

Quarterly Commentary

Quantitative Portfolio: Factor-Enhanced Global 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 Global V+Q strategy generated a gross total return of -7.64% in the third quarter, materially trailing the -6.48% return of the Global: 69% CRSP LC / 31% BNY Mellon DM Classic ADR TR USD. On a year-to-date basis, the strategy has a return of -23.75%, compared to the benchmark return of -25.59%. 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.

Due to the strategy's sector-neutral construction at the time of rebalancing, sector allocation will generally have a relatively minor effect on performance. Such was the case during the latest quarter, as the portfolio's relative performance was driven predominantly by individual security selection. Sector allocation contributed two basis points during the quarter, whereas stock selection within sectors accounted for 118 basis points. The sectors having the most positive relative impact from a security selection perspective were Utilities and Real Estate, and the sectors that contributed the least on a relative basis were Communication Services and Consumer Discretionary.

Positively contributing to the Factor-Enhanced Global V+Q strategy's performance during the quarter was an overweight to Keysight Technologies, Inc. (KEYS), which gained almost 16%. The stock also outperformed the -6.8% return of the Information Technology sector. The Electronic Equipment, Instruments and Components company contributed 14 basis points to performance.

The portfolio's overweight to Amphenol Corporation (APH) also contributed positively to performance in the quarter. The Electronic Equipment, Instruments and Components company's stock advanced over 5% on an absolute basis, and also outperformed the -6.8% return of the Information Technology sector. The position contributed 13 basis points to performance.

Another positive contributor to portfolio performance was an overweight to Electricité de France S.A. (ECIF.Y), as the stock added more than 30%. The Electric Utilities firm also outperformed the -11.0% return of the overall Utilities sector. The overweight position contributed 10 basis points to performance.

Detracting the most from the Factor-Enhanced Global V+Q strategy's performance during the quarter was an underweight to Tesla, Inc. (TSLA), which gained almost 17%. However, the stock outperformed the -2.2% return of the Consumer Discretionary sector. The Automobiles company detracted 22 basis points from performance.

Also detracting from performance was the portfolio's overweight to Tesco PLC (TSCD.Y), which declined close to 26%. The Food and Staples Retailing company underperformed the -8.3% return of the broader Consumer Staples sector. The position detracted 21 basis points from performance.

Technology Hardware, Storage and Peripherals company Apple Inc. (AAPL) was a drag on performance in the quarter as a result of its underweight in the portfolio relative to the benchmark. The stock declined almost 0%, and detracted 17 basis points from performance. It outperformed the -6.8% return of the broader 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	Keysight Technologies, Inc. (KEYS)	+14 bps	Overweight	0.76%	The stock of the Electronic Equipment, Instruments and Components firm advanced 16% in the quarter.
	Amphenol Corporation (APH)	+13 bps	Overweight	1.27%	APH's gain of 5% outperformed the general sector in the quarter.
	Electricité de France S.A. (ECIF.Y)	+10 bps	Overweight	0.28%	ECIF.Y's gain of 30% outperformed the general sector in the quarter.
	Berkshire Hathaway Inc. (BRK.B)	+10 bps	Overweight	2.87%	Even though it outperformed the overall sector's return, BRK.B declined 4% in the quarter.
	Regeneron Pharmaceuticals, Inc. (REGN)	+9 bps	Overweight	0.50%	The stock of the Health Care company gained 16% in the quarter, and outperformed the overall sector's return.
Detractors	Tesla, Inc. (TSLA)	-22 bps	Underweight	0.50%	TSLA's gain of 17% outperformed the general sector in the quarter.
	Tesco PLC (TSCD.Y)	-21 bps	Overweight	0.74%	The stock of the Consumer Staples company declined 26% in the quarter, and also underperformed the overall sector's return.
	Apple Inc. (AAPL)	-17 bps	Underweight	2.74%	The Technology Hardware, Storage and Peripherals company's stock had a negative return of 0% in the quarter.
	Verizon Communications Inc. (VZ)	-15 bps	Overweight	1.05%	The Diversified Telecommunication Services company's stock fell by 26% in the quarter.
	AT&T Inc. (T)	-14 bps	Overweight	0.84%	The Diversified Telecommunication Services 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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QRG Factor-Enhanced Global V+Q

Period	*Pure Gross Return	Net Return	***Global: 69% CRSP LC / 31% BNY Mellon DM 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
**2020-06-01 - 2020-12-31	25.68%	23.56%	26.46%	2	nm	n/a	n/a	1,027,821	1,676,298	4,011,352,178	0.03%
2021	23.50%	19.91%	22.28%	4	nm	n/a	n/a	2,097,374	2,848,914	5,883,211,018	0.04%

*Presented as supplementary information.

**Partial year.

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The QRG Factor-Enhanced Global V+Q 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%

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