# **Monthly Portfolio** Update

2022
**July**

**QRAFT**
**AI ETFs**

## About **Qraft Technologies**

Founded in 2016, Qraft Technologies is on a mission to transform investing with artificial intelligence, or AI. Our team, comprised of data scientists and researchers, data engineers, and investment experts, develop and supervise investment solutions enabled by AI.

We believe investment processes powered by AI can lead to superior results over time by advancing the scope, speed, and scale of how data is analyzed and investment decisions are made. The name Qraft is an amalgamation of the words 'Quant' and 'Craft', conveying the purpose of the company in crafting quantitative solutions using our proprietary AI methods.

Qraft offers a full suite of AI-powered investment solutions for financial firms, from data handling (Kirin API), to Security Selection and Portfolio Construction (AI-Enhanced ETFs), to Asset Allocation and Model Management, to Trading Insights (AXE).

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# July
Overview

Over the month of June fears of inflation persisted, and investors and consumers alike weigh the possibilities of a future recession. Many investors were hopeful that inflation had reached its peak as consumer spending showed signs of slowing, increasing by only 0.2% in May compared to an increase of 0.6% in April[1]. This slowdown, coupled with falling commodity prices, led some to take this as an indicator that the economy is at post-peak inflation. High energy prices, which have had a reverberating effect on the economy and are seen as a key determinant for the current run of high inflation, fell to their lowest levels since May[2].

Qraft's AI-powered ETFs have responded to the change in market environment over June by lowering their exposures to the Energy and, in most cases, the Consumer Discretionary sectors. Exposure to the Consumer Staples and Health Care sectors, traditional defensive sectors during recessions, has increased among many of the AI ETFs.

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# Qraft AI-Enhanced U.S. Large Cap ETF (QRFT)
## Key Takeaways

**Increase in Quality and Low Risk factors**

- Increase in Quality by 7.3%, Low Risk by 5.0%

**Decrease in Value, Momentum, and Size factors**

- Decrease in Value factor by 11.5%, Momentum by 0.3%, Size by 0.4%

**Notable decreases in Financials and Energy sectors**

- Financials sector decreases by 16.7%
- Energy sector holdings decrease 5.2%
- Oil prices start to slide, with a barrel of WTI crude falling below $100 for the first time since May due to fears that an upcoming recession will lead to decreased demand[2]
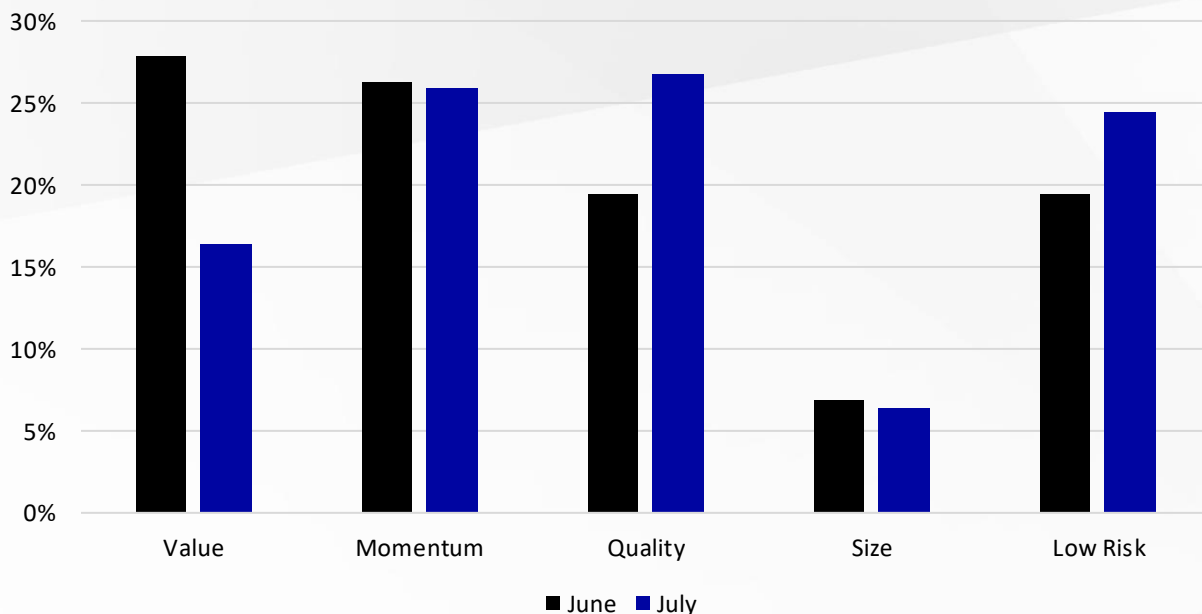
**Increases in Healthcare and Industrials sectors**

