

## Quarterly Commentary

# Quantitative Portfolio: Market Series All Cap Core

Fourth Quarter (Q4) 2023

### Market Environment

The US economy grew at a surprisingly fast pace in the third quarter of 2023, posting its fifth consecutive quarter of growth at or above its potential. The economy's resiliency has been mildly surprising to economists, as many had expected the economy to by this time dive into a recession as a result of the steep hike in interest rates implemented by the Federal Open Market Committee (FOMC). Against this backdrop, the Bureau of Economic Analysis released the third estimate of the third quarter 2023 real GDP, a seasonally adjusted annualized rise of 4.9%, a decline from the 5.2% prior estimate, but a marked increase over the previous quarter. The employment situation remained a mixed bag in the quarter. The November employment report showed that employers added 199,000 jobs in the month, and that the unemployment rate was slightly lower at 3.7%. The FOMC maintained its federal funds rate target range at 5.25% to 5.50% as inflation data trends lower. The FOMC provided a dovish outlook on interest rates, and many analysts believe interest rate cuts could begin soon.

### Portfolio Commentary

The Market Series All Cap Core strategy delivered a gross total return of 6.63% in the fourth quarter, modestly lagging the 6.77% return of the CRSP US Total Market Index. For the full year the strategy generated a return of 25.90%, while the benchmark finished with a 25.98% return. The strategy is quantitatively constructed to maintain sector weights and risk characteristics in line with those of the benchmark.

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. However, in the past quarter the portfolio's relative performance was driven primarily by sector allocation, which detracted 11 basis points. Stock selection within sectors detracted three basis points. The sectors having the most positive relative impact from a security selection perspective were Financials and Energy. Sectors that contributed the least on a relative basis were Consumer Discretionary and Industrials.

The primary contributor to the performance of the Market Series All Cap Core strategy during the quarter was an overweight to Twist Bioscience Corporation (TWST). The Biotechnology company advanced over 92%, outpacing the 7.6% return of the Health Care sector. The stock contributed 17 basis points to performance.

The portfolio also benefited from having an overweight to PulteGroup, Inc. (PHM). The Household Durables company's stock rose by more than 41%, and contributed eight basis points to performance. The stock also outperformed the 13.2% return of the Consumer Discretionary sector.

Machinery company Proto Labs, Inc. (PRLB) benefited performance in the quarter as a result of its overweight in the portfolio relative to the benchmark. The stock gained almost 46%, and contributed seven basis points to performance. It also outperformed the 14.7% return of the broader Industrials sector.

The position proving to be the largest detractor from the performance of the strategy during the quarter was BorgWarner Inc. (BWA). An overweight to the Automobile Components company, which had a negative return of almost 10%, detracted 15 basis points from performance. The stock's performance trailed the 13.2% return of the Consumer Discretionary sector.

An overweight to Exxon Mobil Corporation (XOM) during the quarter also negatively impacted performance, as the stock advanced in excess of 13%. The Oil, Gas and Consumable Fuels company detracted 10 basis points from performance, and trailed the -4.7% return of the Energy sector.

Insurance company Marsh & McLennan Companies, Inc. (MMC) negatively impacted performance in the quarter as a result of its overweight in the portfolio relative to the benchmark. The stock gained almost 1%, and detracted seven basis points from performance. It also underperformed the 16.2% return of the broader Financials sector.

The consensus for 2024 among economists and analysts is one of cautious optimism, as the FOMC is expected to begin lowering interest rates, and inflation is anticipated to continue to trend lower. Since a large portion of the stock market's gains

in 2023 was a result of the performance of a handful of large company stocks, Investors will be paying close attention to market breadth in 2024. In addition, the presidential election campaign will come into increasing focus for many investors.

