

# NFJ Mid-Cap Value Wrap Strategy

## Market Overview

Although 2021 marked the second-best first half of a year since 1998, the second quarter saw an end to the euphoric rise that U.S. equities exhibited through March. Stocks instead climbed a wall of worry as investors began to abandon companies that stand to benefit from a reopening economy in favor of more defensive positioning. Concerns ranged from higher inflation and eventual interest rate hikes to further COVID-19 restrictions amid rising cases overseas. Against this backdrop, the energy and real estate sectors rose double digits in the Russell Midcap® Value Index, followed by strength from health care and materials. In contrast, utilities, consumer staples, and communication services were the quarter's weakest-performing sectors.

## Portfolio Overview

The Portfolio delivered positive absolute and relative returns, outpacing the Russell Midcap Value benchmark Index during the quarter. Strong stock selection drove outperformance results, while sector allocation marginally detracted over the reporting period.

## Portfolio Contributors

Selection was positive across the financials and health care sectors. From a sector allocation perspective, an underweight in communication services benefitted quarterly results. **Allstate** and **IQVIA** were the strongest absolute contributors.

Property & casualty insurer **Allstate** posted favorable adjusted earnings results, boosted in part by strength from the car-insurance business as accidents and claims tracked below normal. Company management also raised the quarterly dividend by 50% in the quarter.

Health care technology and data analytics company **IQVIA** delivered impressive quarterly results, beating analysts' estimates and raising 2021 guidance. The company saw strong demand for data and service amid the pandemic, and a solid backlog indicates continued growth in a post-pandemic environment.

Over the course of three decades, NFJ Investment Group's commitment to value has remained steadfast. Our investment process – built upon the principles of Benjamin Graham, the father of value investing – has stayed true to the philosophy of the firm's founders while continuing to evolve in the hands of their successors through the integration of new technological capabilities and advanced analytics methods that enhance the research process.

## INVESTMENT TEAM

### John R. Mowrey, CFA

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## Performance Data as of June 30, 2021

Annualized Returns (%) <sup>1</sup>	QTD	YTD	1 Year	3 Year	5 Year	10 Year
NFJ Mid-Cap Value Wrap Composite (gross)	7.33	15.18	37.85	10.14	10.87	11.18
NFJ Mid-Cap Value Wrap Composite (net)	6.55	13.51	33.88	6.90	7.61	7.92
Russell Midcap Value Index	5.66	19.45	53.06	11.86	11.79	11.75

<sup>1</sup>Cumulative return over a partial year

Composite results. Individual accounts will vary. **Past performance is no guarantee of future results.** The performance shown includes historical performance information from the sub-advisor. Please see Important Information at the end of this presentation for details regarding NFJ and subadvisor performance. Performance is calculated on a total return basis, assuming reinvestment of dividends and interest. Results include accrued income as well as realized and unrealized gains and losses, but do not include the effect of taxes. Gross of fee returns show performance before the deduction of advisory and Sponsor fees (including trading and custodial fees). Net returns presented include the maximum fee associated with the portfolio (fees deducted month after each quarter end for an annual fee of 3% for equity portfolios). Actual fees will vary by client.

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## Portfolio Detractors

Stock picking in materials and utilities detracted, as holdings failed to keep pace with benchmark shares. From an allocation perspective, an underweight in energy detracted from returns. **Mercury Systems** and **Eversource Energy** were the strongest absolute detractors.

Though **Mercury Systems** announced fiscal third quarter results that beat estimates, shares of the aerospace & defense company slumped after management lowered FY2021 guidance in part due to timing and program execution challenges. The company's pipeline remains compelling at ~\$9 billion, and bookings are expected to increase by the fiscal fourth quarter.

Utilities was the only benchmark sector to deliver a negative total return over the quarter as the prospect of higher interest rates gripped markets. Portfolio holding **Eversource Energy** was not immune from this trend. The company realized positive momentum from its offshore wind business in 1Q and received greater clarity regarding legal/regulatory overhangs, thus the fundamentals continue to strengthen while the valuation remains at depressed and attractive levels.

