversified Telecommunication Services company, which had a return of almost 6%, contributed 123 basis points to performance as a result of its overweight position. The stock's performance also outpaced the -21.9% return of the Communication Services sector.

The portfolio's overweight to PT Bank Mandiri (Persero) Tbk (PPER.Y) also contributed positively to performance in the quarter. The Banks company gained close to 22% on an absolute basis, and also outperformed the -5.4% return of the Financials sector. The position contributed 91 basis points to performance.

Cyrela Brazil Realty S.A. Empreendimentos e Participações (CYRB.Y)'s overweight position relative to the benchmark resulted in a 68 basis point contribution for the portfolio. The Household Durables company's stock advanced almost 42%, outperforming the overall Consumer Discretionary sector.

A primary detractor from performance during the quarter was an overweight to Alibaba Group Holding Limited (BABA). The Internet and Direct Marketing Retail company fell by more than 31%, lagging the -22.3% return of the Consumer Discretionary sector. The overweight position detracted 38 basis points from performance.

An underweight to Petróleo Brasileiro S.A. - Petrobras (PBR.A) during the quarter also benefited performance, as the stock gained almost 27%. The Oil, Gas and Consumable Fuels company detracted 32 basis points from performance, but in the process outperformed the 10.5% return of the Energy sector.

Niu Technologies (NIU)'s overweight position relative to the benchmark resulted in a 32 basis point deduction from the portfolio's performance. The Automobiles company's stock fell by more than 52%, and underperformed the overall Consumer Discretionary 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	Perusahaan Perseroan (Persero) PT Telekomunikasi Indonesia Tbk (TLK)	+123 bps	Overweight	6.78%	TLK posted a gain of 6%, outperforming the general sector in the quarter.
	PT Bank Mandiri (Persero) Tbk (PPER.Y)	+91 bps	Overweight	3.42%	The Banks company's stock advanced 22% in the quarter.
	Cyrela Brazil Realty S.A. Empreendimentos e Participações (CYRB.Y)	+68 bps	Overweight	1.21%	The Consumer Discretionary company CYRB.Y advanced 42% in the quarter, and outperformed the overall sector's return.
	Canaan Inc. (CAN)	+38 bps	Overweight	1.77%	Outperforming the overall sector's return, the Information Technology company CAN advanced 2% in the quarter.
	PT Bank Rakyat Indonesia (Persero) Tbk (BKRK.Y)	+35 bps	Overweight	3.00%	The stock of the Banks firm advanced 1% in the quarter.
Detractors	Alibaba Group Holding Limited (BABA)	-38 bps	Overweight	8.48%	The Internet and Direct Marketing Retail company's stock fell by 31% in the quarter.
	Petróleo Brasileiro S.A. - Petrobras (PBR.A)	-32 bps	Underweight	0.36%	The stock of the Energy company gained 27% in the quarter, and outperformed the overall sector's return.
	Niu Technologies (NIU)	-32 bps	Overweight	0.54%	Posting a loss of 52%, NIU underperformed the general sector in the quarter.
	LG Display Co., Ltd. (LPL)	-26 bps	Overweight	1.95%	LPL's loss of 27% underperformed the general sector in the quarter.
	Grupo Aval Acciones y Valores S.A. (AVAL)	-24 bps	Overweight	1.17%	AVAL's loss of 30% 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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If interested in the attribution calculation methodology, or for the full list of portfolio contributors and detractors, please e-mail [qrg@envestnet.com](mailto:qrg@envestnet.com).



## QRG Factor-Enhanced Emerg Mrkts ADR: V + Q

Period	*Pure Gross Return	Net Return	S&P/BNY Mellon EM Classic ADR TR USD 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
**2018-07-01 - 2018-07-31	2.74%	2.49%	2.59%	1	nm	n/a	n/a	102,381	2,274,563	1,482,016,208	0.01%
**2018-10-01 - 2018-12-31	-7.39%	-8.10%	-7.67%	1	nm	n/a	n/a	179,289	3,179,552	1,604,283,375	0.01%
**2019-04-01 - 2019-12-31	5.18%	2.85%	10.34%	1	nm	n/a	n/a	309,931	5,110,840	2,723,594,504	0.01%
2020	13.16%	9.83%	18.02%	2	nm	22.78%	20.98%	369,253	10,594,405	4,011,352,178	0.01%
2021	-3.53%	-6.40%	-11.81%	2	nm	20.13%	19.95%	380,478	9,480,601	5,883,211,018	0.01%

\*Presented as supplementary information.

\*\*Partial year.

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The QRG Factor-Enhanced Emerg Mrkts ADR: 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. Breaks in performance are due to all eligible accounts becoming non-discretionary and leaving the composite

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:

2018 - 100%

2019 - 100%

2020 - 100%  
2021 - 100%

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