Quarterly Commentary

Q2-2023

Global Conservative ETF Strategy

The Leaders In Pactive® Management

Q2 2023 Performance Highlights (%)

Portfolio (gross)	-0.75
Portfolio (net)	-0.85
Style Index	0.66

Annualized Performance (%)

as of Jun 30, 2023

	1YR	3YR	5YR	Since Inception
Gross	0.91	0.66	2.26	2.91
Net	0.51	0.26	1.85	2.50
Style Index*	2.77	-0.69	2.51	2.54

Annual Performance (%)

	2017	2018	2019	2020	2021	2022
Gross	7.44	-1.14	9.43	7.29	3.46	-9.09
Net	7.01	-1.53	9.00	6.86	3.05	-9.45
Style Index*	7.24	-1.72	11.86	9.56	2.38	-13.18

** Style index is 20|% MSCI ACWI Index net of dividend taxes, 75% Bloomberg US Aggregate Bond Index and 5% Bloomberg 1-3 month T-Bill Index.*
*** Net of dividend taxes*
Inception date: 6/30/2016

Richard Bernstein Advisors

RBA employs a macrodriven, top-down style to construct global tactical equity and asset allocation portfolios. The investment team uses quantitative indicators and the firm's macro-economic analysis to invest in global equity, fixed income asset classes, sub-asset classes and sectors using only US-listed ETFs. The firm currently has $16.2 billion collectively under management and advisement as of 6/30/2023.

Investment Committee: Richard Bernstein; Dan Suzuki, CFA; Michael Contopoulos; Malvika Dhingra; Matthew Griswold, CFA; Lisa Kirschner; Matthew Poterba, CFA; Henry Timmons, CFA.

For investment minimums, please contact your financial advisor. Performance information included in this factsheet is as of current quarter-end and subject to change. Prior period returns may have been restated to conform to this presentation. All other information is as of the most recent quarter end. See disclosure at the end of the factsheet for further information.

Past performance is no guarantee of future results.

The Global Conservative ETF Strategy underperformed its benchmark in 2Q23, posting a return of -0.75% compared to a 0.66% return for its style index*.

Equity Positioning

The Strategy was underweight equity over the period, holding an average weight of 14.4% (5.6ppt underweight) in 2Q23. The equity sleeve posted a return of 0.60%, underperforming the 6.18% return of its benchmark, the MSCI ACWI Index**. The underperformance was mainly driven by the portfolio's underweight in US technology stocks, and overweight in defensive sectors. The portfolio's underweight in emerging markets helped relative performance.

Fixed-Income Positioning

The Strategy was overweight fixed income during 2Q23, holding an average weight of 81.8% (6.8ppt overweight). The fixed income sleeve slightly underperformed the -0.84% return of its benchmark, the Bloomberg US Aggregate Bond Index. The portfolio's overweight in long-term US Treasury bonds detracted from performance as interest rates rose but was partially offset by the overweight in higher quality floating rate bonds and loans. The underweight investment grade corporates also detracted from performance. The strategy was underweight cash, holding an average weight of 2.0%.

Commodities Positioning

The 1.8% average weight in gold was a slight detractor to performance this quarter.

Changes in Portfolio

Against the backdrop of a deepening earnings recession and ongoing tightening of liquidity, we further reduced our portfolio's cyclicality. Specifically, we lowered our exposure to materials, aerospace & defense, and value stocks and increased exposure to Europe and Japan.

Outlook & Positioning

Our portfolios aim to minimize risk and enhance diversification through holding less exposure to the US megacap growth stocks that dominate markets today. Additionally, we seek to mitigate cyclical risk by prioritizing companies with stable earnings. Perhaps the most pervasive risk facing investors today is that owning most market-capitalization-weighted indices creates a false perception of diversification. Currently, seven stocks account for over a quarter of the value of the S&P 500®, while three sectors make up half of the index's value. To achieve true diversification, proactive measures are necessary to shift away from these areas of concentration.

History has consistently reminded investors that the most crowded and expensive investments are the riskiest parts of the market. With a handful of stocks dominating market performance and leading to extreme market concentration in Tech-related companies, we maintain steadfast in not chasing after such investments. We view the continued dominance of this narrow leadership as unsustainable. If earnings growth recovers in the coming year, we would anticipate a classic rotation from expensive growth stocks to economically sensitive (cyclical) investments that offer superior growth at a fraction of the cost. On the other hand, if earnings growth weakens further, we anticipate investors will seek more defensive investments as their appetite for high multiples diminishes.

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Another lesson from history is that the risk of market drawdowns is greater when profit fundamentals are weakening, particularly for lower quality and more cyclical investments. With the world having entered into an earnings recession this year, we have prioritized quality and reduced our exposure to cyclical assets. While certain economic signals provide some cause for optimism regarding future growth, the backdrop of central bank tightening, stricter bank lending standards, and the persistent weakening of important leading indicators heighten the risks to the growth outlook. But once our models confirm that an earnings recovery is underway, there should still be ample opportunity for investment, especially in an environment where the most cyclical assets appear historically undervalued and overlooked.

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