- Healthcare sector increases by 6.3%
- Industrials sector holdings increases 8.3%

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## QRFT Factor Exposure Change



■ June  ■ July

| Factor Exposures | June | July | Change |
|---|---|---|---|
| Value | 27.92% | 16.39% | -11.53% |
| Momentum | 26.28% | 25.94% | -0.34% |
| Quality | 19.43% | 26.74% | 7.31% |
| Size | 6.85% | 6.41% | -0.44% |
| Low Risk | 19.51% | 24.51% | 5.01% |

(Source: Company data; Data available as of July 5, 2022)

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## QRFT Sector Change
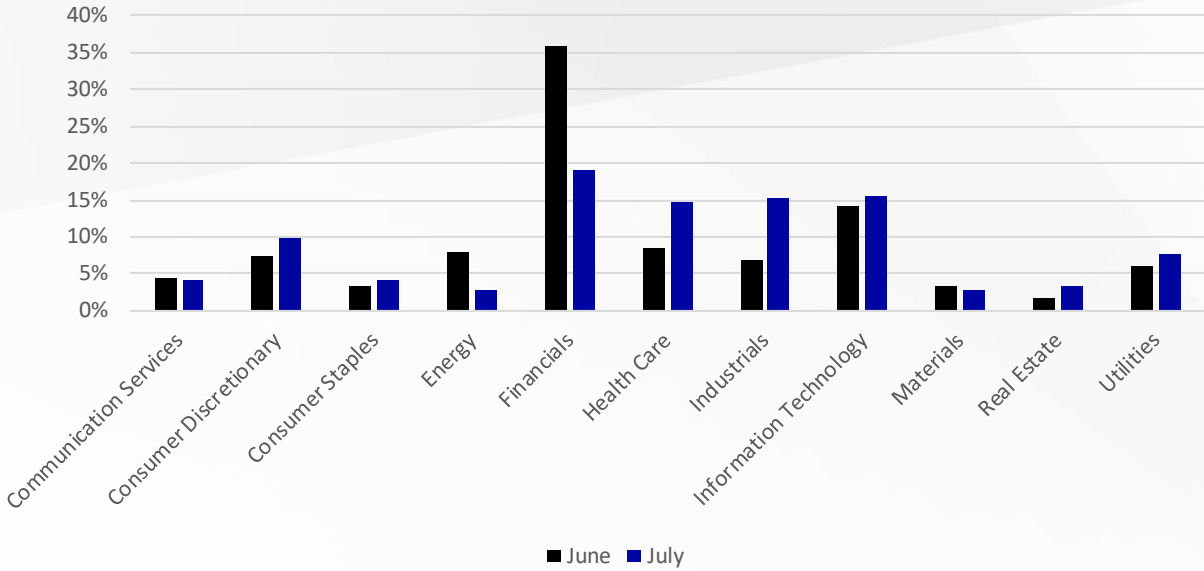


■ June   ■ July

| Sector | June | July | Change |
|---|---|---|---|
| Communication Services | 4.55% | 4.06% | -0.49% |
| Consumer Discretionary | 7.52% | 9.96% | 2.44% |
| Consumer Staples | 3.33% | 4.28% | 0.95% |
| Energy | 8.10% | 2.86% | -5.24% |
| Financials | 35.88% | 19.21% | -16.67% |
| Health Care | 8.45% | 14.73% | 6.28% |
| Industrials | 6.96% | 15.30% | 8.34% |
| Information Technology | 14.16% | 15.62% | -1.47% |
| Materials | 3.27% | 2.76% | -0.51% |
| Real Estate | 1.70% | 3.50% | 1.80% |
| Utilities | 6.08% | 7.71% | 1.63% |

