

## Quarterly Commentary

### Quantitative Portfolio:

# Factor-Enhanced Intl ADR: V + M + 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 Intl ADR: V + M + Q strategy generated a gross total return of -8.44% in the third quarter, materially exceeding the -10.31% return of the S&P/BNY Mellon DM Ex US Classic ADR TR USD. On a year-to-date basis, the strategy has a return of -24.33%, compared to the benchmark return of -27.08%. 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, momentum 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 eight basis points during the quarter, whereas stock selection within sectors accounted for 179 basis points. The sectors having the most positive relative impact from a security selection perspective were Communication Services and Financials, and the sectors that contributed the least on a relative basis were Industrials and Energy.

The strategy strives to capture exposures to the value, momentum and quality asset pricing factors, which academic research has shown generate positive returns over time. These tilts produced varied results in the latest quarter, as value contributed 65 basis points to the portfolio's relative performance, but momentum and quality detracted 2 and four basis points, respectively.

The primary contributor to the performance of the Factor-Enhanced Intl ADR: V + M + Q strategy during the quarter was an overweight to Ajinomoto Co., Inc. (AJIN.Y). The Food Products company advanced over 10%, outpacing the -8.7% return of the Consumer Staples sector. The stock contributed 20 basis points to performance.

An overweight to Tokio Marine Holdings, Inc. (TKOM.Y) during the quarter also benefited performance, as the stock's loss exceeded 10%. The Insurance company contributed 13 basis points to performance, and in the process also outperformed the -11.2% return of the Financials sector.

Teva Pharmaceutical Industries Limited (TEVA)'s overweight position relative to the benchmark resulted in a 13 basis point contribution for the portfolio. The Pharmaceuticals company's stock advanced more than 2%, outperforming the overall Health Care sector.

A primary detractor from performance during the quarter was an overweight to A.P. Møller - Mærsk A/S (AMKB.Y). The Marine company fell by more than 22%, lagging the -9.5% return of the Industrials sector. The overweight position detracted 14 basis points from performance.

Also detracting from performance was the portfolio's overweight to SSE plc (SSEZ.Y), which declined close to 14%. The Electric Utilities company outperformed the -16.4% return of the broader Utilities sector. The position detracted 11 basis points from performance.

Health Care Equipment and Supplies company Sonova Holding AG (SONV.Y) detracted from performance in the quarter as a result of its overweight in the portfolio relative to the benchmark. The stock declined almost 32%, and detracted 11 basis points from performance. It also underperformed the -11.5% return of the broader Health Care 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	Ajinomoto Co., Inc. (AJIN.Y)	+20 bps	Overweight	1.01%	The stock of the Food Products firm advanced 10% in the quarter.
	Tokio Marine Holdings, Inc. (TKOM.Y)	+13 bps	Overweight	1.11%	TKOM.Y's loss of 10% outperformed the general sector in the quarter.
	Teva Pharmaceutical Industries Limited (TEVA)	+13 bps	Overweight	0.92%	The Pharmaceuticals company's stock advanced 2% in the quarter.
	DBS Group Holdings Ltd (DBSD.Y)	+12 bps	Overweight	0.93%	DBSD.Y's gain of 10% outperformed the general sector in the quarter.
	Trend Micro Incorporated (TMIC.Y)	+10 bps	Overweight	0.57%	The stock of the Software firm advanced 7% in the quarter.
Detractors	A.P. Møller - Mærsk A/S (AMKB.Y)	-14 bps	Overweight	0.51%	AMKB.Y's loss of 22% underperformed the general sector in the quarter.
	SSE plc (SSEZ.Y)	-11 bps	Overweight	0.49%	The stock of the Utilities company declined 14% in the quarter, but outperformed the overall sector's return.
	Sonova Holding AG (SONV.Y)	-11 bps	Overweight	0.59%	The Health Care Equipment and Supplies company's stock had a negative return of 32% in the quarter.
	Sanofi (SNY)	-10 bps	Overweight	1.35%	SNY's loss of 25% underperformed the general sector in the quarter.
	Futu Holdings Limited (FUTU)	-9 bps	Overweight	0.39%	FUTU's loss of 29% underperformed the general sector 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 Factor-Enhanced Intl ADR: V + M + Q

Period	*Pure Gross Return	Net Return	S&P/BNY Mellon DM Ex US 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
**2017-03-01 - 2017-04-30	6.53%	6.02%	5.67%	7	n/a	n/a	n/a	1,540,051	2,747,778	491,659,683	0.31%
**2017-06-01 - 2017-12-31	10.14%	8.25%	8.89%	40	n/a	n/a	n/a	9,177,967	13,132,732	802,232,195	1.14%
2018	-14.96%	-17.51%	-13.83%	111	0.56%	n/a	n/a	21,046,649	31,145,482	1,604,283,375	1.31%
2019	19.08%	15.60%	22.61%	185	0.18%	n/a	n/a	56,875,551	76,210,370	2,723,594,504	2.09%
2020	8.15%	4.96%	8.01%	259	0.56%	15.72%	18.40%	86,981,982	163,467,871	4,011,352,178	2.17%
2021	16.77%	13.35%	11.97%	296	0.41%	14.35%	17.40%	82,853,918	232,011,963	5,883,211,018	1.41%

\*Presented as supplementary information.

\*\*Partial year.

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The QRG Factor-Enhanced Intl ADR: V + M + 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. There was a break in performance between 5/1/2017 and 6/1/2017 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:

2017 - 100%  
2018 - 100%  
2019 - 100%  
2020 - 100%  
2021 - 100%

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