

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

First Quarter (Q1) 2022

Market Environment

The US economy generated accelerated growth in the quarter, as pandemic-related restrictions had increasingly been lifted and the Omicron variant emerged too late to have affected the data. Against this backdrop, the Bureau of Economic Analysis released the third estimate of the fourth-quarter 2021 real GDP, a seasonally adjusted annualized increase of 6.9%, slightly lower than the prior estimate, but a meaningful improvement over the 2.3% increase in the prior quarter. The employment situation surprised on the upside in the quarter, as gains were far above expectations. The February report showed that employers added 678,000 jobs in the month, and that the unemployment rate fell to 3.8%. The Federal Open Market Committee (FOMC) began what is expected to be a long cycle of interest rate increases, raising its federal funds rate target range to 0.25%-0.50%, from a range of 0%-0.25%. The FOMC signaled that this increase will be the start of what it referred to as an "ongoing" series of increases. Analysts expect the FOMC to implement an additional five or six rate hikes by year end as it attempts to cool inflation while not harming the economy.

Portfolio Commentary

The Large Cap Core Gender and Diversity strategy generated negative absolute returns in the quarter, and also modestly underperformed the benchmark on a relative basis. The strategy generated a total return of -5.98% compared with the -5.34% return of the CRSP US Large Cap Index.

Sector selection has a relatively minor effect on performance, as the QPs are constructed to be sector neutral at rebalancing. Accordingly, the portfolio's relative performance was driven primarily by individual security selection. Sector allocation detracted 16 basis points from performance, whereas stock selection within sectors detracted 48 basis points during the quarter. The sectors in which positive stock selection occurred included Communication Services and Real Estate. Sectors that experienced negative stock selection included Financials and Consumer Discretionary.

Positively contributing to the Large Cap Core Gender and Diversity strategy's performance during the quarter was a lack of exposure to Meta Platforms Inc. Class A (FB), which plunged about 34%, and contributed 54 basis points to the portfolio's performance.

The portfolio also benefited from an overweight to Omnicom Group Inc. (OMC). The media company's stock tacked on almost 17%.

Chevron Corp.'s (CVX) overweight relative to the benchmark resulted in a 14 basis-point contribution to the portfolio. The oil and gas company's stock gained more than 40% in the quarter.

An overweight position to Accenture PLC Class A (ACN) detracted 29 basis points from the portfolio's active return. The IT services firm's stock dropped by more than 18%.

Netflix Inc. (NFLX) experienced a 38% decline during this quarter, detracting 21 basis points from the portfolio's performance as a result of an overweight position.

The portfolio also suffered during the quarter from a lack of exposure to Berkshire Hathaway Inc. Class B (BRK.B). The stock of the financial services company added more than 18%.

Inflation is at the highest level in more than 40 years, and investors are anxious about how the FOMC will attempt to dampen further price increases. Supply chain issues persist, but economic growth is expected to continue over the next few quarters. New virus variants and an expansion of geopolitical tensions could create additional financial markets volatility, as could the lead-up to this fall's mid-term elections.

Model Portfolio Attribution

	Performance Driver	Active Return Contribution	Portfolio Exposure	Average Weight in Model	Comments
Contributors	Meta Platforms Inc. Class A (FB)	+54 bps	No exposure	0.00%	The interactive media services company's stock plunged by 34%.
	Omnicom Group Inc. (OMC)	+22 bps	Overweight	1.13%	The company's stock rallied by 17%.
	Chevron Corp. (CVX)	+14 bps	Overweight	1.11%	The oil and gas company's stock gained more than 40% in the quarter.
	Bristol-Myers Squibb Co. (BMY)	+13 bps	Overweight	0.98%	The stock of the pharmaceuticals company advanced more than 19%.
	Vertex Pharmaceuticals Inc. (VRTX)	+12 bps	Overweight	0.75%	The biotechnology firm's stock jumped by almost 19%.
Detractors	Accenture PLC Class A (ACN)	-29 bps	Overweight	1.45%	The IT services firm's stock plunged by almost 28%.
	Netflix Inc. (NFLX)	-21 bps	Overweight	0.95%	The entertainment firm's stock sank by almost 38%.
	Berkshire Hathaway Inc. Class B (BRK.B)	-21 bps	No exposure	0.00%	The stock of the financial services company added approximately 18%.
	PayPal Holdings Inc. (PYPL)	-18 bps	Overweight	0.84%	The stock of the IT services company plummeted by more than 38%.
	Intuit Inc. (INTU)	-18 bps	Overweight	1.17%	The software manufacturer's stock dropped by more than -25%.

Q | R | G

Disclosure

The **Russell 1000 Index** is a market capitalization weighted benchmark index made up of the 1000 largest U.S. companies in the Russell 3000 Index. The **Russell 1000 Value Index** refers to a composite of large and mid-cap companies located in the United States that also exhibit a value probability. The **CRSP US Large Cap Index** includes U.S. companies that comprise the top 85% of investable market capitalization.

Returns displayed represent model returns. Model performance is not based on actual client assets, does not represent actual trading, and may not reflect the impact that material economic and market factors might have had on the advisor's decision-making if the advisor were actually managing client assets. The actual performance of an actively managed account will not completely mirror model returns, and actual client returns may vary from model returns. The returns shown do not reflect any customized investment screens or other investment restrictions that an investor may place on an investment strategy. The portfolio's current actual performance may be lower or higher than the performance data quoted, and these returns should not be considered as indicative of the skills of Envestnet. Model returns are based on data received from the asset manager as reported to Morningstar. Actual investment advisory fees of Envestnet Asset Management, Inc. are described in Part 2A or, Part 2A - Appendix 1 of Form ADV, as applicable. Investments in the proposed strategy involve risk, including the loss of principal. The information presented is intended for advisor use only or with an advisor in a one-on-one consultant basis with a client. Model returns are calculated by obtaining the weighted monthly returns of the strategy component holdings from the prior month end to the current month end. These weighted returns are then added to the prior month's return history and annualized. Performance is calculated based upon the historical asset allocations at the beginning of each month during the periods shown, which may differ from the current allocation. The performance results of the underlying holdings in the model portfolio assume the reinvestment of dividends and other earnings. The holdings comprising the strategies and the allocations to those holdings have changed over time and may change in the future. The historical model performance has not been adjusted to reflect current holding allocations. An investment pursuant to this model portfolio is subject to market risk, and an investor may experience loss of principal.

The information, analysis, and opinions expressed herein are for general and educational purposes only. All opinions and views constitute our judgments as of the date of writing and are subject to change at any time without notice. Nothing contained in this brochure is intended to constitute legal, tax, accounting, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. All investments carry a certain risk, and there is no assurance that an investment will provide positive performance over any period of time. An investor may experience loss of principal. The asset classes and/or investment strategies described may not be suitable for all investors and investors should consult with an investment advisor to determine the appropriate investment vehicle. Investment decisions should always be made based on the investor's specific financial needs and objectives, goals, time horizon and risk tolerance.

Past performance is not indicative of future results.

Neither Envestnet, Envestnet | PMC™ nor its representatives render tax, accounting or legal advice. Any tax statements contained herein are not intended or written to be used, and cannot be used, for the purpose of avoiding U.S. federal, state, or local tax penalties. Taxpayers should always seek advice based on their own particular circumstances from an independent tax advisor. Indexes are unmanaged. It is not possible to invest directly in an index.

If interested in the attribution calculation methodology, or for the full list of portfolio contributors and detractors, please e-mail qrg@envestnet.com.