(Source: Company data; Data available as of July 5, 2022)

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**QRAFT AI ETFs**

## QRFT Rebalance Tables

| June Top 10 (effective June 2) | Weight (%) | July Top 10 (effective July 5) | Weight (%) |
|---|---|---|---|
| AAPL | 3.09% | AAPL | 3.00% |
| MSFT | 2.65% | MSFT | 2.61% |
| GOOGL | 1.88% | UNH | 2.04% |
| COF | 1.77% | BAH | 1.90% |
| BRK.B | 1.71% | GOOGL | 1.82% |
| FNF | 1.56% | LULU | 1.66% |
| UNH | 1.52% | BRK.B | 1.63% |
| AMZN | 1.51% | COST | 1.60% |
| RJF | 1.42% | HUM | 1.56% |
| CI | 1.40% | AMZN | 1.47% |

| Significant Removals | | Significant Additions | |
|---|---|---|---|
| HIG | 1.14% | CACI | 1.27% |
| SYF | 1.04% | POOL | 1.23% |
| SBNY | 1.01% | EGP | 1.05% |
| AER | 0.95% | DGX | 0.90% |
| SF | 0.89% | LH | 0.89% |

(Source: Company data; Data available as of July 5, 2022)

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# Qraft AI-Enhanced U.S. Large Cap ETF (AMOM)
## Key Takeaways

**Continuing decrease in IT sector holdings**

- IT sector weight decreased by 0.5%, with consecutive decreases in IT exposure since April

**Increase in Consumer Staples and decrease in Consumer Discretionary**

- Decrease of Consumer Discretionary by 4.8%, as consumer spending starts to slow down in the US [1]

- Exposure to Consumer Staples sector increases by 7.3%, a sector that is considered to be relatively safe during periods of economics recession

**Decrease in Energy**

- Energy sector holdings fall by 3.5%

**Decrease in Materials sector**

- Materials sector holdings fall by 7.1%

**Increase in Health Care sector**

- Health Care sector holdings increase by 6.8%

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## AMOM Rebalance Tables

| June Top 10 (effective June 2) | Weight (%) | July Top 10 (effective July 5) | Weight (%) |
|---|---|---|---|
| HD | 8.12% | UNH | 8.00% |
| LOW | 4.44% | HD | 7.46% |
| CNQ | 4.27% | COST | 5.89% |
| COP | 3.54% | CNQ | 4.27% |
| SU | 3.47% | COP | 3.71% |
| MCK | 2.97% | LOW | 3.69% |
| CVE | 2.67% | CVE | 3.00% |
| HSY | 2.54% | PXD | 2.30% |
| DLTR | 2.53% | MCK | 2.15% |
| AZO | 2.52% | SYY | 2.06% |

| Top Removals | | Top Additions | |
|---|---|---|---|
| SU | 3.47% | UNH | 8.00% |
| TECK | 2.30% | COST | 5.89% |
| IDXX | 2.30% | SYY | 2.06% |
| MTD | 2.14% | TSCO | 1.57% |
| EOG | 2.06% | WAT | 1.53% |

(Source: Company data; Data available as of July 5, 2022)

