

Quarterly Commentary

Quantitative Portfolio: Factor-Enhanced Intl 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 Intl ADR: V + Q strategy generated a gross total return of -9.62% in the third quarter, outperforming the -10.31% return of the S&P/BNY Mellon DM Ex US Classic ADR TR USD. Year-to-date, the strategy has posted a return of -24.87%, compared to the -27.08% of the benchmark. 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 typically have a relatively minor effect on performance, as the strategy is constructed to be sector-neutral at the time of rebalancing. Accordingly, the portfolio's relative performance was driven primarily by individual security selection. Sector allocation accounted for 15 basis points, whereas stock selection within sectors positively contributed 54 basis points during the quarter. The sectors having the most positive relative impact from a security selection perspective were Health Care and Consumer Staples. Sectors that contributed the least on a relative basis were Energy and Consumer Discretionary.

The strategy strives to capture exposures to the well known value and quality asset pricing factors. These tilts produced mixed results in the quarter, with value positively contributing 79 basis points to the portfolio's performance, but quality detracting 18 basis points.

The primary contributor to the performance of the Factor-Enhanced Intl ADR: V + Q strategy during the quarter was an overweight to Seven & i Holdings Co., Ltd. (SVND.Y). The Food and Staples Retailing company advanced over 3%, outpacing the -8.7% return of the Consumer Staples sector. The stock contributed 16 basis points to performance.

The portfolio's overweight to TechnoPro Holdings, Inc. (TCCP.Y) also contributed positively to performance in the quarter. The Professional Services company gained close to 3% on an absolute basis, and also outperformed the -9.5% return of the Industrials sector. The position contributed 14 basis points to performance.

Electricité de France S.A. (ECIF.Y)'s overweight position relative to the benchmark resulted in a 13 basis point contribution for the portfolio. The Electric Utilities company's stock advanced more than 30%, outperforming the overall Utilities sector.

A primary detractor from performance during the quarter was an overweight to Marks and Spencer Group plc (MAKS.Y). The Food and Staples Retailing company fell by more than 34%, lagging the -8.7% return of the Consumer Staples sector. The overweight position detracted 13 basis points from performance.

A.P. Møller - Mærsk A/S (AMKB.Y) experienced a 22% decline during the quarter, detracting 10 basis points as a result of its overweight allocation relative to the index.

LVMH Moët Hennessy - Louis Vuitton, Société Européenne (LVMU.Y)'s underweight position relative to the benchmark resulted in a 9 basis point deduction from the portfolio's performance. The Textiles, Apparel and Luxury Goods company's stock fell by almost 4%, outperforming 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	Seven & i Holdings Co., Ltd. (SVND.Y)	+16 bps	Overweight	1.29%	The stock of the Food and Staples Retailing firm advanced 3% in the quarter.
	TechnoPro Holdings, Inc. (TCCP.Y)	+14 bps	Overweight	0.91%	TCCP.Y's gain of 3% outperformed the general sector in the quarter.
	Electricité de France S.A. (ECIF.Y)	+13 bps	Overweight	0.38%	ECIF.Y's gain of 30% outperformed the general sector in the quarter.
	Ajinomoto Co., Inc. (AJIN.Y)	+13 bps	Overweight	0.69%	The Food Products company's stock had a positive return of 10% in the quarter.
	KOSÉ Corporation (KSR.Y)	+12 bps	Overweight	0.50%	The stock of the Consumer Staples company gained 14% in the quarter, and outperformed the overall sector's return.
Detractors	Marks and Spencer Group plc (MAKS.Y)	-13 bps	Overweight	0.50%	MAKS.Y's loss of 34% underperformed the general sector in the quarter.
	A.P. Møller - Mærsk A/S (AMKB.Y)	-10 bps	Overweight	0.91%	The stock of the Industrials company declined 22% in the quarter, and also underperformed the overall sector's return.
	LVMH Moët Hennessy - Louis Vuitton, Société Européenne (LVMU.Y)	-9 bps	Underweight	0.21%	Even though it outperformed the overall sector's return, LVMU.Y declined 4% in the quarter.
	Repsol, S.A. (REPY.Y)	-9 bps	Overweight	0.85%	The Oil, Gas and Consumable Fuels company's stock fell by 18% in the quarter.
	Telia Company AB (publ) (TLSN.Y)	-9 bps	Overweight	0.59%	TLSN.Y, a Communication Services company, declined 26% in the quarter, and also underperformed the overall sector's return.

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 arg@envestnet.com.

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QRG Factor-Enhanced Intl ADR: V + 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 - 2017-09-30	17.06%	15.07%	14.83%	15	n/a	n/a	n/a	1,103,969	4,491,251	659,614,347	0.17%
**2017-11-01 - 2017-12-31	1.66%	1.15%	1.87%	12	n/a	n/a	n/a	2,445,782	16,060,854	802,232,195	0.30%
2018	-13.07%	-15.67%	-13.83%	20	n/a	n/a	n/a	4,726,808	53,811,777	1,604,283,375	0.29%
2019	17.43%	14.00%	22.61%	43	0.33%	n/a	n/a	11,098,990	85,293,006	2,723,594,504	0.41%
2020	9.22%	6.00%	8.01%	47	0.54%	16.85%	18.40%	12,677,866	93,613,618	4,011,352,178	0.32%
2021	12.76%	9.46%	11.97%	46	0.83%	15.76%	17.40%	13,866,206	93,267,005	5,883,211,018	0.24%

*Presented as supplementary information.

**Partial year.

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The QRG Factor-Enhanced Intl 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. There was a break in performance between 10/1/2017 and 10/31/2017 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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