

Quarterly Commentary

Quantitative Portfolio: Global Climate Solutions

Second Quarter (Q2) 2024

Market Environment

The US economy's growth rate continued to slow in the first quarter of 2024 after having posted multiple quarters of above-trend growth. Despite the moderation in growth economists have been impressed with the overall economy's performance. They cite the fact that it is now operating at full employment, and that real GDP is at a near-potential growth rate of 2% annually. Within this context, the Bureau of Economic Analysis released the third estimate of the first quarter 2024 real GDP, a seasonally adjusted annualized rise of 1.4%, a slight increase from the 1.3% prior estimate, but a significant slowing from the previous quarter. The employment situation was strong in the quarter. The May employment report showed that employers added 272,000 jobs in the month, but that the unemployment rate was slightly higher at 4.0%. The Federal Open Market Committee (FOMC) maintained its federal funds rate target range at 5.25% to 5.50% as inflation data has stabilized at levels that are still above target, but which are expected to show improvement. Given that inflation remains elevated, the FOMC reduced the number of interest rate cuts it expects to make this year to one from three.

Portfolio Commentary

The Global Climate Solutions strategy delivered a gross total return of 4.60% in the second quarter, decidedly outgaining the 2.88% return of the Global: 69% CRSP LC/ 31% S&P Developed Markets Classic ADR. On a year-to-date basis the strategy has generated a return of 13.69%, while the benchmark has posted a 12.15% return. The strategy is quantitatively constructed to maintain sector weights and risk characteristics in line with those of the benchmark, and seeks to incorporate companies involved in creating solutions for climate related issues while also excluding companies involved in the production and/or distribution of fossil fuels. The portfolio also seeks to avoid companies involved in major environmental controversies.

Due to the lack of exposure to the Energy sector in the Global Climate Solutions strategy, sector allocation relative to the benchmark may have a modest impact on performance. However, such was not the case during the latest quarter, as the portfolio's relative performance was driven predominantly by individual security selection. Sector allocation contributed 42 basis points during the quarter, whereas stock selection within sectors accounted for a positive contribution of 130 basis points. The sectors having the most positive relative impact from a security selection perspective were Industrials and Health Care, and the sectors that contributed the least on a relative basis were Utilities and Real Estate.

The position providing the largest contribution to the performance of the Global Climate Solutions strategy during the quarter was Hewlett Packard Enterprise Company (HPE). An overweight to the Technology Hardware, Storage and Peripherals company, which had a return of almost 19%, contributed 30 basis points to performance as a result of its overweight position. The stock's performance also outpaced the 11.4% return of the Information Technology sector.

An overweight to General Electric Company (GE) during the quarter also benefited performance, as the stock gained almost 14%. The Aerospace and Defense company contributed 20 basis points to performance, and in the process also outperformed the -0.7% return of the Industrials sector.

Another positive contributor to portfolio performance was an overweight to Koninklijke Philips N.V. (PHG), as the stock added more than 31%. The Health Care Equipment and Supplies firm also outperformed the 1.8% return of the overall Health Care sector. The overweight position contributed 19 basis points to performance.

The position proving to be the largest detractor from the performance of the strategy during the quarter was Central Japan Railway Company (CJPR.Y). An overweight to the Ground Transportation company, which had a negative return of almost 11%, detracted 20 basis points from performance. The stock's performance trailed the -0.7% return of the Industrials sector.

An overweight to Johnson & Johnson (JNJ) during the quarter also negatively impacted performance, as the stock advanced in excess of 7%. The Pharmaceuticals company detracted 18 basis points from performance, and trailed the 1.8% return of the Health Care sector.

Semiconductors and Semiconductor Equipment company NVIDIA Corporation (NVDA) adversely impacted performance in the quarter as a result of its underweight in the portfolio relative to the benchmark. The stock gained almost 37%, and detracted 17 basis points from performance. It outperformed the 11.4% return of the broader Information Technology sector.

The US economy's growth has begun to slow, which may enable the FOMC to lower interest rates as inflation cools. Investors should be cautious for several reasons, including the fact that stock prices remain elevated and uncertainty surrounding the upcoming presidential election.

Model Portfolio Attribution

	Performance Driver	Active Return Contribution	Portfolio Exposure	Average Weight in Model	Comments
Contributors	Hewlett Packard Enterprise Company (HPE)	+30 bps	Overweight	1.01%	HPE posted a gain of 19%, outperforming the general sector in the quarter.
	General Electric Company (GE)	+20 bps	Overweight	1.07%	The Aerospace and Defense company's stock advanced 14% in the quarter.
	Koninklijke Philips N.V. (PHG)	+19 bps	Overweight	0.23%	The Health Care Equipment and Supplies company's stock advanced 31% in the quarter.
	Alphabet Inc. (GOOG)	+18 bps	Overweight	2.02%	Outperforming the overall sector's return, the Communication Services company GOOG advanced 17% in the quarter.
	The Goldman Sachs Group, Inc. (GS)	+17 bps	Overweight	2.15%	The stock of the Financials company gained 10% in the quarter, and outperformed the overall sector's return.
Detractors	Central Japan Railway Company (CJPR.Y)	-20 bps	Overweight	0.89%	CJPR.Y's loss of 11% underperformed the general sector in the quarter.
	Johnson & Johnson (JNJ)	-18 bps	Overweight	2.32%	The stock of the Health Care company declined 7% in the quarter, and also underperformed the overall sector's return.
	NVIDIA Corporation (NVDA)	-17 bps	Underweight	3.58%	NVDA's gain of 37% outperformed the general sector in the quarter.
	Avangrid, Inc. (AGR)	-13 bps	Overweight	1.19%	The Utilities company AGR declined 14 bps in the quarter, and also underperformed the overall sector's return.
	Compagnie de Saint-Gobain S.A. (CODY.Y)	-9 bps	Overweight	0.61%	The Building Products company's stock advanced 2% 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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QRG Global Climate Solutions

Period	*Pure Gross Return	Net Return	***Global: 69% CRSP LC/ 31% S&P Developed Markets Classic ADR 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
**2020-06-01 - 2020-12-31	30.98%	28.79%	26.46%	3	nm	n/a	n/a	748,398	18,338,397	4,011,352,178	0.02%
2021	27.71%	24.01%	22.28%	24	n/a	n/a	n/a	12,773,589	39,293,429	5,883,211,018	0.22%
2022	-19.32%	-21.76%	-17.66%	32	1.14%	n/a	n/a	15,293,892	28,841,990	5,825,736,102	0.26%
2023	25.54%	21.89%	24.83%	46	2.81%	18.20%	16.84%	23,146,785	53,673,107	9,254,020,860	0.25%

*Presented as supplementary information.

**Partial year.

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The QRG Global Climate Solutions composite is comprised of all fee-paying, discretionary accounts with at least \$200,000 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 \$200,000 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:

2020 - 100%
2021 - 100%

2022 - 100%
2023 - 100%

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