

Quarterly Commentary

Quantitative Portfolio:

Factor-Enhanced Small 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 Small Cap: V + Q strategy delivered a gross total return of -5.60% in the third quarter, decidedly lagging the -2.63% return of the CRSP US Small Cap Index. On a year-to-date basis the strategy has generated a return of -21.10%, while the benchmark has posted a -23.71% 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.

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 contributed two basis points during the quarter, whereas stock selection within sectors accounted for 299 basis points. The sectors having the most positive relative impact from a security selection perspective were Cash Effect and Consumer Discretionary, and the sectors that contributed the least on a relative basis were Information Technology and Real Estate.

The strategy strives to capture exposures to the well known value and quality asset pricing factors. These tilts produced positive results in the quarter, with value and quality positively contributing 239 and 131 basis points, respectively.

Positively contributing to the Factor-Enhanced Small Cap: V + Q strategy's performance during the quarter was an overweight to Signify Health, Inc. (SGFY), which gained more than 96%. The stock also outperformed the -2.3% return of the Health Care sector. The Health Care Providers and Services company contributed 60 basis points to performance.

The portfolio also benefited from having an overweight to DICK'S Sporting Goods, Inc. (DKS). The Specialty Retail company's stock rose by almost 37%, and contributed 22 basis points to performance. The stock also outperformed the -4.6% return of the Consumer Discretionary sector.

Another positive contributor to portfolio performance was an overweight to Unum Group (UNM), as the stock added close to 16%. The Insurance firm also outperformed the -3.4% return of the overall Financials sector. The overweight position contributed 22 basis points to performance.

A primary detractor from performance during the quarter was an overweight to Industrial Logistics Properties Trust (ILPT). The Equity Real Estate Investment Trusts (REITs) company fell by more than 61%, lagging the -12.4% return of the Real Estate sector. The overweight position detracted 44 basis points from performance.

Global Net Lease, Inc. (GNL) experienced a 24% decline during the quarter, detracting 21 basis points as a result of its overweight allocation relative to the index.

Another detractor from portfolio performance was an overweight to Kronos Worldwide, Inc. (KRO), as the stock retreated close to 48%. In addition, the Chemicals firm underperformed the -6.6% return of the overall Materials sector. The overweight position detracted 20 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	Signify Health, Inc. (SGFY)	+60 bps	Overweight	0.81%	The stock of the Health Care Providers and Services firm advanced 96% in the quarter.
	DICK'S Sporting Goods, Inc. (DKS)	+22 bps	Overweight	0.75%	The Specialty Retail company's stock advanced 37% in the quarter.
	Unum Group (UNM)	+22 bps	Overweight	1.33%	UNM's gain of 16% outperformed the general sector in the quarter.
	Murphy USA Inc. (MUSA)	+20 bps	Overweight	1.31%	The Specialty Retail company's stock had a positive return of 16% in the quarter.
	EMCOR Group, Inc. (EME)	+17 bps	Overweight	1.29%	EME posted a gain of 12%, outperforming the general sector in the quarter.
Detractors	Industrial Logistics Properties Trust (ILPT)	-44 bps	Overweight	0.33%	ILPT's loss of 61% underperformed the general sector in the quarter.
	Global Net Lease, Inc. (GNL)	-21 bps	Overweight	0.98%	The stock of the Real Estate company declined 24% in the quarter, and also underperformed the overall sector's return.
	Kronos Worldwide, Inc. (KRO)	-20 bps	Overweight	0.32%	Underperforming the overall sector's return, the Materials company KRO declined 48% in the quarter.
	FormFactor, Inc. (FORM)	-19 bps	Overweight	0.51%	FORM's loss of 27% underperformed the general sector in the quarter.
	Knowles Corporation (KN)	-19 bps	Overweight	0.62%	KN's loss of 29% 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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QRG Factor-Enhanced Small Cap: V + 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
**2017-07-01 - 2017-12-31	10.04%	8.42%	9.20%	7	n/a	n/a	n/a	1,194,309	3,339,784	802,232,195	0.15%
2018	-12.99%	-15.60%	-11.01%	3	nm	n/a	n/a	735,640	10,188,734	1,604,283,375	0.05%
2019	23.62%	20.02%	25.52%	8	n/a	n/a	n/a	1,717,781	10,532,809	2,723,594,504	0.06%
2020	8.65%	5.44%	19.07%	2	nm	23.63%	24.82%	590,800	16,561,346	4,011,352,178	0.01%
2021	33.23%	29.38%	17.71%	3	nm	22.21%	22.77%	788,829	18,493,121	5,883,211,018	0.01%

*Presented as supplementary information.

**Partial year.

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The QRG Factor-Enhanced Small 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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