## Portfolio Specifics

Stock	Average Weight	Absolute Contribution
<b>Contributors</b>		
Allstate	1.8%	0.32%
IQVIA	1.1%	0.32%
Pool Corporation	1.0%	0.29%
First Republic Bank	2.1%	0.25%
MSCI	0.9%	0.24%
<b>Detractors</b>		
Mercury Systems	1.7%	-0.17%
Eversource Energy	1.7%	-0.12%
Reinsurance Group of America	0.6%	-0.08%
WEC Energy	1.8%	-0.08%
Gentex	0.8%	-0.07%

Managed accounts are available exclusively through financial professionals. Managed accounts have a minimum asset level and may not be suitable for all investors. Financial professionals seeking more information should contact their managed accounts department or call their NFJ representative. Accounts are managed by NFJ. For certain sponsor firm accounts, NFJ provides the model to the sponsor or the sponsor's designee for discretionary implementation.

**Risk Considerations: Market Volatility:** Local, regional, or global events such as war, acts of terrorism, the spread of infectious illness or other public health issues, recessions, or other events could have a significant impact on the portfolio and its investments, including hampering the ability of the portfolio manager(s) to invest the portfolio's assets as intended. **Issuer Risk:** The portfolio will be affected by factors specific to the issuers of securities and other instruments in which the portfolio invests, including actual or perceived changes in the financial condition or business prospects of such issuers. **Equity Securities:** The market price of equity securities may be adversely affected by financial market, industry, or issuer-specific events. Focus on a particular style or on small or medium-sized companies may enhance that risk.

## Outlook

Consumers and companies coming out of the COVID-19 recession are positioned to rebound more strongly than they did in 2009 following the Great Recession. U.S. household debt service is the lowest it has been in decades. The share of fully vaccinated U.S. adults now exceeds 50%, with vaccines doing as much to boost the economy as any level of stimulus. June's payroll report was solid, and consumer confidence is the strongest it has been since before the pandemic. Capital spending is poised to sustain growth, as companies increased machinery and software orders amid the largest monetary and fiscal response witnessed during a U.S. recession. The M2 money supply (total amount of dollars held by the public) is up 30% from the beginning of 2020, and the total fiscal response of roughly \$5 trillion dwarfs the \$830 billion spent in 2007-09. These efforts have led to a V-shaped rebound, putting the economy on pace to exceed its projected path had the pandemic never occurred by the end of 2021.

Still, is it possible to have too much good news? There are nascent signs that the recovery risks overheating. The latest headline figures indicate 5% inflation, with core inflation at nearly 4%. Inflation expectations for the next five years are up to 2.8%. Some of this surge can be explained by base effects and supply chain bottlenecks. Recent Fed statements suggest these price jumps are temporary, as many long-term secular forces that have led to years of price stability will persist long after short-term issues fade. However, markets may take a different view, given expected timing for initial rate hikes has shifted forward and longer-term rates have declined.

Interestingly, inflation usually begins to heat up at the end of an expansion. This suggests we may be later in this cycle than many pundits are predicting. Given these conditions, we still find the risk-reward positive for equities, with the equity risk premium nearly twice its long-term average. Within equities, the valuation gap between growth and value remains extreme. That said, high-beta names may be past their leadership peak as quality cyclicals with stronger fundamentals appear increasingly well positioned. Should inflation prove stickier than the market expects, sustainable and growing dividends represent shorter duration plays, while companies with pricing power appear increasingly attractive in what we expect will be a stock picker's market.