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## AMOM Sector Change
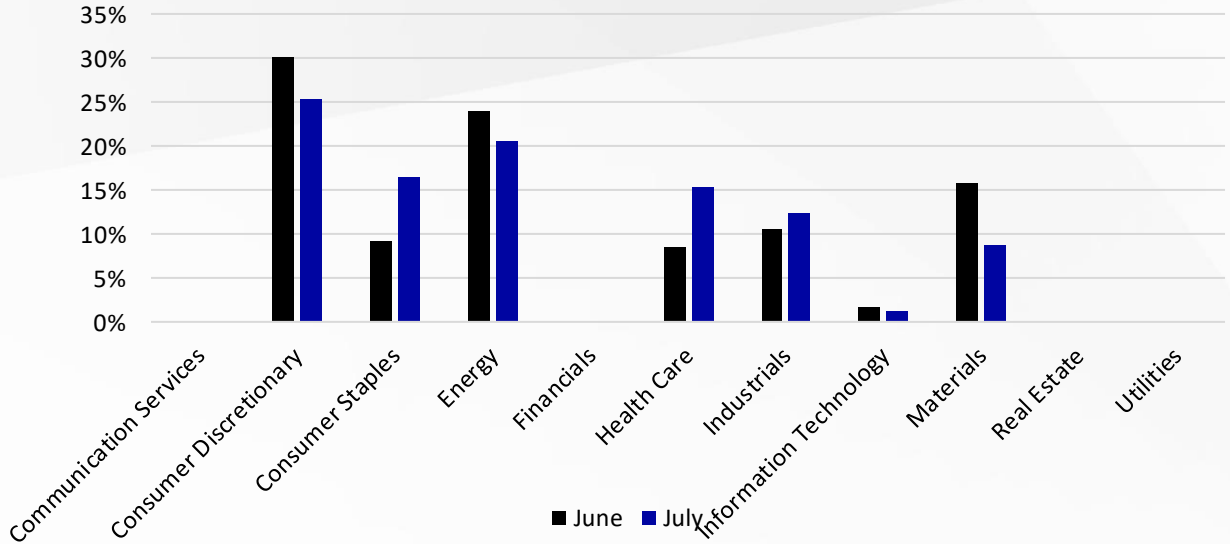


| Sector | June | July | Change |
|---|---|---|---|
| Communication Services | - | - | - |
| Consumer Discretionary | 30.21% | 25.44% | -4.77% |
| Consumer Staples | 9.16% | 16.41% | 7.25% |
| Energy | 24.00% | 20.47% | -3.53% |
| Financials | - | - | - |
| Health Care | 8.55% | 15.34% | 6.79% |
| Industrials | 10.65% | 12.46% | 1.81% |
| Information Technology | 1.68% | 1.19% | -0.49% |
| Materials | 15.75% | 8.69% | -7.06% |
| Real Estate | - | - | - |
| Utilities | - | - | - |

(Source: Company data; Data available as of July 5, 2022)

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# Qraft AI-Enhanced U.S. Next Value ETF (NVQ)
## Key Takeaways

**Decrease in Energy sector**

- Energy sector decreased by 6.4%

**Decreases in Consumer Discretionary sector and Consumer Staples sectors**

- Consumer Discretionary holdings decreased by 0.7%
- Consumer Staples holdings decreased by 4.2%

**Increases in IT and Health Care sectors**

- IT sector holdings increased by 3.1%, more than doubling in absolute value
- IT sector may be seen as a value opportunity as valuations in the sector have sharply fallen over the past 6 months
- Health Care sector increased by 4.7%

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## NVQ Rebalance Tables

| June Top 10 (effective June 2) | Weight (%) | July Top 10 (effective July 5) | Weight (%) |
|---|---|---|---|
| CVS | 8.36% | CVS | 8.00% |
| CI | 6.30% | CI | 7.59% |
| EOG | 4.33% | TFC | 4.80% |
| TFC | 4.26% | MET | 4.71% |
| MET | 3.84% | CNC | 4.20% |
| COF | 3.65% | VLO | 3.51% |
| CNC | 3.27% | AIG | 3.25% |
| MPC | 3.17% | PRU | 2.98% |
| VLO | 3.00% | ET | 2.55% |
| PRU | 2.49% | GPN | 2.50% |

| Significant Removals | | Significant Additions | |
|---|---|---|---|
| EOG | 4.33% | AIG | 3.25% |
| COF | 3.65% | GPN | 2.50% |
| MPC | 3.17% | MTB | 2.32% |
| WBA | 2.41% | CTRA | 1.99% |
| KR | 2.32% | CACI | 1.37% |

(Source: Company data; Data available as of July 5, 2022)