## Model Portfolio Attribution

	Performance Driver	Active Return Contribution	Portfolio Exposure	Average Weight in Model	Comments
Contributors	Twist Bioscience Corporation (TWST)	+17 bps	Overweight	0.27%	The stock of the Health Care company gained 92% in the quarter, and outperformed the overall sector's return.
	PulteGroup, Inc. (PHM)	+8 bps	Overweight	0.41%	PHM, a Consumer Discretionary company, advanced 41% in the quarter, and outperformed the overall sector's return.
	Proto Labs, Inc. (PRLB)	+7 bps	Overweight	0.25%	The Industrials company PRLB advanced 46% in the quarter, and outperformed the overall sector's return.
	Host Hotels & Resorts, Inc. (HST)	+6 bps	Overweight	0.48%	Outperforming the overall sector's return, the Real Estate company HST advanced 25% in the quarter.
	Altair Engineering Inc. (ALTR)	+6 bps	Overweight	0.32%	The stock of the Information Technology company gained 34% in the quarter, and outperformed the overall sector's return.
Detractors	BorgWarner Inc. (BWA)	-15 bps	Overweight	0.61%	BWA, a Consumer Discretionary company, declined 10% in the quarter, and also underperformed the overall sector's return.
	Exxon Mobil Corporation (XOM)	-10 bps	Overweight	1.33%	The stock of the Oil, Gas and Consumable Fuels firm fell by 13% in the quarter.
	Marsh & McLennan Companies, Inc. (MMC)	-7 bps	Overweight	0.84%	While it underperformed the overall sector's return, the Financials company MMC gained 1% in the quarter.
	STAAR Surgical Company (STAA)	-6 bps	Overweight	0.17%	The Health Care company STAA declined 21% in the quarter, and also underperformed the overall sector's return.
	Schneider National, Inc. (SNDR)	-5 bps	Overweight	0.23%	SNDR's loss of 6% underperformed the general sector in the quarter.

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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](mailto:qrg@envestnet.com).

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# QRG Market Series All Cap Core

Period	*Pure Gross Return	Net Return	***CRSP US Total Market 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
**2015-04-01 - 2015-12-31	0.61%	-1.63%	-1.30%	2	nm	n/a	n/a	254,371	254,371	137,138,368	0.19%
2016	11.95%	8.67%	12.74%	1	nm	n/a	n/a	244,661	244,661	392,256,391	0.06%
2017	22.13%	18.57%	21.13%	5	n/a	9.99%	10.09%	2,476,797	2,586,197	802,232,195	0.31%
2018	-4.19%	-7.03%	-5.24%	10	n/a	10.53%	11.18%	3,401,100	5,492,691	1,604,283,375	0.21%
2019	32.19%	28.37%	31.02%	25	n/a	11.40%	12.21%	20,384,575	32,668,986	2,723,594,504	0.75%
2020	16.53%	13.12%	20.99%	64	0.52%	18.28%	19.41%	28,412,880	69,291,423	4,011,352,178	0.71%
2021	26.12%	22.46%	25.72%	122	0.48%	17.06%	17.92%	51,045,720	126,053,267	5,883,211,018	0.87%
2022	-20.27%	-22.68%	-19.49%	193	0.92%	21.13%	21.49%	64,822,950	176,445,776	5,825,736,102	1.11%
2023	25.90%	22.25%	25.98%	432	0.92%	17.68%	17.48%	166,750,043	434,376,755	9,254,020,860	1.80%

\*Presented as supplementary information.

\*\*Partial year.

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The QRG Market Series All Cap Core 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 - 0.15%, \$500,000 to \$1 million - 0.14%, \$1 million to \$2 million - 0.13%, \$2 million to \$5 million - 0.11%, \$5 million to \$10 million - 0.09%, \$10 million and up - 0.08%. 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:

- 2015 - 100%
- 2016 - 100%
- 2017 - 100%
- 2018 - 100%
- 2019 - 100%
- 2020 - 100%
- 2021 - 100%
- 2022 - 100%
- 2023 - 100%

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