

Quarterly Commentary

Quantitative Portfolio:

Factor-Enhanced Small 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 Small Cap: V + M + Q strategy generated a gross total return of -3.96% in the third quarter, materially trailing the -2.63% return of the CRSP US Small Cap Index. On a year-to-date basis, the strategy has a return of -23.24%, compared to the benchmark return of -23.71%. 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 two basis points, whereas stock selection within sectors detracted 135 basis points during the quarter. The sectors having the most positive relative impact from a security selection perspective were Energy and Materials. Sectors that contributed the least on a relative basis were Financials and Health Care.

The strategy is constructed to favor stocks of companies having high aggregate exposures to the well known value, momentum and quality asset pricing factors, which academic research has shown generate positive returns over time. These tilts delivered mixed results in the latest quarter, as value and quality contributed 329 and 108 basis points, respectively, to the portfolio's relative performance, but momentum detracted 45 basis points.

Positively contributing to the Factor-Enhanced Small Cap: V + M + Q strategy's performance during the quarter was an overweight to First Solar, Inc. (FSLR), which gained more than 94%. The stock also outperformed the -1.8% return of the Information Technology sector. The Semiconductors and Semiconductor Equipment company contributed 31 basis points to performance.

The portfolio's overweight to Atlas Air Worldwide Holdings, Inc. (AAWW) also contributed positively to performance in the quarter. The Air Freight and Logistics company gained close to 56% on an absolute basis, and also outperformed the -1.4% return of the Industrials sector. The position contributed 19 basis points to performance.

Fabrinet (FN)'s overweight position relative to the benchmark resulted in a 18 basis point contribution for the portfolio. The Electronic Equipment, Instruments and Components company's stock advanced almost 18%, outperforming the overall Information Technology sector.

A primary detractor from performance during the quarter was an overweight to Knowles Corporation (KN). The Electronic Equipment, Instruments and Components company fell by more than 29%, lagging the -1.8% return of the Information Technology sector. The overweight position detracted 32 basis points from performance.

An overweight to UGI Corporation (UGI) during the quarter also hurt performance, as the stock advanced in excess of 18%. The Gas Utilities company detracted 21 basis points from performance, and also trailed the -7.8% return of the Utilities sector.

Another detractor from portfolio performance was an overweight to Broadstone Net Lease, Inc. (BNL), as the stock retreated close to 25%. In addition, the Equity Real Estate Investment Trusts (REITs) firm underperformed the -12.4% return of the overall Real Estate sector. The overweight position detracted 19 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	First Solar, Inc. (FSLR)	+31 bps	Overweight	0.69%	The stock of the Semiconductors and Semiconductor Equipment firm advanced 94% in the quarter.
	Atlas Air Worldwide Holdings, Inc. (AAWW)	+19 bps	Overweight	0.49%	AAWW's gain of 56% outperformed the general sector in the quarter.
	Fabrinet (FN)	+18 bps	Overweight	1.10%	The Information Technology company FN advanced 18% in the quarter, and outperformed the overall sector's return.
	Mueller Industries, Inc. (MLI)	+18 bps	Overweight	1.40%	Outperforming the overall sector's return, the Industrials company MLI advanced 12% in the quarter.
	Super Micro Computer, Inc. (SMCI)	+18 bps	Overweight	0.65%	The stock of the Information Technology company gained 41% in the quarter, and outperformed the overall sector's return.
Detractors	Knowles Corporation (KN)	-32 bps	Overweight	1.09%	The Electronic Equipment, Instruments and Components company's stock fell by 29% in the quarter.
	UGI Corporation (UGI)	-21 bps	Overweight	1.64%	The stock of the Gas Utilities firm fell by 18% in the quarter.
	Broadstone Net Lease, Inc. (BNL)	-19 bps	Overweight	0.87%	The Equity Real Estate Investment Trusts (REITs) company's stock had a negative return of 25% in the quarter.
	EPR Properties (EPR)	-17 bps	Overweight	0.90%	The Equity Real Estate Investment Trusts (REITs) company's stock fell by 23% in the quarter.
	Veracyte, Inc. (VCYT)	-17 bps	Overweight	0.63%	VCYT's loss of 21% underperformed the general sector 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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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 Small Cap: V + M + Q

Period	*Pure Gross Return	Net Return	***CRSP US Small 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
**2016-10-01 - 2016-12-31	10.25%	9.45%	8.83%	1	nm	n/a	n/a	121,202	629,732	392,256,391	0.03%
**2017-03-01 - 2017-07-31	4.94%	3.64%	3.36%	8	n/a	n/a	n/a	1,214,826	2,800,255	605,645,493	0.20%
**2017-09-01 - 2017-12-31	9.26%	8.19%	9.79%	9	n/a	n/a	n/a	1,436,663	4,855,492	802,232,195	0.18%
2018	-13.88%	-16.46%	-11.01%	15	n/a	n/a	n/a	3,466,606	7,634,854	1,604,283,375	0.22%
2019	24.04%	20.43%	25.52%	21	n/a	15.47%	15.71%	9,212,028	13,657,140	2,723,594,504	0.34%
2020	13.79%	10.45%	19.07%	23	n/a	22.28%	24.82%	9,891,778	43,898,090	4,011,352,178	0.25%
2021	30.30%	26.53%	17.71%	25	0.47%	20.19%	22.77%	5,314,930	61,006,747	5,883,211,018	0.09%

*Presented as supplementary information.

**Partial year.

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The QRG Factor-Enhanced Small 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. There was a break in performance between 8/1/2017 and 12/31/2017 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:

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

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