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Portfolio Statistics as of June 30, 2021

## Sector Allocation (%)



	Portfolio	Russell Midcap Value
■ Communication Services	3.6	4.2
■ Consumer Discretionary	10.4	10.9
■ Consumer Staples	3.9	4.2
■ Energy	1.3	5.1
■ Financials	17.7	16.1
■ Health Care	9.0	8.8
■ Industrials	15.4	15.8
■ Information Technology	9.4	9.7
■ Materials	5.2	7.3
■ Real Estate	9.1	10.5
■ Utilities	11.5	7.0

Characteristic	Portfolio	Russell Midcap Value
Dividend Yield (trailing 1YR, %)	1.5	1.6
Dividend Growth (5YR wtd avg, %)	10.7	6.6
Price-to-Earnings (forward 1YR est.)	20.2	17.5
Price-to-Earnings (trailing 1YR)	19.7	18.0
Return on Equity (%)	16.4	8.4
Return on Assets (%)	8.3	4.2
Earnings Growth (trailing 3YR avg, %)	16.8	7.5
Earnings Growth (trailing 5YR avg, %)	16.0	9.2
Market Cap (wtd avg, \$ bn)	30.1	20.8
Number of Holdings	111	695

Top Ten Positions	Portfolio Weight (%)
Xcel Energy	2.0
WEC Energy Group	2.0
Eversource Energy	2.0
Mercury Systems	2.0
Leidos Holdings	2.0
First Republic Bank	2.0
Teradyne	2.0
Atmos Energy	1.8
American Water Works	1.6
Royal Gold	1.5
<b>TOTAL</b>	<b>18.6</b>

The information is historical and may not reflect current or future characteristics and may vary among individual accounts depending on a variety of factors, including portfolio size, specific investment guidelines and inception dates of individual accounts. Certain projected characteristics (such as the forward P/E ratio) of the model portfolio and indices shown have been estimated in this material. Estimated data reflect subjective judgments and assumptions and unexpected events may occur. Therefore, there can be no assurance that developments will transpire as forecasted. **P/E** is a ratio of security price to earnings per share. Typically, an undervalued security is characterized by a low P/E ratio, while an overvalued security is characterized by a high P/E ratio. **Return on Equity (ROE)** is a measure of a corporation's profitability, calculated as net income divided by shareholder equity. It is an indication of how well the firm used reinvested earnings to generate additional earnings.

**Portfolio Information:** All portfolio statistics represent a model portfolio of this strategy currently managed by NFJ. Individual account holdings will vary depending on the size of an account, cash flows, and account restrictions. These statistics are representative of how the portfolios in the composite are invested as of the indicated date. Portfolio holdings are subject to change daily. This material is not an offer or solicitation for the purchase or sale of any financial instrument. It is presented only to provide information on investment strategies and opportunities. Statements concerning financial market trends are based on assessments of current market conditions, which will fluctuate. References to specific securities and issuers are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations to purchase or sell such securities.

The information presented in this material has been developed internally and/or obtained from sources which NFJ believes to be reliable; however we do not guarantee the accuracy, adequacy or completeness of such information nor do we guarantee the appropriateness of any strategy referred to for any particular investor. **Past performance is not indicative of future results.** Source: Virtus Performance & Analytics, Factset.

# NFJ Mid-Cap Value Wrap Strategy

Schedule of composite performance results as of March 31, 2021

Year	Composite Return Gross (%)	Composite Return Net (%)	Russell Midcap Value Index Returns (%)	Composite 3-Yr St. Dev. (%)	Benchmark 3-Yr St. Dev. (%)	Internal Dispersion	# of Portfolios in the Composite at Period End	Composite Total Assets at Period End (USD \$ M)	Total Firm Assets (USD \$ M)
3/31/21	7.3	6.5	13.1	20.5	22.8	0.1	26	10.8	5,739
2020	2.3	-0.7	5.0	20.4	22.6	0.2	26	10.5	
2019	30.0	26.2	27.1	13.5	12.8	0.4	29	12.1	
2018	-14.9	-17.4	-12.3	12.5	12.0	0.3	40	14.9	
2017	16.1	12.7	13.3	10.2	10.3	0.2	47	22.5	
2016	17.8	14.3	20.0	10.9	11.3	0.3	51	21.5	
2015	-2.8	-5.7	-4.8	10.3	10.7	0.2	49	18.7	
2014	11.8	8.5	14.7	9.9	9.8	1.0	54	26.5	
2013	32.2	28.3	33.5	12.5	13.7	0.3	55	21.3	
2012	16.2	12.8	18.5	-	-	0.2	61	19.8	
2011	3.7	0.7	-1.4	-	-	0.1	64	16.8	