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## NVQ Sector Change
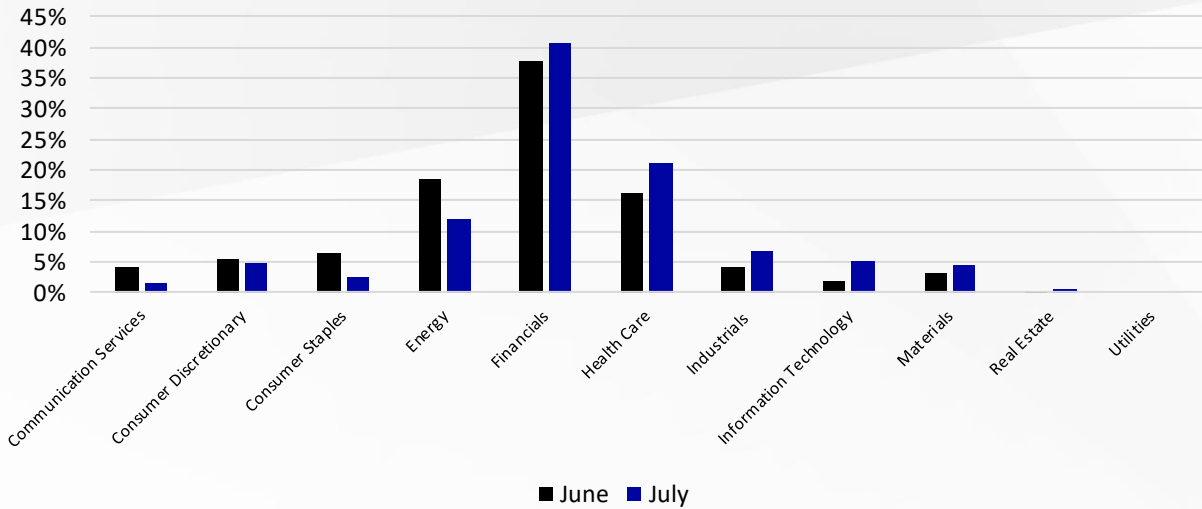


■ June  ■ July

| Sector | June | July | Change |
|---|---|---|---|
| Communication Services | 4.26% | 1.62% | -2.64% |
| Consumer Discretionary | 5.58% | 4.85% | -0.74% |
| Consumer Staples | 6.55% | 2.37% | -4.18% |
| Energy | 18.37% | 11.98% | -6.39% |
| Financials | 37.60% | 40.59% | 2.98% |
| Health Care | 16.31% | 21.05% | 4.74% |
| Industrials | 4.00% | 6.78% | 2.77% |
| Information Technology | 1.91% | 5.05% | 3.14% |
| Materials | 3.06% | 4.48% | 1.42% |
| Real Estate | 0.24% | 0.62% | 0.38% |
| Utilities | - | - | - |

(Source: S&P Compustat; Data available as of July 5, 2022)

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# Qraft AI-Enhanced U.S. High-Dividend ETF (HDIV)
## Key Takeaways

**Decrease in Consumer Discretionary and increase in Consumer Staples**

- The model decreased its exposure to Consumer Discretionary by 1.4%, to its lowest level of the year

- Consumer Staples saw an increase of nearly 9%, which now represents over 28% of the portfolio

**Decrease in Energy and Financial sectors**

- Energy decreased by more than 4%, making up roughly 3.2% of the portfolio

- Exposure to Financials also decreased by 4.6%

**Increase in Health Care**

- The most notable sector rotation was Health Care, where the model added 10.3% to its previous weighting. Healthcare now stands at 44.7% of the total portfolio exposure. UnitedHealth Group Inc (NYSE: UNH) and Johnson & Johnson (NYSE: JNJ) are major beneficiaries of this overweighting, each accounting for 8% of the total portfolio weighting.

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## HDIV Rebalance Tables

| June Top 10 (effective June 2) Weight (%) | | July Top 10 (effective July 5) Weight (%) | |
|---|---|---|---|
| JNJ | 8.55% | UNH | 8.00% |
| WMT | 6.86% | JNJ | 8.00% |
| LLY | 6.24% | WMT | 6.39% |
| ABBV | 5.53% | ABBV | 5.17% |
| MRK | 4.74% | LLY | 5.11% |
| PEP | 4.68% | PFE | 4.85% |
| VZ | 4.34% | PEP | 4.41% |
| BMY | 3.53% | VZ | 4.09% |
| PM | 3.18% | COST | 4.07% |
| INTC | 3.08% | MRK | 3.64% |

| Significant Removals | | Significant Additions | |
|---|---|---|---|
| INTC | 3.08% | UNH | 8.00% |
| T | 3.04% | PFE | 4.85% |
| TXN | 2.87% | COST | 4.07% |
| CVS | 2.49% | CL | 1.33% |
| MO | 1.55% | HUM | 1.18% |

