

# Hartford Multifactor US Equity ETF ROUS

Pronounced tilts toward value and low volatility.

## Morningstar's Take ROUS

**Morningstar Rating** ★★★★★

**Morningstar Analyst Rating** Silver

### Morningstar Pillars

Process	Above Average
Performance	—
People	Average
Parent	Above Average
Price	—

### Role In Portfolio

Supporting Player

### Fund Performance

Year	Total Return (%)	+/- Category
YTD	14.85	-1.45
2020	6.46	3.55
2019	23.87	-1.17
2018	-8.97	-0.44
2017	22.59	6.65

Data through 9-30-21

12-21-20 | by Ryan Jackson

Hartford U.S. Multifactor Equity ETF ROUS is an attractive large-value strategy thanks to its effective risk management and its focus on quality and momentum. This well-diversified portfolio comes at a low price, supporting a Morningstar Analyst Rating of Silver.

This strategy targets U.S. stocks with the best combination of value, quality, and momentum characteristics. Each stock receives a composite factor score, but value receives a larger weighting in this composite (50%) than momentum (30%) and quality (20%). This emphasis on value effectively makes this a value strategy with quality and momentum tilts rather than a true diversified multifactor fund. However, this quality and momentum exposure should help it outperform the Russell 1000 Value Index over the long term.

The fund's stock-selection approach emphasizes cheap, profitable stocks with strong recent performance. This largely shields the fund from value traps, as cheap stocks with weak fundamentals and declining businesses tend to score poorly on quality and momentum. The inclusion of these factors keeps the fund from wading deep into value territory.

Although it doesn't explicitly select defensive stocks, this fund targets a 15% volatility reduction from its starting universe over a complete market cycle. It applies sector- and holding-level constraints to improve diversification. Additionally, it considers stocks' correlations with one another when selecting and weighting stocks, favoring stocks with lower correlations. Collectively, these measures produce a well-diversified portfolio.

This fund targets stocks from across the value-growth spectrum, which improves diversification as well. When value stocks slump--as they have over the past decade-plus --more growth-oriented names may step in and shoulder the load. For example, holdings like Apple AAPL and Facebook FB have been strong contributors to this fund's performance and rarely appear in other large-value portfolios.

This fund's 0.19% expense ratio keeps costs low and gives this fund a leg up on most of its peers.

**Process Pillar** Above Average | Ryan Jackson 11/24/2020

This strategy's focus on cheap stocks with strong quality and momentum reduces its exposure to the riskiest value stocks and should help it deliver better risk-adjusted performance than the Russell 1000 Value Index over the long term. It uses an optimizer to build a low-risk, well-diversified portfolio that is designed to hold up well during market downturns. It earns an Above Average Process rating.

The fund replicates the Hartford Multifactor Large Cap Index, which selects constituents from a pool of the 1,000 largest U.S. stocks. It uses an optimizer to target stocks with attractive value, quality, and momentum characteristics. This model follows a dual mandate when constructing the portfolio: limit volatility relative to the selection universe (targeting a 15% risk reduction) and enhance returns by maximizing the portfolio's composite factor score.

To control sector risk, it ensures that no sector allocation deviates by more than 2% from its starting universe. No stock may represent greater than 1.5% of the portfolio, and the index must always hold at least 200 constituents.

Within these constraints, this index uses the composite factor score to provide exposure to its target factors. Using one combined score is an effective way to capture all three factors simultaneously. It prevents holdings with strong exposures to different factors from offsetting and diluting the portfolio's factor tilts. This composite scoring approach may not emphasize stocks that are the cheapest, most profitable, or have the strongest momentum, but it prioritizes those that meet all three criteria and should provide sound overall factor exposure.

This fund switched to this benchmark from the Hartford Risk-Optimized Multifactor U.S. Equity Index in September 2019 to align this fund's volatility reduction target with Hartford's other multifactor exchange-traded funds.