**The Firm:** The firm is defined as NFJ Investment Group, LLC (“NFJ”), a Registered Investment Advisor with the SEC. NFJ is an affiliated investment manager of Virtus Investment Partners, Inc. (“Virtus”). NFJ was founded in February 1989 with funding from Pacific Financial Asset Management Corp (“PFAMCo”). In 1994 PFAMCo merged with Thomson Advisory Group LP and became PIMCO Advisors. In 2000 Allianz AG acquired PIMCO Advisors, including NFJ. In 2010, Allianz Global Investors US LLC was formed, including NFJ. In July 2017 NFJ rolled up their RIA designation within Allianz Global Investors US LLC. At this time NFJ became a division of Allianz Global Investors LLC (“AllianzGI”) and was no longer independently registered with the SEC. Effective February 1, 2021, in connection with a strategic partnership between Virtus and AllianzGI, NFJ moved from AllianzGI and registered with the SEC as a newly established investment advisory subsidiary of Virtus. The firm definition includes all investment portfolios managed directly or indirectly by NFJ including institutional, pooled fund and wrap fee accounts.

NFJ claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. NFJ has been independently verified for the periods February 1, 2021 to March 31, 2021. The verification reports are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm’s policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

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**The Composite:** The NFJ Mid Cap Value Wrap Composite (the “Composite”) consists of portfolios that invest in a diversified group of mid capitalization stocks considered to have attractive valuations and return value to shareholders. The Composite was created February 1, 2021 and has a performance inception date of January 1, 2011. Composite performance is linked to composite performance generated at a prior firm for all periods prior to the composite creation date. The Composite includes all discretionary wrap fee portfolios with comparable investment objectives and risks, managed by NFJ for at least one full month. The Composite can include both tax-exempt and taxable accounts. No leverage has been used in the accounts included in the Composite. The Composite includes only wrap fee accounts.

A list of composite descriptions is available upon request. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.

**Portfolio Returns:** Returns are calculated on a total return basis, including all dividends and interest, accrued income, realized and unrealized gains or losses reinvestment of dividends and other earnings. Performance results are expressed in U.S. dollars. Returns are presented gross and net of fees. Gross of fees performance results are “pure” gross and are provided as supplemental information, as results have not been reduced by advisory and sponsor fees (including trading and custodial fees). Net of fee returns have been reduced by the highest applicable managed account fee of 3.00% applied on a quarterly basis. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.

**Fees:** The managed account fee is a bundled fee (3.00%) inclusive of advisory, trading, custodial and administrative fees. There are no fees charged to clients at the commingled level; sponsor and advisory fees apply to the account as a whole. Actual fees incurred by client accounts may vary. Individual results may vary as a result of market conditions, trading costs and other factors, which may be unique to each account. NFJ’s compensation from the Program Sponsors vary, but it is generally between 0.33% and 0.50% of assets under management.

**Index:** The Russell Midcap Value Index measures the performance of the 800 smallest companies in the Russell 1000 Index with lower price-to-book ratios and lower forecasted growth values. The Russell 1000 Index measures the performance of the 1,000 largest U.S. companies based on total market capitalization. This unmanaged market index is provided to represent the investment environment existing during the time periods shown. The index is referred to for comparative purposes only and is not intended to parallel the risk or investment style of the portfolios in the Composite. For comparison purposes, the index is fully invested, which includes reinvestment of income. The returns for this unmanaged index do not include any transaction costs, management fees or other costs. An investor may not invest directly in any index. All returns presented are calculated using U.S. dollars. The portfolios within this composite may and do invest in non-benchmark securities. Further information is available upon request.

**Internal Dispersion:** The internal dispersion statistic is the asset weighted standard deviation calculation using beginning of period market values and pure gross of fee performance returns for the portfolios in the composite for the full period. For periods where there were 5 or fewer portfolios in the composite for the full period the internal dispersion statistic is not meaningful and is shown as “NA”. **Past performance is not indicative of future results.**