

# NFJ Mid-Cap Value Wrap Strategy

## Market Overview

U.S. equities largely appreciated over the second quarter, lifted by enthusiasm for the benefits and applications of artificial intelligence (AI), as well as a pause in the Federal Reserve's (Fed's) aggressive rate hike cycle on signs of slowing inflation. Investors' growing risk appetite resulted in gains from a handful of large technology leaders, skewing returns toward growth stocks. Within the benchmark Russell Midcap® Value Index, more cyclical sectors—namely industrials and consumer discretionary—led performance for the quarter. In contrast, utilities, consumer staples, and materials slumped into negative territory.

## Portfolio Overview

The NFJ Mid-Cap Value Wrap Strategy outperformed the Russell Midcap Value benchmark Index over the quarter. Stock selection drove outperformance results while sector allocations marginally detracted.

## Portfolio Contributors

Stock selection was strong across the materials, technology, and communication services sectors. An underweight in the worst-performing sector in the Index—utilities—also contributed to quarterly results. **Digital Realty Trust** and **TransUnion** were the strongest absolute contributors.

**Digital Realty Trust** reported a 1Q adjusted EBITDA beat and reaffirmed 2023 guidance. The data center REIT maintains a robust pipeline, fueled by strong demand across a broad set of customers and regions.

**TransUnion** reported better-than-expected 1Q results, driven in part by strength from the financials services segment, and management reiterated FY23 guidance. The company also entered into a strategic partnership with Truework, adding income and employment verification to TransUnion's credit reporting services.

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

Executive Managing Director,  
 Chief Investment Officer,  
 Co-Lead Senior Portfolio Manager/Analyst

### Paul A. Magnuson

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## Performance Data as of June 30, 2023

Annualized Returns (%) <sup>1</sup>	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
NFJ Mid-Cap Value Wrap Composite (gross)	4.41	9.79	13.78	14.08	7.55	9.15	10.10
NFJ Mid-Cap Value Wrap Composite (net)	3.64	8.18	10.44	10.74	4.38	5.93	6.87
Russell Midcap Value Index	3.86	5.23	10.50	15.04	6.84	9.03	9.81

1. Annualized for periods greater than one year.

Composite inception 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 Contributors, cont.

Top Absolute Contributors	Avg Weight (%)
Digital Realty Trust	1.8
TransUnion	1.6
Kinross Gold	1.3
Braskem	0.4
Capital One Financial	1.6

### Portfolio Detractors

Stock picking was negative in the financials, consumer discretionary, and consumer staples sectors. An underweight in the Index's best-performing sector—industrials—detracted from quarterly results. **MarketAxess** and **Tyson Foods** were the strongest absolute detractors.

Electronic trading platform operator **MarketAxess** reported softer-than-expected Q1 market-share results for U.S. high-grade bonds. Management remains enthusiastic for the beta testing and launch of Adaptive Auto-X, a form of smart order routing for fixed-income executions that harnesses smart automation to deliver “alpha-generation opportunities” for clients.

**Tyson Foods** released disappointing fiscal second quarter results and lowered FY23 revenue guidance as feed costs rose year-over-year and avian influenza concerns have closed “key export markets.” Though the meat supplier has been hurt by headwinds in chicken, beef, and pork, Tyson insiders purchased shares on the open market during the quarter.

Top Absolute Detractors	Avg Weight (%)
MarketAxess	0.9
Tyson Foods	1.9
Bio-Rad Laboratories	0.9
MSCI	1.2
Truist Financial	1.9

### Outlook

The “coming” recession has largely become a foregone conclusion and is now more a question of “when” than “if” among investors. Thus far, the economy has weathered over five percentage points in Fed rate hikes, with one or two more increases priced in by the markets. Although the U.S. is not currently in recession, central bank policy tends to work on a lag, and the economy is not likely to feel the full effects of the tightening cycle until early next year. It is very possible the goods portion of the economy has been in recession for some time, with the services side now starting to show cracks. This could imply a series of lighter “rolling recessions” that do not occur at the same time, in essence a flattening of the recession curve.

Regarding the Fed's rate path, many view the central bank's latest decision as a “skip” rather than a pause. Fed Chairman Powell has adopted a hawkish tone to manage expectations and avoid self-fulfilling wage-price pressures amid a still-tight jobs market. However, forward indicators show inflation may be easing more quickly than consensus believes, with the three-month annualized change in the Consumer Price Index (CPI) down to 2.3%.

Irrespective of the ongoing Fed and recession debates, investors should focus on valuations, as current market levels offer reason for caution. The S&P 500® Index is trading at 19 times forward earnings, which does not offer much room for multiple expansion. Earnings forecasts may face inflationary pressures on margins or revenues, either of which could cap forward estimates from correcting upward. With many defensive sectors trading at relatively unattractive valuations, we believe investors seeking some margin of safety may want to allocate toward quality companies with clean balance sheets and pricing power, as well as dividend payers that can bolster returns if markets falter or trade sideways.

Dividends reflect past performance and there is no guarantee they will continue to be paid. 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:** The value of the securities in the portfolio may go up or down in response to the prospects of individual companies and/or general economic conditions. Local, regional, or global events such as war, terrorism, pandemic, or recession could impact the portfolio, including hampering the ability of the portfolio's manager(s) to invest its 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, medium, or large-sized companies may enhance that risk.

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Portfolio Statistics as of June 30, 2023

## Sector Allocation (%)



	Portfolio	Russell Midcap Value
■ Communication Services	3.9	3.4
■ Consumer Discretionary	9.9	9.4
■ Consumer Staples	2.0	4.2
■ Energy	2.9	5.0
■ Financials	23.7	16.0
■ Health Care	12.1	7.6
■ Industrials	11.1	18.9
■ Information Technology	6.8	9.7
■ Materials	7.7	7.8
■ Real Estate	14.5	10.4
■ Utilities	4.3	7.5

Characteristic	Portfolio	Russell Midcap Value
Price-to-Earnings (next 12Mos.)	13.0x	14.3x
Price-to-Earnings (trailing 1YR)	15.1x	21.1x
Dividend Yield (trailing 1YR, %)	2.6	2.0
Dividend Growth (5YR wtd avg, %)	10.9	6.6
Return on Equity (%)	15.7	14.0
Return on Assets (%)	7.9	6.4
Earnings Growth (trailing 3YR avg, %)	15.4	16.4
Earnings Growth (trailing 5YR avg, %)	14.4	10.9
Market Cap (wtd avg, \$ bn)	23.3	21.1
Number of Holdings	83	699

Top Ten Positions	Portfolio Weight (%)
Paycom Software	2.0
PNC Financial Services	2.0
Veeva Systems	2.0
Alexandria Real Estate Equities	2.0
Ovintiv	2.0
Paylocity	2.0
Teleflex	2.0
NICE	2.0
Vonovia	2.0
Truist Financial	2.0
<b>TOTAL</b>	<b>19.6</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 GIPS Composite Report

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 “N/A”. **Past performance is not indicative of future results.**