

## Quarterly Commentary

### Quantitative Portfolio:

# Factor-Enhanced Large Cap: 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 Large Cap: V + M + Q strategy delivered a gross total return of -4.95% in the third quarter, modestly 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 -23.98%, 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 value, momentum 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 nine basis points, whereas stock selection within sectors detracted 12 basis points during the quarter. The sectors having the most positive relative impact from a security selection perspective were Health Care and Real Estate. Sectors that contributed the least on a relative basis were Consumer Discretionary and Financials.

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. Each of these tilts contributed positively to performance in the quarter, with value contributing 240 basis points, momentum adding nine basis points, and quality benefiting performance by 260 basis points.

The position providing the largest contribution to the performance of the Factor-Enhanced Large Cap: V + M + Q strategy during the quarter was Amphenol Corporation (APH). An overweight to the Electronic Equipment, Instruments and Components company, which had a return of greater than 5%, contributed 19 basis points to performance as a result of its overweight position. The stock's performance also outpaced the -6.5% return of the Information Technology sector.

The portfolio also benefited from having an overweight to Raymond James Financial, Inc. (RJF). The Capital Markets company's stock rose by more than 11%, and contributed 18 basis points to performance. The stock also outperformed the -4.5% return of the Financials sector.

Another positive contributor to portfolio performance was an overweight to Regeneron Pharmaceuticals, Inc. (REGN), as the stock added close to 16%. The Biotechnology firm also outperformed the -6.5% return of the overall Health Care sector. The overweight position contributed 14 basis points to performance.

An overweight position to Tyson Foods, Inc. (TSN) detracted 19 from the portfolio's return. The Food Products company declined by almost 22% during the quarter.

An underweight to Tesla, Inc. (TSLA) during the quarter also benefited performance, as the stock gained almost 17%. The Automobiles company detracted 17 basis points from performance, but in the process outperformed the 2.6% return of the Consumer Discretionary sector.

Another detractor from portfolio performance was an overweight to Philip Morris International Inc. (PM), as the stock retreated more than 16%. In addition, the Tobacco firm underperformed the -8.0% return of the overall Consumer Staples sector. The overweight position detracted 12 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 | Amphenol Corporation (APH)              | +19 bps                    | Overweight         | 2.24%                   | The stock of the Electronic Equipment, Instruments and Components firm advanced 5% in the quarter.        |
|              | Raymond James Financial, Inc. (RJF)     | +18 bps                    | Overweight         | 1.22%                   | RJF's gain of 11% outperformed the general sector in the quarter.   |
|              | Regeneron Pharmaceuticals, Inc. (REGN)  | +14 bps                    | Overweight         | 0.84%                   | The Biotechnology company's stock advanced 16% in the quarter.  |
|              | O'Reilly Automotive, Inc. (ORLY)        | +10 bps                    | Overweight         | 0.79%                   | The Specialty Retail company's stock had a positive return of 11% in the quarter.                         |
|              | ON Semiconductor Corporation (ON)       | +10 bps                    | Overweight         | 0.47%                   | The stock of the Semiconductors and Semiconductor Equipment firm advanced 33% in the quarter.             |
| Detractors   | Tyson Foods, Inc. (TSN)                 | -19 bps                    | Overweight         | 0.99%                   | The Food Products company's stock fell by 22% in the quarter.   |
|              | Tesla, Inc. (TSLA)                      | -17 bps                    | Underweight        | 1.34%                   | The stock of the Automobiles firm advanced 17% in the quarter.  |
|              | Philip Morris International Inc. (PM)   | -12 bps                    | Overweight         | 1.43%                   | Underperforming the overall sector's return, the Consumer Staples company PM declined 16% in the quarter. |
|              | Dell Technologies Inc. (DELL)           | -12 bps                    | Overweight         | 0.51%                   | DELL's loss of 19% underperformed the general sector in the quarter.                                      |
|              | Cincinnati Financial Corporation (CINF) | -11 bps                    | Overweight         | 0.42%                   | CINF's loss of 25% 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-QC-IIMLCESG-0521

## QRG Factor-Enhanced Large Cap: V + M + Q

| 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 |
|---------------------------|--------------------|------------|-----------------------------------|------------------------------------|--------------------------|----------------------------|----------------------------|------------------------|----------------------|---------------|--|
| **2015-08-01 - 2015-12-31 | -2.16%             | -3.39%     | -2.65%                            | 9                                  | n/a                      | n/a                        | n/a                        | 2,618,694              | 6,190,838            | 137,138,368   | 1.91%  |
| 2016                      | 11.38%             | 8.11%      | 12.05%                            | 26                                 | 0.15%                    | n/a                        | n/a                        | 9,430,256              | 15,642,222           | 392,256,391   | 2.40%  |
| 2017                      | 21.42%             | 17.88%     | 21.69%                            | 81                                 | 0.81%                    | n/a                        | n/a                        | 38,412,634             | 51,737,817           | 802,232,195   | 4.79%  |
| 2018                      | -6.53%             | -9.32%     | -4.78%                            | 146                                | 0.42%                    | 10.96%                     | 10.96%                     | 56,816,944             | 87,691,015           | 1,604,283,375 | 3.54%  |
| 2019                      | 35.08%             | 31.18%     | 31.43%                            | 251                                | 0.56%                    | 11.00%                     | 12.05%                     | 138,615,417            | 198,617,058          | 2,723,594,504 | 5.09%  |
| 2020                      | 11.00%             | 7.73%      | 21.09%                            | 404                                | 0.50%                    | 19.46%                     | 18.87%                     | 240,024,044            | 457,325,415          | 4,011,352,178 | 5.98%  |
| 2021                      | 30.56%             | 26.78%     | 27.07%                            | 538                                | 0.49%                    | 18.43%                     | 17.47%                     | 283,729,146            | 682,286,664          | 5,883,211,018 | 4.82%  |

\*Presented as supplementary information.

\*\*Partial year.

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The QRG Factor-Enhanced Large Cap: 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.

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:

2015 - 100%  
2016 - 100%  
2017 - 100%  
2018 - 100%  
2019 - 100%  
2020 - 100%  
2021 - 100%

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