

Quarterly Commentary

Quantitative Portfolio:

Factor-Enhanced Large Cap: 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 Large Cap: V + Q strategy delivered a gross total return of -6.71% in the third quarter, decidedly 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 -22.48%, 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 and quality asset pricing factors.

Sector allocation will generally have a relatively minor effect on performance, as the strategy is constructed to be sector-neutral at the time of rebalancing. Such was the case during the latest quarter, as the portfolio's relative performance was driven primarily by individual security selection. Sector allocation positively contributed 14 basis points, whereas stock selection within sectors accounted for 211 basis points during the quarter. The sectors having the most positive relative impact from a security selection perspective were Real Estate and Industrials, and the sectors that contributed the least on a relative basis were Information Technology and Consumer Discretionary.

The strategy strives to capture exposures to the value 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 424 basis points, and quality benefiting performance by 313 basis points.

The position providing the largest contribution to the performance of the Factor-Enhanced Large Cap: V + Q strategy during the quarter was Microsoft Corporation (MSFT), which was underweight in the portfolio. The Software company had a negative return of almost 10%, and contributed 20 basis points to performance as a result of its underweight position. However, the stock's performance trailed the -6.5% return of the Information Technology sector.

The portfolio also benefited from having an overweight to Regeneron Pharmaceuticals, Inc. (REGN). The Biotechnology company's stock rose by almost 16%, and contributed 17 basis points to performance. The stock also outperformed the -6.5% return of the Health Care sector.

Oil, Gas and Consumable Fuels company Marathon Oil Corporation (MRO) benefited performance in the quarter as a result of its overweight in the portfolio relative to the benchmark. The stock's gain exceeded 0%, and contributed 15 basis points to performance. It also underperformed the 1.6% return of the broader Energy sector.

An overweight position to Intel Corporation (INTC) detracted 35 from the portfolio's return. The Semiconductors and Semiconductor Equipment company declined by almost 28% during the quarter.

An overweight to Verizon Communications Inc. (VZ) during the quarter also hurt performance, as the stock advanced in excess of 26%. The Diversified Telecommunication Services company detracted 31 basis points from performance, and also trailed the -12.7% return of the Communication Services sector.

Another detractor from portfolio performance was an underweight to Apple Inc. (AAPL), as the stock retreated close to 0%. The Technology Hardware, Storage and Peripherals firm outperformed the -6.5% return of the overall Information Technology sector. The underweight position detracted 18 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	Microsoft Corporation (MSFT)	+20 bps	Underweight	1.38%	The stock of the Information Technology company declined 10% in the quarter, and also underperformed the overall sector's return.
	Regeneron Pharmaceuticals, Inc. (REGN)	+17 bps	Overweight	0.97%	The Biotechnology company's stock advanced 16% in the quarter.
	Marathon Oil Corporation (MRO)	+15 bps	Overweight	1.14%	The Energy company MRO gained 0% in the quarter, but underperformed the overall sector's return.
	Amphenol Corporation (APH)	+13 bps	Overweight	1.63%	Outperforming the overall sector's return, the Information Technology company APH advanced 5% in the quarter.
	Motorola Solutions, Inc. (MSI)	+13 bps	Overweight	1.26%	MSI posted a gain of 7%, outperforming the general sector in the quarter.
Detractors	Intel Corporation (INTC)	-35 bps	Overweight	1.53%	INTC's loss of 28% underperformed the general sector in the quarter.
	Verizon Communications Inc. (VZ)	-31 bps	Overweight	1.80%	The stock of the Diversified Telecommunication Services firm fell by 26% in the quarter.
	Apple Inc. (AAPL)	-18 bps	Underweight	4.02%	AAPL's loss of 0% outperformed the general sector in the quarter.
	Tyson Foods, Inc. (TSN)	-15 bps	Overweight	0.74%	The Food Products company's stock fell by 22% in the quarter.
	Comcast Corporation (CMCSA)	-14 bps	Overweight	1.10%	CMCSA, a Communication Services company, declined 27% 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 qrg@envestnet.com.

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QRG Factor-Enhanced Large Cap: V + 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
**2017-03-01 - 2017-12-31	11.38%	8.65%	14.84%	22	n/a	n/a	n/a	8,136,237	32,380,628	802,232,195	1.01%
2018	-7.99%	-10.73%	-4.78%	22	n/a	n/a	n/a	9,462,415	87,351,923	1,604,283,375	0.59%
2019	28.47%	24.74%	31.43%	55	3.98%	n/a	n/a	29,417,090	156,429,082	2,723,594,504	1.08%
2020	10.36%	7.11%	21.09%	57	2.29%	20.60%	18.87%	27,100,595	198,798,608	4,011,352,178	0.68%
2021	33.80%	29.93%	27.07%	66	0.44%	19.70%	17.47%	41,819,294	228,071,798	5,883,211,018	0.71%

*Presented as supplementary information.

**Partial year.

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The QRG Factor-Enhanced Large Cap: 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.

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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