

Quarterly Commentary: Impact Quantitative Portfolios (QPs) Large Cap Gender and Diversity

Second Quarter (Q2) 2020

Market Environment

The US economy remained mired in an economic maelstrom resulting from the lockdowns brought on by the COVID-19 virus. The phased reopening that states have begun to implement has provided a boost to economic activity, but there are still many segments of the economy that will take time to recover. The Bureau of Economic Analysis reported its third estimate of first-quarter 2020 gross domestic product (GDP) of -5.0%, in line with the prior estimate, but, of course, far below the fourth-quarter 2019 reading. The negative impact of COVID-19 on the employment situation was significant in March and April, with employers shedding 1.4 million and 20.7 million jobs, respectively. However, the May employment report showed an astonishing increase in the number of jobs, as 2.5 million were added to payrolls when analysts had expected additional losses of 7.5 million. The unemployment rate climbed to 13.3%. The Federal Open Market Committee (FOMC) maintained the aggressive monetary policy response to the crisis, leaving the federal funds rate target range of 0% to 0.25% unchanged.

Portfolio Commentary

The Impact Large Core—Gender and Diversity strategy generated a gross return of 20.16%, whereas the CRSP US Large Cap Index recorded a gain of 21.41%. On a year-to-date basis, the portfolio has returned -4.28%, compared with -2.16% for the benchmark.

Following an unprecedented decline at the start of the year, US large cap equities snapped back in the second quarter, with the portfolio returning 11.97%, 4.68%, and 2.52% in April, May, and June, respectively. The strategy maintained sector exposures in line with those of the benchmark, leading to minimal allocation effect on performance. The portfolio's idiosyncratic composition drives performance deviations from the benchmark, which was the case in the second quarter, as security selection detracted 123 basis points. Sectors that experienced positive stock selection included Financials and Information Technology, whereas stocks within the Consumer Discretionary and Communication services sectors struggled relative to the benchmark.

Positively contributing to the Impact Large Core—Gender and Diversity portfolio's performance during the quarter was an overweight to PayPal Holdings Inc. (PYPL) within the Information Technology sector. The stock gained approximately 82.0%, as the company reported an increase in the number of transactions and new customer accounts.

An overweight to S&P Global Inc. (SPGI) aided performance, as the stock rose 34.7% to outperform the broader Financials sector's return of 12.7%. The stock rebounded from March lows and was further boosted by the company's strong first-quarter financial results.

The portfolio also benefited from having no allocation to Berkshire Hathaway Inc. (BRK.B), which declined 1.7% in the quarter. The stock lagged the market's rise, suffering, in part, due to a large cash balance and lackluster performance of its investment portfolio.

An overweight to Omnicom Group Inc. (OMC) detracted from portfolio performance. The stock returned 0.64% in the quarter, whereas the overall Communication Services sector gained 20.8%.

The portfolio suffered during the quarter due to lack of exposure to Facebook Inc. (FB), which returned 36.1%. Investors believe the company stands to benefit from an increase in user engagement and e-commerce demand.

Not having exposure to Amazon.com (AMZN) detracted from performance, as the stock gained 41.5% on strong demand for its services in the wake of COVID-19.

Markets advanced in the second quarter, as investors turned hopeful that medical treatments for novel coronavirus are not far in the distant future. Although the global pandemic's initial shock has subsided, investors will keep a close eye on both economic and medical developments in the second half of 2020. The portfolio remains sector neutral and well diversified within sectors. We believe its risk-aligned portfolio construction positions it to effectively track the large cap core segment of the equity market, irrespective of overall market performance.

Model Portfolio Attribution

	Performance Driver	Active Return Contribution	Portfolio Exposure	Average Weight in Model	Comments
Contributors	PayPal Holdings Inc.	+61 bps	Overweight	2.24%	The stock gained approximately 82.0% in the quarter, as the company reported an increase in the number of transactions and new customer accounts.
	S&P Global Inc.	+48 bps	Overweight	2.67%	The stock rose 34.7%, as the company reported strong first-quarter financial results.
	Berkshire Hathaway Inc. Class B	+19 bps	No exposure	0.00%	The stock declined 1.7%, suffering, in part, due to a large cash balance and lackluster performance of its investment portfolio.
	Lowe's Companies Inc.	+13 bps	Overweight	1.08%	The stock increased approximately 58.0% in the quarter, as US consumers focused on home improvement in the stay-at-home environment.
	ResMed Inc.	+13 bps	Overweight	0.92%	The company, which provides medical equipment, gained 30.7% in the quarter.
Detractors	Omnicom Group Inc.	-84 bps	Overweight	3.57%	The stock returned 0.64%, whereas the Communication Services sector gained 20.8%.
	Facebook Inc.	-28 bps	No exposure	0.00%	The stock rose 36.1% in the quarter, as investors believe the company stands to benefit from an increase in user engagement and e-commerce demand.
	Amazon.com Inc.	-22 bps	No exposure	0.00%	The stock increased 41.5% on strong COVID-19-related demand for its services.
	Tesla Inc.	-20 bps	No exposure	0.00%	The stock gained 106.1%, partly on expectations the stock will be added to the S&P 500 Index.
	Hilton Worldwide Holdings Inc.	-16 bps	Overweight	0.61%	The stock was up 7.6%, but underperformed relative to the Consumer Discretionary sector.

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Disclosure

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