This fund has succeeded in capturing its intended factors. Although it doesn't exclusively target value stocks, value's prominence in the composite factor score pulls the portfolio into the large value Morningstar Category. However, the fund has a less pronounced value tilt than the Russell 1000 Value Index, owing to its inclusion of quality and

momentum, which have steered the fund away from some of that benchmark's weaker constituents. For example, this fund does not invest in Marathon Petroleum MPC, whose shaky performance over the past few years has been a drag on the Russell 1000 Value Index.

This fund comfortably tops the Russell 1000 Value Index in profitability metrics like return on equity and return on assets, consistent with its focus on quality. Additionally, it has maintained sound exposure to the momentum factor since its inception in 2017. Despite its inclusion of giant names like Microsoft MSFT and Alphabet GOOG, the fund has a smaller market-cap orientation than the Russell 1000 Value Index.

This strategy's strict constraints have yielded a very well-diversified portfolio. While its sector composition strays from the Russell 1000 Value Index, it closely resembles the broad market, mitigating a source of active risk. This leads to more investment in technology at the expense of financial services and industrials stocks. Additionally, the 1.5% holding cap mitigates holding concentration. The top 10 holdings represented only 12% of the portfolio at the end of August 2020.

**Performance Pillar** | Ryan Jackson 11/24/2020

This fund has tracked its current benchmark for only about a year, but it has turned in strong performance thus far. From Sept. 11, 2019, the date it switched benchmarks, through October 2020, this fund outpaced the Russell 1000 Value Index by 5.59 percentage points, owing to its low volatility focus and favorable technology positions.

This fund aims to reduce the volatility of its cap-weighted selection universe by 15% over a full market cycle. The novel coronavirus-driven sell-off tested this low-risk portfolio, and it held up well. From the market's peak on Feb. 19, 2020, through its trough on March 23, 2020, this fund beat the Russell 1000 Value Index by 2.73 percentage points. This fund's relatively large tech allocation primarily drove this outperformance, as these firms weathered the market volatility better than any other sector.

While its dip was relatively small, this fund had a strong rebound. It led the Russell 1000 Value Index by another 1.14 percentage points from March 23 through October 2020. However, investors shouldn't always expect this best-of-both-worlds performance. This portfolio's low-volatility focus may dampen its performance during future bull markets. This fund's tech tilt enabled its mild setback and spirited comeback, but that won't always be the case.

Diligent portfolio management has led to effective index tracking. From last year's benchmark change through October 2020, this fund has trailed its benchmark by just 11 basis points, which is less than its expense ratio.

**People Pillar** | Average | Ryan

Jackson 11/24/2020

This fund is subadvised by a team at Mellon. Despite recent turnover, the team should continue to deliver tight index-tracking performance. However, this team does not stand out from its peers, warranting an Average People Pillar rating.

Marlene Walker-Smith, David France, Todd Frysinger, Vlasta Sheremeta, and Michael Stoll joined Mellon stalwart Thomas Durante as named managers on this fund in October 2020. The shakeup should not impede the team's ability to effectively track the index. Each newly named manager has spent time in a portfolio management role with Mellon before. Along with Durante, the quintet oversees the execution of index tracking strategies for domestic and international equity funds.

The managers draw on a team of analysts to anticipate index changes and handle corporate actions. While the analyst team has facilitated effective index tracking, it is smaller than analyst teams of other index fund managers, so personnel turnover may have a bigger impact on operations.

The managers' primary objective is to track the benchmark as closely as possible. Manager compensation is not tied to any specific tracking difference targets, but the team is subject to separate risk oversight.

Mellon merged three arms of its asset management business in January 2018 and consolidated the trading operations from each unit into a single desk. This expanded the team's trading capabilities and expertise.

**Parent Pillar** | Above Average | Elizabeth Foss 12/21/2020

Hartford Funds has evolved over the past decade by hiring strong subadvisors, honing its product lineup, and improving some fee structures. These efforts support an Above Average Parent Pillar rating.