(Source: Company data; Data available as of July 5, 2022)

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## HDIV Sector Change



■ April  ■ July
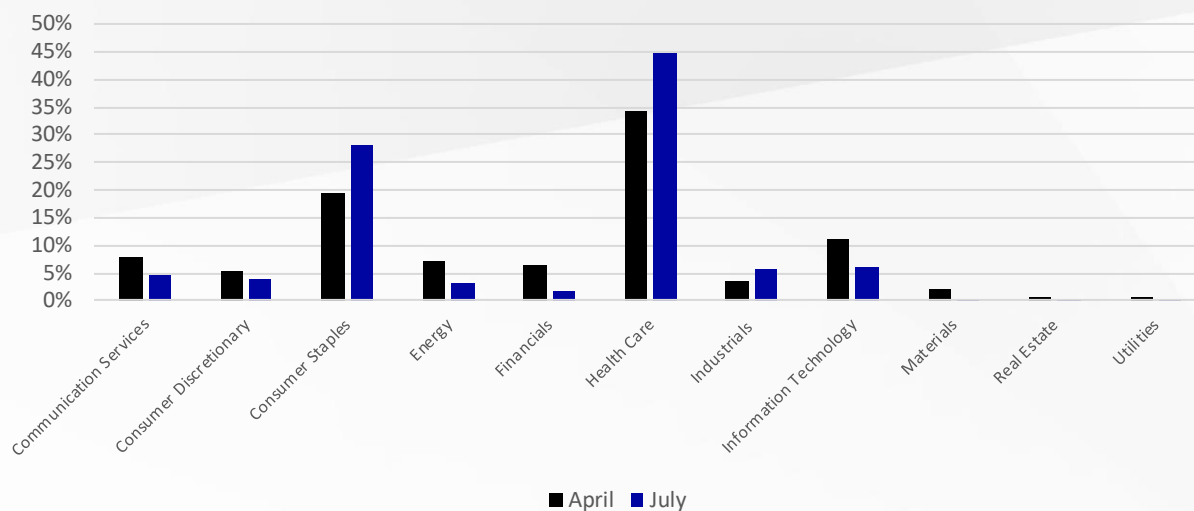
| Sector | June | July | Change |
|---|---|---|---|
| Communication Services | 7.99% | 4.87% | -3.12% |
| Consumer Discretionary | 5.38% | 3.98% | -1.40% |
| Consumer Staples | 19.37% | 28.30% | 8.93% |
| Energy | 7.24% | 3.19% | -4.05% |
| Financials | 6.51% | 1.90% | -4.62% |
| Health Care | 34.43% | 44.70% | 10.27% |
| Industrials | 3.58% | 5.90% | 2.32% |
| Information Technology | 11.34% | 6.29% | -5.04% |
| Materials | 2.18% | 0.16% | -2.02% |
| Real Estate | 0.88% | 0.18% | -0.70% |
| Utilities | 0.65% | 0.17% | -0.47% |

(Source: S&P Compustat; Data available as of July 5, 2022)

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## Endnotes

1.    Rubin, Gabriel T. "Cooling Consumer Spending Points to Further Economic Slowdown." *The Wall Street Journal*, Dow Jones & Company, 30 June 2022.
2.    Dezember, Ryan. "Falling Commodity Prices Raise Hopes That Inflation Has Peaked." *The Wall Street Journal,* Dow Jones & Company, 4 July 2022.

## Definitions

i.    Alpha describes an investment strategy's ability to beat its benchmark
ii.    Based on MSCI USA Index, its parent index, which captures large and mid cap stocks of the US market. It is designed to reflect the performance of an equity momentum strategy by emphasizing stocks with high price momentum, while maintaining reasonably high trading liquidity, investment capacity and moderate index turnover.
iii.    The index includes 500 leading companies and covers approximately 80% of available market capitalization.
iv.    Measures value stocks using three factors: the ratios of book value, earnings, and sales to price.  Constituents are drawn from the S&P 500
v.    The index tracks high-yielding, dividend-paying, U.S.-backed securities screened for superior company quality and financial health

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## Important Information

Portfolio holdings are subject to change and should not be considered investment advice.

