

## Quarterly Commentary

# Quantitative Portfolio: Market Series Large 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 Large Cap Core strategy delivered a gross total return of 6.31% in the fourth quarter, lagging the 6.74% return of the CRSP US Large Cap Index. For the full year the strategy generated a return of 27.70%, while the benchmark finished with a 27.28% 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. Accordingly, the portfolio's relative performance was driven primarily by individual security selection. Sector allocation accounted for 26 basis points, whereas stock selection within sectors detracted 69 basis points during the quarter. The sectors having the most positive relative impact from a security selection perspective were Industrials and Real Estate. Sectors that contributed the least on a relative basis were Information Technology and Financials.

Positively contributing to the Market Series Large Cap Core strategy's performance during the quarter was an overweight to D.R. Horton, Inc. (DHI), which gained more than 43%. The stock also outperformed the 12.4% return of the Consumer Discretionary sector. The Household Durables company contributed nine basis points to performance.

The portfolio also benefited from having an overweight to Block, Inc. (SQ). The Financial Services company's stock rose by more than 79%, and contributed eight basis points to performance. The stock also outperformed the 15.5% return of the Financials sector.

Another positive contributor to portfolio performance was an overweight to PulteGroup, Inc. (PHM), as the stock added more than 41%. The Household Durables firm also outperformed the 12.4% return of the overall Consumer Discretionary sector. The overweight position contributed seven basis points to performance.

The position proving to be the largest detractor from the performance of the strategy during the quarter was Cisco Systems, Inc. (CSCO). An overweight to the Communications Equipment company, which had a negative return of almost 6%, detracted nine basis points from performance. The stock's performance trailed the 15.9% return of the Information Technology sector.

An overweight to Genuine Parts Company (GPC) during the quarter also negatively impacted performance, as the stock advanced in excess of 4%. The Distributors company detracted five basis points from performance, and trailed the 12.4% return of the Consumer Discretionary 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 four basis points from performance. It also underperformed the 15.5% 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	D.R. Horton, Inc. (DHI)	+9 bps	Overweight	0.46%	The stock of the Consumer Discretionary company gained 43% in the quarter, and outperformed the overall sector's return.
	Block, Inc. (SQ)	+8 bps	Overweight	0.23%	SQ, a Financials company, advanced 79% in the quarter, and outperformed the overall sector's return.
	PulteGroup, Inc. (PHM)	+7 bps	Overweight	0.34%	The Consumer Discretionary company PHM advanced 41% in the quarter, and outperformed the overall sector's return.
	CBRE Group, Inc. (CBRE)	+6 bps	Overweight	0.55%	Outperforming the overall sector's return, the Real Estate company CBRE advanced 27% in the quarter.
	Simon Property Group, Inc. (SPG)	+6 bps	Overweight	0.40%	The stock of the Real Estate company gained 38% in the quarter, and outperformed the overall sector's return.
Detractors	Cisco Systems, Inc. (CSCO)	-9 bps	Overweight	1.01%	CSCO, an Information Technology company, declined 6% in the quarter, and also underperformed the overall sector's return.
	Genuine Parts Company (GPC)	-5 bps	Overweight	0.36%	The stock of the Consumer Discretionary company declined 4% in the quarter, and also underperformed the overall sector's return.
	Marsh & McLennan Companies, Inc. (MMC)	-4 bps	Overweight	0.64%	Despite a positive return of 1%, MMC underperformed the general sector in the quarter.
	Bristol-Myers Squibb Company (BMY)	-4 bps	Overweight	0.48%	BMY's loss of 10% underperformed the general sector in the quarter.
	Jacobs Solutions Inc. (J)	-4 bps	Overweight	0.31%	J's loss of 3% 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 Market Series Large Cap Core

Period	*Pure Gross Return	Net Return	***CRSP US Large 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
**2014-08-01 - 2014-12-31	7.61%	6.29%	7.30%	2	nm	n/a	n/a	392,611	392,611	36,697,871	1.07%
2015	0.62%	-2.36%	0.92%	1	nm	n/a	n/a	114,809	1,260,073	137,138,368	0.08%
2016	12.22%	8.93%	12.05%	1	nm	n/a	n/a	1,266,540	1,266,540	392,256,391	0.32%
2017	23.43%	19.84%	21.69%	9	n/a	10.44%	9.97%	1,633,033	3,879,455	802,232,195	0.20%
2018	-1.39%	-4.31%	-4.78%	22	n/a	10.71%	10.96%	5,543,823	35,864,548	1,604,283,375	0.35%
2019	30.86%	27.07%	31.37%	312	0.60%	11.32%	12.04%	187,257,866	360,615,488	2,723,594,504	6.88%
2020	18.84%	15.36%	21.09%	587	0.97%	18.55%	18.87%	383,376,905	740,914,182	4,011,352,178	9.56%
2021	27.53%	23.83%	27.07%	914	0.80%	17.36%	17.47%	613,928,663	1,281,644,570	5,883,211,018	10.44%
2022	-20.44%	-22.84%	-19.67%	1,229	1.49%	21.41%	21.16%	660,586,504	1,245,221,052	5,825,736,102	11.34%
2023	27.70%	23.99%	27.28%	1,417	1.35%	17.52%	17.40%	795,668,112	1,820,916,632	9,254,020,860	8.60%

\*Presented as supplementary information.

\*\*Partial year.

QRG Capital Management, Inc. (QRG) is an SEC-registered investment adviser, established in 2020. QRG provides fee-based management of equity and portfolios for a broad range of clients on a discretionary and non-discretionary basis. QRG is a subsidiary of Envestnet, Inc., and for the purpose of the Global Investment Performance Standards (GIPS), the firm is defined as all strategies marketed under QRG. The QRG Market Series Large Cap Core strategy has an inception and creation date of Aug 01, 2014. The QRG Market Series Large Cap Core strategy is comprised of domestic US companies in the large capitalization segment of the market. The strategy is designed to track the CRSP US Large Cap Index which measures the performance of the largest US companies. \*\*\*Prior to 11/1/2019, the strategy was benchmarked against the Russell 1000 TR index. The benchmark was changed to better reflect the investing universe of the strategy.

The QRG Market Series Large 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:

2014 - 100%  
2015 - 100%  
2016 - 100%  
2017 - 100%  
2018 - 100%  
2019 - 100%  
2020 - 100%  
2021 - 100%  
2022 - 100%  
2023 - 100%

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