The firm maintains a long-standing relationship with well-respected subadvisor Wellington Management Company. Wellington has long run the firm's equity funds--over half of its \$116 billion in fund assets--and took the reins of Hartford Fund's fixed-income platform beginning in 2012. In 2016, Hartford Funds began offering strategic-beta exchange-traded funds with its acquisition of Lattice Strategies and partnered with U.K.-based Schroders to expand its investment platform further. The Schroders alliance added another strong subadvisor to Hartford's lineup, with expertise in non-U.S. strategies.

Hartford Funds mostly leaves day-to-day investment decisions to its well-equipped subadvisors and instead steers product development, risk oversight, and distribution for its strategies. In 2013, the firm reorganized and grew its product-management and distribution effort. Since then, leadership has added resources to its distribution and oversight teams, merged and liquidated subpar offerings, introduced new strategies, evolved its strategic partnerships with MIT AgeLab and AARP, and lowered some fees. That said, fees are still not always best in class but have improved.

**Price Pillar** | Ryan Jackson 11/24/2020

It's critical to evaluate expenses, as they come directly out of returns. The share class on this report levies a fee that ranks in its Morningstar category's cheapest quintile. Based on our assessment of the fund's People, Process and Parent pillars in the context of these fees, we think this share class will be able to deliver positive alpha relative to the category benchmark index, explaining its Morningstar Analyst Rating of Silver.

Our benchmark is the investor.<sup>®</sup>

Historical Performance (%)	1 Year	3 Year	5 Year	10 Year	Since Inception
<b>Average Annual Total Returns</b> (as of 9/30/21)					
Hartford Multifactor US Equity ETF (NAV)	27.83	8.75	12.42	---	9.42
Hartford Multifactor US Equity ETF (Market Price)	27.92	8.74	12.40	---	9.42
Underlying Index (Hartford Multifactor Large Cap Spliced Index) <sup>1</sup>	28.12	8.94	12.62	---	---
Russell 1000 Index	30.96	16.43	17.11	---	---
Russell 1000 Value Index	35.01	10.07	10.94	---	---
Morningstar Large Value Category Average	34.79	9.62	11.14	---	---

Expenses<sup>2</sup> Net: 0.19%

**Performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted.**

Fund Inception: 2/25/15

Index performance returns do not reflect any management fees, transaction costs, or expenses.

<sup>1</sup>Effective 9/11/19, the Funds custom underlying index changed from The Hartford Risk-Optimized Multifactor US Equity Index ("US Equity Index") to Hartford Multifactor Large Cap Index ("Large Cap Index"). The Hartford Multifactor Large Cap Spliced Index reflects the performance of the Hartford Risk-Optimized US Equity Index through 9/10/19 and the performance of the Hartford Multifactor Large Cap Index thereafter. The Fund's performance and historical returns shown for the periods prior to 9/11/19 are not necessarily indicative of the performance that the Fund would have generated based on its current custom underlying index.

<sup>2</sup>Expenses as shown in the Fund's most recent prospectus.

ETF shares are bought and sold at market price, not net asset value (NAV). Total returns are calculated using the daily 4:00 p.m. Eastern Time NAV. Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns an investor would receive if they traded shares at other times. Brokerage commissions apply and will reduce returns.

