

RAFI™ Fundamental Low Carbon Transition Index Series Attribution Summary: Q1 2023

Performance

Performance Analysis	QTD Return	QTD Excess Return	YTD Return	1-Year Return	Carbon Intensity (CF/Rev. \$M USD)
RAFI Fundamental Global Low Carbon Transition Index	6.10%	-1.34%	6.10%	-2.29%	106.27
<i>Solactive GBS Global Markets Large & Mid Cap Index</i>	7.44%	---	7.44%	-6.95%	151.34

The RAFI Fundamental Global Low Carbon Transition Index was up 6.1% for the quarter, trailing its reference benchmark by 1.3%. Over the course of the past 12 months, the index has outpaced its benchmark by 4.7% (the MSCI AC World Value Index underperformed the MSCI AC World Growth Index by 12.4% over Q1.)

Global

The RAFI Fundamental Global Low Carbon Transition Index underperformed its benchmark over the first quarter of 2023, however, the index outperformed its benchmark over the past 12 months. The strategy provides the benefits of the Fundamental Index approach while offering investors a pathway to net-neutral emissions through an immediate reduction in carbon intensity and a regular decarbonization pathway. As such, the strategy is seen as benefiting on margin much like the RAFI Fundamental Index when value outperforms growth. Over Q1, this was not the case, as value broadly underperformed growth-oriented strategies

The bottom five contributors combined detracted 126 bps of excess returns and had a cumulative underweight of -3.8% versus the benchmark. The top detractor at 45 bps was NVIDIA (-0.8% active weight). The company saw its stock skyrocket 90.1% in Q1, a reversal of the company's poor 2022 calendar year performance (-50%). The second largest detractor at 35 bps was Tesla (-0.8% active weight). Similarly, as with NVIDIA, Tesla was underweight relative to the benchmark and saw its stock jump (+ 68.4%) in Q1. This was quite the reversal over the previous quarter where Tesla's stock plunged over 50%. Turning the attention to the top five contributors to return in Q1, Meta led the way. Meta's (1.0% active weight) stock price leaped 76.1% in Q1 and the index was positioned to benefit. Furthermore, when looking at the FANMAGs, Meta was the leader of the pack, followed by Apple (+ 27.1%) and Amazon (+23%). All the constituents that make up the FANMAGs were up on average over 30% for the quarter.

Stock Analysis

Top Five/Bottom Five Contributors to Excess Return

	Portfolio Weight	Active Weight	Q1 Return	Excess Return Contribution
Top Five Contributors to Return				
Meta	1.64%	0.98%	76.12%	0.54%
Apple	4.82%	0.76%	27.11%	0.18%
Charles Schwab Corp	0.04%	-0.15%	-36.89%	0.08%
Eli Lilly and Company	0.09%	-0.42%	-5.82%	0.06%
Alibaba	0.04%	0.04%	0.00%	0.05%
Bottom Five Contributors to Return				
NVIDIA	0.12%	-0.76%	90.10%	-0.45%
Tesla	0.03%	-0.77%	68.42%	-0.35%
Microsoft	1.71%	-1.52%	20.52%	-0.20%
Amazon	0.32%	-1.17%	22.96%	-0.17%
Bank of America	0.86%	0.46%	-13.08%	-0.10%

Sector Analysis

12/30/2022 to 3/31/2023	RAFI Fundamental Global Low Carbon Transition Index		Solactive GBS Global Markets Large & Mid Cap Index		Attribution Analysis		
	Port. Average Weight	Port. Total Return	Bench. Average Weight	Bench. Total Return	Allocation Effect	Selection + Interaction	Total Effect
Total	100.00	6.12	100.00	7.44	-1.27	-0.05	-1.32
Basic Materials	6.09	5.72	5.27	5.40	-0.02	0.02	0.00
Communications	7.04	23.75	7.61	16.13	-0.06	0.48	0.42
Consumer Cyclical	9.41	11.24	10.21	15.45	-0.04	-0.38	-0.43
Consumer Non-Cyclical	8.97	4.10	7.98	3.35	-0.04	0.07	0.03
Energy	7.39	0.13	5.41	-2.43	-0.19	0.21	0.02
Financials	21.22	-1.45	15.06	-1.25	-0.54	-0.02	-0.56
Healthcare	10.48	-3.82	12.54	-1.65	0.19	-0.26	-0.06
Industrial	8.88	8.54	9.75	6.98	0.00	0.14	0.14
Real Estate	2.08	-1.30	2.37	0.51	0.02	-0.04	-0.02
Technology	15.80	17.87	20.85	20.73	-0.62	-0.41	-1.03
Utilities	2.64	4.76	2.94	-0.66	0.03	0.15	0.18

At the sector level, technology was the greatest detractor to excess return at 103 bps (5.1% active weight). Both allocation and selection effects contributed to performance drag. Two main standouts that negatively impacted performance were NVIDIA and Microsoft. The technology sector in-large experienced a snapback in performance. The closely watched NASDAQ Composite rose an impressive 17.1% in Q1 (down 13.3% over the past 12 months). The second largest detracting sector to excess return at 56 bps was financials (6.2% active weight). Performance within the sector was almost entirely attributable to allocation effects. The third largest detracting sector at 43 bps was Consumer Cyclical. The index had a slight underweight within the sector, with selection effects outweighing allocation effects. Tesla and Amazon were the two notable stocks that hurt the index's performance. Combined, both stocks detracted 51 bps of excess return.

Geographic Analysis

12/30/2022 to 3/31/2023	RAFI Fundamental Global Low Carbon Transition Index		Solactive GBS Global Markets Large & Mid Cap Index		Attribution Analysis		
	Port. Average Weight	Port. Total Return	Bench. Average Weight	Bench. Total Return	Allocation Effect	Selection + Interaction	Total Effect
Total	100.00	6.12	100.00	7.44	0.06	-1.38	-1.32
Developed Asia Pacific	11.51	3.63	9.59	4.75	-0.06	-0.13	-0.19
Developed Europe	22.22	9.42	17.03	10.58	0.17	-0.24	-0.07
Emerging Americas	1.64	3.00	0.98	3.34	-0.03	-0.00	-0.04
Emerging Asia	9.46	5.16	9.12	4.75	-0.01	0.04	0.03
Emerging EMEA	1.02	-0.45	1.71	-1.32	0.06	0.01	0.07
United States	50.42	5.81	57.94	7.89	-0.03	-1.06	-1.08
Other Developed	3.73	4.08	3.45	3.99	-0.01	0.00	-0.01
[Unassigned]	0.00	--	0.17	31.54	-0.04	-0.00	-0.04

At the region level, the United States was the standout region in Q1 and responsible for the lion's share of the index's performance drag. This is not a surprise as all of the bottom 5 contributors to return are all US companies. The US region had a 7.5% underweight in the index versus the benchmark and detracted 108 bps of performance (108 bps of a total 132 bps). Performance within the region was almost all attributable to security selection. While the US negatively impacted returns in Q1, looking over the course of the past 12 months, the United States has contributed 316 bps to excess return.

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