

# NFJ Mid-Cap Value Wrap Strategy

## Market Overview

U.S. equities entered bear market territory in the second quarter as the market posted its worst first half since 1970. The Federal Reserve (Fed) enacted its biggest hikes in nearly 30 years with hopes of reining in blistering inflation. Value and quality stocks generally led against this volatile backdrop. In the Russell Midcap® Value Index, more defensive sectors like utilities, consumer staples, and health care held up on the downside, as well as energy, boosted by continued supply side pressures. Conversely, more cyclical areas of the market, including communication services, technology, and materials, slumped double digits amid recession fears.

## Portfolio Overview

The Portfolio outperformed the Russell Midcap Value benchmark Index on a relative basis over the quarter. Strong stock selection drove outperformance while sector allocations modestly detracted from returns.

## Portfolio Contributors

Stock selection was positive across all eleven GICS economic sectors, with notable gains in consumer discretionary, financials, industrials, and technology during the quarter. From a sector allocation perspective, an underweight in communication services and overweight in health care benefitted quarterly results. **Naspers** and **Valero Energy** were the strongest absolute contributors.

Investors cheered news that **Naspers** would slowly sell some of its 29% stake in Chinese internet giant Tencent and return the cash to shareholders.

Refiners like **Valero Energy** have performed well in the post-COVID demand recovery, especially after closures in 2020 reduced capacity, leading to record crack spreads, aka the price difference between a barrel of crude oil and the petroleum products refined from that barrel.

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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 Co-Lead Senior Portfolio Manager/Analyst

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### J. Garth Reilly

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## Performance Data as of June 30, 2022

Annualized Returns (%) <sup>1</sup>	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
NFJ Mid-Cap Value Wrap Composite (gross)	-10.11	-14.17	-5.35	6.77	6.43	10.17	9.78
NFJ Mid-Cap Value Wrap Composite (net)	-10.81	-15.49	-8.16	3.62	3.29	6.93	6.56
Russell Midcap Value Index	-14.68	-16.23	-10.00	6.70	6.27	10.62	9.75

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

Composite inceptioned January 1, 2011. 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

From an allocation perspective, an overweight in technology and underweight in utilities detracted. **Stanley Black & Decker** and **Teleflex** were the strongest absolute detractors.

Shares of **Stanley Black & Decker** came under pressure amid near term challenges including rising inflation and headwinds from Russia. That said, the tool & hardware manufacturer grew revenue by 20% in 1Q and has planned several divestitures, including the sale of its security business, in part to support its \$4 billion share repurchase program.

Medical specialty company **Teleflex** delivered first quarter results that bested the Street's expectations and reaffirmed 2022 guidance. However, sentiment slipped in part on concerns for volume growth prospects for 2H22 and recent U.S. dollar strength impacting FX guidance.

## Portfolio Specifics

Stock	Average Weight	Absolute Contribution
<b>Contributors</b>		
Naspers	1.0%	0.34%
Valero Energy	0.6%	0.27%
First Interstate BancSystem	1.3%	0.17%
Dollar General	1.0%	0.11%
Reinsurance Group of America	1.0%	0.07%
<b>Detractors</b>		
Stanley Black & Decker	1.9%	-0.49%
Teleflex	1.0%	-0.34%
Best Buy	1.2%	-0.33%
Skyworks Solutions	0.9%	-0.30%
Lam Research	1.3%	-0.28%

## Outlook

Concerns for rising recession odds and when it may strike have topped investors' wall of worries, particularly given the Fed's poor track record of engineering soft landings (11 of the past 14 rate-hike cycles resulted in recession). That said, with the job market still tight and monetary policy still relatively loose, recession appears more likely in 2023 as opposed to 2022. Interestingly, with stocks down 20% or more year to date, much of a potential future downturn may be priced in—making equities' risk-reward profile begin to appear more favorable.

Looking ahead, we continue to monitor inflationary pressures and earnings estimates as both have the potential to impact investors' future returns. Though we are proponents of remaining fully invested, rather than attempting to time the market, we believe there are biases within the market that investors can opportunistically take advantage of. First, with volatility likely to increase, quality becomes increasingly important. Second, rising inflation highlights the importance of income and income growth. We believe companies with a history of paying and raising dividends, particularly businesses that can generate significant free cash flow, will be critical to rewarding shareholders. In our view, NFJ strategies, which emphasize attractive valuations and quality characteristics, as well as market-exceeding dividend growth, should be well positioned in such an environment.

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.

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Portfolio Statistics as of June 30, 2022

## Sector Allocation (%)



	Portfolio	Russell Midcap Value
■ Communication Services	1.9	3.6
■ Consumer Discretionary	13.3	9.5
■ Consumer Staples	0.8	4.2
■ Energy	1.8	5.0
■ Financials	16.3	17.9
■ Health Care	13.5	7.4
■ Industrials	17.7	14.2
■ Information Technology	16.3	9.6
■ Materials	5.2	7.5
■ Real Estate	7.8	12.1
■ Utilities	2.9	9.0

Characteristic	Portfolio	Russell Midcap Value
Dividend Yield (trailing 1YR, %)	2.1	2.1
Dividend Growth (5YR wtd avg, %)	12.4	6.8
Price-to-Earnings (next 12Mos.)	11.6x	11.3x
Price-to-Earnings (trailing 1YR)	13.2x	15.7x
Return on Equity (%)	21.6	14.7
Return on Assets (%)	10.3	6.4
Earnings Growth (trailing 3YR avg, %)	18.1	11.1
Earnings Growth (trailing 5YR avg, %)	18.1	11.0
Market Cap (wtd avg, \$ bn)	26.8	18.3
Number of Holdings	99	706

Top Ten Positions	Portfolio Weight (%)
Veeva Systems	2.0
First Republic Bank	2.0
Alexandria Real Estate Equities	2.0
Vonovia	2.0
Stanley Black & Decker	2.0
First Interstate BancSystem	2.0
Lam Research	1.5
State Street	1.4
Teleflex	1.4
PulteGroup	1.4
<b>TOTAL</b>	<b>17.6</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. The forward P/E ratio shown uses funds from operations, instead of earnings, for REITs.

**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 December 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)
2021	27.0	23.3	28.3	19.7	22.0	0.3	27	10	5,923
2020	2.3	-0.7	5.0	20.4	22.6	0.2	26	11	*
2019	30.0	26.3	27.1	13.5	12.8	0.4	29	12	*
2018	-14.9	-17.4	-12.3	12.5	12.0	0.3	40	15	*
2017	16.1	12.7	13.3	10.2	10.3	0.2	47	23	*
2016	17.8	14.4	20.0	10.9	11.3	0.3	51	22	*
2015	-2.8	-5.7	-4.8	10.3	10.7	0.2	49	19	*
2014	11.8	8.5	14.7	9.9	9.8	1.0	54	27	*
2013	32.2	28.4	33.5	12.5	13.7	0.3	55	21	*
2012	16.2	12.8	18.5	-	-	0.2	61	20	*

\*Prior to February 1, 2021, NFJ was part of Allianz Global Investors LLC.

**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. 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. The verification reports are available upon request.

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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.**