## Top Ten Holdings (%) (as of 9/30/21)

Verizon Communications, Inc.	1.43
Cisco Systems, Inc.	1.06
Eli Lilly & Co.	1.06
Johnson & Johnson	1.02
Microsoft Corp.	1.01
Accenture plc	1.00
Intel Corp.	0.97
Alphabet, Inc.	0.94
UnitedHealth Group, Inc.	0.90
Berkshire Hathaway, Inc.	0.89

## Percentage Of Portfolio

10.28

## Sector Exposure (%) (as of 9/30/21)

Information Technology	26
Health Care	16
Industrials	11
Consumer Discretionary	10
Financials	10
Communication Services	9
Consumer Staples	8
Utilities	4
Real Estate	4
Materials	2
Energy	1

The views and opinions expressed within this report are those of Morningstar and are subject to change based on market, economic, and other conditions. All fund information referenced herein are as of 12/20/20, unless otherwise noted. Sector exposure may not total to 100% due to rounding. There is no guarantee that the Fund will continue to hold any security listed in the Top Ten Holdings or referenced within this report. Holdings are subject to change. Percentages may be rounded. For the Fund's most recent publicly available list of holdings, please visit [hartfordfunds.com](http://hartfordfunds.com).

Morningstar Ratings: Overall 4 stars out of 1144 products, 3-year 3 stars out of 1144 products, and 5-year 4 stars out of 1022 products for the period ended 9/30/21. The Morningstar Rating<sup>™</sup> for funds, or "star rating", is calculated for funds and separate accounts with at least a 3-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. Star rating based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance (without adjusting for any sales load, if applicable), placing more emphasis on downward variations and rewarding consistent performance. 5 stars are assigned to the top 10%, 4 stars to the next 22.5%, 3 stars to the next 35%, 2 stars to the next 22.5%, and 1 star to the bottom 10%. Overall Morningstar Rating is derived from a weighted average of the performance figures associated with its 3-, 5-, and 10-year (if applicable) Morningstar Rating metrics. Other share classes may have different ratings.

Morningstar awarded the Fund a Silver rating on 11/24/20. The Morningstar Analyst Rating<sup>™</sup> is not a credit or risk rating. It is a subjective evaluation performed by Morningstar's manager research group, which consists of various Morningstar, Inc. subsidiaries ("Manager Research Group"). In the US, that subsidiary is Morningstar Research Services LLC, which is registered with and governed by the US Securities and Exchange Commission. The Manager Research Group evaluates funds based on five key pillars, which are process, performance, people, parent, and price. The Manager Research Group uses this five-pillar evaluation to determine how they believe funds are likely to perform relative to a benchmark over the long term on a risk adjusted basis. They consider quantitative and qualitative factors in their research and weights will vary.

The Analyst Rating scale is Gold, Silver, Bronze, Neutral, and Negative. Analyst Ratings ultimately reflect the Manager Research Group's overall assessment, are overseen by an Analyst Rating Committee, and are continuously monitored and reevaluated at least every 14 months. The Morningstar Analyst Rating (i) should not be used as the sole basis in evaluating a fund, (ii) involves unknown risks and uncertainties which may cause the Manager Research Group's expectations not to occur or to differ significantly from what they expected, and (iii) should not be considered an offer or solicitation to buy or sell the fund. For more detailed information about Morningstar's Rating for Funds and Analyst Rating, including their methodology, please go to [global.morningstar.com/managerdisclosures](http://global.morningstar.com/managerdisclosures).

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A basis point a unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument. The basis point is commonly used for calculating changes in interest rates, equity indexes and the yield of a fixed-income security.

**Important Risks:** Investing involves risk, including the possible loss of principal. Security prices fluctuate in value depending on general market and economic conditions and the prospects of individual companies. • The Fund is not actively managed but rather attempts to track the performance of an index. • The Fund's returns may diverge from that of the index. • Investments focused in a sector, industry or group of industries may increase volatility and risk. • Diversification does not ensure a profit or protect against a loss in a declining market.

**Fund Objective:** Seeks to provide investment results that, before fees and expenses, correspond to the total return performance of an index that tracks the performance of exchange traded U.S. equity securities.

**Investors should carefully consider a fund's investment objectives, risks, charges and expenses. This and other important information is contained in the fund's prospectus and summary prospectus, which can be obtained by visiting [hartfordfunds.com](http://hartfordfunds.com). Please read it carefully before investing.**

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