

Quarterly Commentary

Quantitative Portfolio:

Factor-Enhanced Large Cap Low Volatility

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 Large Cap Low Volatility strategy delivered a gross total return of -5.03% in the third quarter, lagging the -4.74% return of the CRSP US Large Cap Index. On a year-to-date basis the strategy has generated a return of -20.96%, while the benchmark has posted a -24.98% 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 low volatility asset pricing factor.

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 detracted one basis point during the quarter, whereas stock selection within sectors accounted for 28 basis points. The sectors having the most positive relative impact from a security selection perspective were Information Technology and Health Care, and the sectors that contributed the least on a relative basis were Consumer Discretionary and Financials.

The primary contributor to the performance of the Factor-Enhanced Large Cap Low Volatility strategy during the quarter was an overweight to Genuine Parts Company (GPC). The Distributors company advanced almost 13%, outpacing the 2.6% return of the Consumer Discretionary sector. The stock contributed 14 basis points to performance.

An overweight to Regeneron Pharmaceuticals, Inc. (REGN) during the quarter also benefited performance, as the stock gained almost 16%. The Biotechnology company contributed 11 basis points to performance, and in the process also outperformed the -6.5% return of the Health Care sector.

Electronic Equipment, Instruments and Components company Keysight Technologies, Inc. (KEYS) benefited performance in the quarter as a result of its overweight in the portfolio relative to the benchmark. The stock gained almost 16%, and contributed nine basis points to performance. It also outperformed the -6.5% return of the broader Information Technology sector.

Detracting the most from the Factor-Enhanced Large Cap Low Volatility strategy's performance during the quarter was an underweight to Amazon.com, Inc. (AMZN), which gained more than 3%. However, the stock outperformed the 2.6% return of the Consumer Discretionary sector. The Internet and Direct Marketing Retail company detracted 44 basis points from performance.

Also detracting from performance was the portfolio's overweight to Annaly Capital Management, Inc. (NLY), which declined almost 26%. The Mortgage Real Estate Investment Trusts (REITs) company underperformed the -4.5% return of the broader Financials sector. The position detracted 15 basis points from performance.

Another detractor from portfolio performance was an overweight to International Paper Company (IP), as the stock retreated more than 24%. In addition, the Containers and Packaging firm underperformed the -7.5% return of the overall Materials sector. The overweight position detracted 10 basis points from performance.

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	Genuine Parts Company (GPC)	+14 bps	Overweight	0.88%	GPC posted a gain of 13%, outperforming the general sector in the quarter.
	Regeneron Pharmaceuticals, Inc. (REGN)	+11 bps	Overweight	0.69%	The Biotechnology company's stock advanced 16% in the quarter.
	Keysight Technologies, Inc. (KEYS)	+9 bps	Overweight	0.58%	The Electronic Equipment, Instruments and Components company's stock advanced 16% in the quarter.
	Cheniere Energy, Inc. (LNG)	+8 bps	Overweight	0.40%	LNG's gain of 26% outperformed the general sector in the quarter.
	Nasdaq, Inc. (NDAQ)	+8 bps	Overweight	0.54%	The stock of the Financials company gained 10% in the quarter, and outperformed the overall sector's return.
Detractors	Amazon.com, Inc. (AMZN)	-44 bps	Underweight	0.10%	AMZN's gain of 3% outperformed the general sector in the quarter.
	Annaly Capital Management, Inc. (NLY)	-15 bps	Overweight	0.81%	NLY posted a loss of 26%, and also underperformed the general sector in the quarter.
	International Paper Company (IP)	-10 bps	Overweight	0.52%	The Containers and Packaging company's stock had a negative return of 24% in the quarter.
	Garmin Ltd. (GRMN)	-9 bps	Overweight	0.64%	GRMN's loss of 18% underperformed the general sector in the quarter.
	Verizon Communications Inc. (VZ)	-7 bps	Overweight	0.81%	The Diversified Telecommunication Services company's stock fell by 26% 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 Large Cap Low Volatility

Period	*Pure Gross Return	Net Return	***CRSP US Large Cap 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
**2018-03-01 - 2018-10-31	4.55%	2.48%	1.03%	1	nm	n/a	n/a	325,166	1,607,700	1,560,694,912	0.02%
2019	31.50%	27.70%	31.43%	16	n/a	n/a	n/a	6,125,481	15,063,920	2,723,594,504	0.22%
2020	11.27%	8.00%	21.09%	45	n/a	n/a	n/a	27,091,039	53,660,419	4,011,352,178	0.68%
2021	26.69%	23.01%	27.07%	60	0.39%	16.38%	17.47%	47,513,800	91,047,761	5,883,211,018	0.81%

*Presented as supplementary information.

**Partial year.

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The QRG Factor-Enhanced Large Cap Low Volatility 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 11/1/2018 and 12/31/2018 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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