

Optimized SMID Cap Core Portfolio Review

Q2 2024

The Optimized SMID Cap Core strategy composite returns are shown in the table below.

Period	Composite Gross of Fees	Composite Net of Fees	Russell 2500
Q2 2024	-4.72	-4.83	-4.27

- **Stock selection was the primary driver of the underperformance this quarter.**
- **The positive impact of the strategy's overweight exposure to companies with higher Profitability and lower price Volatility was more than offset by the negative impact of stock selection.**
- **Alpha model performance was positive but non-monotonic, meaning stocks ranked High (Q1) by the model outperformed Low (Q5) ranked stocks but underperformed the average stock in the Russell 2500 index. This provided a headwind to the strategy's ability to outperform.**

Sector Attribution

Q2 2024 Sector Attribution

	Optimized SMID Cap Core			Russell 2500			Attribution Analysis		
	Average Weight	Total Return	Contrib. To Return	Average Weight	Total Return	Contrib. To Return	Allocation Effect	Selection Effect	Total Effect
Utilities	4.91	14.15	0.84	2.85	6.17	0.18	0.31	0.41	0.72
Financials	14.32	-0.04	0.17	15.91	-3.28	-0.45	0.06	0.43	0.49
Information Technology	16.89	-0.69	-0.16	13.19	-2.83	-0.41	0.04	0.37	0.41
Communication Services	1.99	18.85	0.32	2.33	-2.17	-0.04	0.00	0.32	0.33
Health Care	15.76	-4.95	-0.78	11.45	-5.53	-0.65	-0.03	0.07	0.04
Real Estate	2.44	0.09	0.00	6.45	-1.43	-0.08	-0.12	0.04	-0.08
Consumer Staples	0.00	0.00	0.00	3.27	-1.41	-0.04	-0.09	0.00	-0.09
Energy	2.68	-7.42	-0.20	5.28	-1.91	-0.11	-0.08	-0.14	-0.22
Consumer Discretionary	9.28	-8.65	-1.12	12.78	-7.24	-0.93	0.01	-0.26	-0.24
Industrials	24.32	-9.27	-2.29	20.65	-6.48	-1.37	-0.10	-0.71	-0.81
Materials	7.09	-18.96	-1.50	5.57	-6.50	-0.38	-0.05	-0.91	-0.96
[Cash]	0.32	0.30	0.00	0.00	0.00	0.00	0.02	0.00	0.02
	100.00	-4.72	-4.72	100.00	-4.27	-4.27	-0.08	-0.37	-0.45

Source: Xponance, FactSet

Positive Contributors

Utilities – the positive impact of being overweight, this outperforming sector was compounded by the significant outperformance of overweight holdings NRG Energy (+17.9%) and Vistra Corp. (+19.7%). The performance of the Utility sector was positively impacted by the expected higher demand for electricity driven by the rapid expansion of AI data centers. NRG Energy and Vistra Corp benefited from strong earnings results, effective cost management, and increased demand for renewable energy solutions.

Financials – strong performance of overweight holdings drove the outperformance this quarter. Bread Financial (+20.3%) reported better than expected (BTE) earnings and a positive growth outlook driven by increased consumer spending. Mr. Cooper Group's (+4.2%) stock performance was aided by the announcement of several strategic initiatives including the addition of several new product offerings.

Negative Contributors

Materials – weaker than expected (WTE) earnings results drove down the stock price of overweight holdings Cleveland Cliffs (-32.3%) and Constellium SE (-14.7%). The negative effect of Cleveland-Cliffs' reduced revenue and earnings forecasts was compounded by downgrades from several analysts. Constellium faced challenges due to increased production costs and weaker demand in key markets.

Industrials - Builders FirstSource's (-33.6%) stock performance was negatively impacted by supply chain disruptions and increased raw material costs, leading to lower-than-expected margins and earnings results. JELD-WEN (-32.6%) faced declining revenues and operational challenges, including the closure of manufacturing facilities and increased costs, which hurt their financial performance.

Risk Factor Attribution

Risk Attribution Analysis – Axioma Risk Model

Cash	Industries	Risk Factors	Stock Selection	Total
0.00	0.48	1.11	-2.03	-0.45

Risk Factors	Ave Exposure (std dev)	Return (%)	Impact (%)
Profitability	0.19	2.51	0.46
Volatility	-0.08	-3.62	0.33
Leverage	0.18	0.76	0.15
Value	0.11	0.81	0.09
Medium-Term Momentum	0.14	1.01	0.06
Size	0.05	0.66	0.05
Market Sensitivity	-0.02	-2.33	0.02
Earnings Yield	0.19	0.09	0.02
Dividend Yield	-0.01	-0.63	0.00
MidCap	0.04	0.29	0.00
Exchange Rate Sensitivity	0.02	0.54	-0.01
Growth	0.00	1.47	-0.01
Liquidity	0.04	-1.24	-0.05
Total			1.11

Source: Axioma, FactSet

Overall, risk factor positioning had a strong positive impact on performance. The primary contributors to this positive performance were the overweight positions in Profitability and Leverage factors. The strategy's underweight exposure to Volatility also contributed positively as more volatile stocks underperformed. This period underscored the continued dominance of quality and growth over value. The strong performance of quality factors, like Profitability, combined with the underperformance of more volatile stocks, indicated a preference for stable, high-quality investments over riskier,

high-volatility options. The negative impact of stock selection more than offset the positive contribution of risk and industry factors.

Quantitative Model Performance

Alpha Model Attribution

Alpha Model Quintile	Optimized SMID Cap Core			Russell 2500			Attribution Analysis		
	Average Weight	Total Return	Contrib. To Return	Average Weight	Total Return	Contrib. To Return	Allocation Effect	Selection Effect	Total Effect
Q1 (High)	95.65	-5.18	-5.00	34.54	-4.74	-1.69	-0.30	-0.39	-0.70
Q2	3.37	3.69	0.00	24.26	-4.47	-1.08	0.04	0.26	0.30
Q3	0.47	12.58	0.10	18.62	-2.89	-0.49	-0.25	0.03	-0.22
Q4	0.20	8.91	0.18	14.72	-3.32	-0.50	-0.16	0.12	-0.04
Q5 (Low)	0.00	-35.79	-0.00	7.86	-6.79	-0.51	0.20	0.00	0.20

Source: Xponance, FactSet

The return pattern across quintiles was not monotonic. Stocks ranked high (Q1) outperformed Low ranked (Q5) stocks but stocks with an average ranking (Q3) recorded the strongest performance. The negative return across all quintiles along with the narrow-spread pattern between quintiles highlights the challenging market conditions for mid to small sized companies as broader economic activity is showing signs of a slowdown, but interest rates remain high. These factors are negatively impacting the outlook for growth. Allocation effects were mixed, with slight positive impacts in Q2 and Q5 but negative in other quintiles. Selection effect was negative with Q1 accounting for all the weakness. The importance of market factors this quarter, decreased the efficacy of the model's ability to identify outperforming stocks.