*Investing involves risk including possible loss of principal. Diversification does not ensure profits or prevent losses.*

*Artificial intelligence selection models are reliant upon data and information supplied by third parties that are utilized by such models. To the extent the models do not perform as designed or as intended, the strategy may not be successfully implemented. If the model or data are incorrect or incomplete, any decisions made in reliance thereon may lead to the inclusion or exclusion of securities that would have been excluded or included had the model or data been correct and complete. Service providers may experience disruptions that arise from human error, processing and communications error, counterparty or third-party errors, technology or systems failures, any of which may have an adverse impact. While it is anticipated the Adviser, Exchange Traded Concepts LLC, will purchase and sell securities based on recommendations of QRAFT AI, the Adviser has full discretion over investment decisions for the Fund.*

***Investors should consider the investment objectives, risks, charges, and expenses carefully before investing. For a prospectus or summary prospectus with this and other information about the Qraft ETFs, please call (855) 973-7880 or visit our website at*** [***www.qraftaietf.com***](http://www.qraftaietf.com)***. Read the prospectus or summary prospectus carefully before investing.***

*Distributed by Foreside Fund Services, LLC*

*Investing involves risk, including loss of principal. The Funds are subject to numerous risks including but not limited to: Equity Risk, Sector Risk, Large Cap Risk, Management Risk, and Trading Risk. The Funds rely heavily on a proprietary artificial intelligence selection model as well as data and information supplied by third parties that are utilized by such model. To the extent the model does not perform as designed or as intended, the Fund's strategy may not be successfully implemented, and the Funds may lose value. Additionally, the funds are non-diversified, which means that they may invest more of their assets in the securities of a single issuer or a smaller number of issuers than if they were a diversified fund. As a result, each Fund may be more exposed to the risks associated with and developments affecting an individual issuer or a smaller number of issuers than a fund that invests more widely. A new or smaller fund's performance may not represent how the fund is expected to or may perform in the long term if and when it becomes larger and has fully implemented its investment strategies. Read the prospectus for additional details regarding risks.*

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## Important Information

QRAFT AI-Enhanced U.S. Large Cap ETF (QRFT): Companies in the health care sector are subject to extensive government regulation and their profitability can be significantly affected by restrictions on government reimbursement for medical expenses, rising costs of medical products and services, pricing pressure (including price discounting), limited product lines and an increased emphasis on the delivery of health care through outpatient services.

QRAFT AI-Enhanced U.S. Large Cap Momentum ETF (AMOM): The Fund is subject to the risk that market or economic factors impacting technology companies and companies that rely heavily on technology advances could have a major effect on the value of the Fund's investments. The value of stocks of technology companies and companies that rely heavily on technology is particularly vulnerable to rapid changes in technology product cycles, rapid product obsolescence, the loss of patent, copyright and trademark protections, government regulation and competition, both domestically and internationally, including competition from foreign competitors with lower production costs. Technology companies and companies that rely heavily on technology, especially those of smaller, less-seasoned companies, tend to be more volatile than the overall market.

QRAFT AI-Enhanced US High Dividend ETF (HDIV): Securities that pay dividends, as a group, may be out of favor with the market and underperform the overall equity market or stocks of companies that do not pay dividends. In addition, changes in the dividend policies of the companies held by the Fund or the capital resources available for such company's dividend payments may adversely affect the Fund. In the event a company reduces or eliminates its dividend, the Fund may not only lose the dividend payout but the stock price of the company may also fall.

QRAFT AI-Enhanced U.S. Next Value ETF (NVQ): The value approach to investing involves the risk that stocks may remain undervalued, undervaluation may become more severe, or perceived undervaluation may actually represent intrinsic value. Value stocks may underperform the overall equity market while the market concentrates on growth stocks. The small- and mid-capitalization companies in which the Fund invests may be more vulnerable to adverse business or economic events than larger, more established companies, and may underperform other segments of the market or the equity market as a whole. Securities of small- and mid-capitalization companies generally trade in lower volumes, are often more vulnerable to market volatility, and are subject to greater and more unpredictable price changes than larger capitalization stocks or the stock market as a whole.

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