

# NFJ Mid-Cap Value Wrap Strategy

## Market Overview

The broader U.S. equity market, as measured by the S&P 500® Index, was up for the quarter, while most sectors had negative returns due to two contrasting forces: artificial intelligence (AI) and interest rates. Bond yields rose as the Federal Reserve (Fed) continued to push back rate cuts amid stubborn inflation, serving as a headwind for risk assets. However, the zeal for AI outweighed rising rate concerns for a select group of equities, largely resulting in gains for large caps and growth stocks, as well as declines for many value companies. Within the benchmark Russell Midcap® Value Index, the industrials, energy, and financials sectors led with double digits. In contrast, the communication services and real estate sectors slumped into negative territory, followed by relative weakness from healthcare, technology, and consumer staples.

## Portfolio Overview

The NFJ Mid-Cap Value Wrap Strategy underperformed the Russell Midcap Value benchmark Index over the quarter. due to negative stock selection while sector allocation marginally detracted.

More specifically, the extreme momentum trade that challenged first quarter results bled into the second quarter. Importantly, the reversals coming out of past momentum blowoffs have been swift and we believe NFJ is uniquely prepared for this shift.

## Portfolio Contributors

Stock selection was positive across the industrials and materials sectors. An overweight in the utilities sector also contributed. **Globus Medical** and **NextEra Energy** were the strongest absolute contributors.

Medical device company **Globus Medical** beat quarterly revenue and sales expectations as the company realized synergies from its merger with NuVasive, and management raised its fiscal year 2024 outlook.

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

### J. Garth Reilly

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### Kris P. Marca, CFA

Director, Portfolio Manager/Analyst

## Performance Data as of June 30, 2024

Annualized Returns (%) <sup>1</sup>	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
NFJ Mid-Cap Value Wrap Composite (gross)	-4.19	-0.93	5.61	4.39	7.90	7.47	9.76
NFJ Mid-Cap Value Wrap Composite (net)	-4.92	-2.41	2.49	1.30	4.72	4.31	6.54
Russell Midcap Value Index	-3.40	4.54	11.98	3.65	8.49	7.60	9.97

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. Please see the GIPS Report on page 4.

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### Portfolio Contributors, cont.

**NextEra Energy**, an electric utility and worldwide leader in renewable energy, reported ahead-of-consensus quarterly adjusted earnings, and management maintained its 2024 guidance. The company is well positioned for the transition to clean energy.

Top Absolute Contributors	Avg Weight (%)
Globus Medical	1.1
NextEra Energy	2.1
Mid-America Apartment Communities	2.1
ENN Energy	1.2
Halma	1.0

### Portfolio Detractors

Stock picking was negative in the technology and consumer staples sectors. An overweight in the healthcare sector also detracted. **Veeva Systems** and **NICE** were the strongest absolute detractors.

**Veeva Systems** is a leader in cloud-based software for the global life sciences industry. The company reported ahead-of-consensus first quarter revenue and adjusted earnings before interest and taxes (EBIT). However, management lowered fiscal year 2025 revenue guidance on continued macroeconomic challenges, and markets reacted negatively to the news.

While quarterly earnings and revenue for **NICE** beat analyst expectations, shares slumped as the company announced its current CEO plans to step down at the end of 2024. Later in the quarter, management for the enterprise software company approved the acceleration of its existing share repurchase program and an additional \$500 million share buyback plan.

Top Absolute Detractors	Avg Weight (%)
Veeva Systems	1.7
NICE	0.9
Estee Lauder	0.9
Charles River Laboratories	1.0
lululemon athletica	0.9

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.

### Outlook

After a slight misdirect in the first quarter, inflation resumed its steady progress downward in the second quarter. While the economy has shown signs of softening, it has remained resilient, and consumers continue to spend. Importantly, the persistence of these trends could create a fertile environment for the current bull market. Additionally, below-trend growth should temper inflation and allow the Fed to begin lowering interest rates in the back half of the year, with one or two cuts priced into futures markets by year-end. Typically, stocks generate above-average returns in the 12 months after a first rate cut, and equities that often perform best generally pay higher dividends—such as utilities, healthcare, and consumer staples—as they benefit most from interest rate tailwinds.

Separately, we believe AI-related stocks should also continue to benefit from secular trends that could be in the early stages of a long-term transformational shift in productivity, independent of the macro environment. Investments in AI-related chips, software, and infrastructure will likely remain insulated from any economic softness and drive markets in the coming months. Further, should interest rates pull back, that could offer these areas of the market added support.

While Fed easing tends to boost dividend payers and defensive sectors, the AI secular tailwind is lifting some of the most growth-oriented areas of the market. Making top-down, macro forecasts and predictions on the durability of the latest craze has historically proven difficult, to say the least. However, what investors can control is whether they acquire stocks that provide a valuation margin of error to cushion returns, regardless of market direction. Furthermore, with stocks trading at all-time high multiples, the case for investing in companies that return cash to shareholders remains strong.

# NFJ Mid-Cap Value Wrap Strategy

Portfolio Statistics as of June 30, 2024

## Sector Allocation (%)



	Portfolio	Russell Midcap Value
■ Communication Services	1.0	2.9
■ Consumer Discretionary	7.9	9.0
■ Consumer Staples	3.8	3.5
■ Energy	4.8	5.6
■ Financials	20.2	18.2
■ Health Care	10.5	6.2
■ Industrials	12.0	20.1
■ Information Technology	5.0	9.7
■ Materials	8.2	7.2
■ Real Estate	14.0	10.1
■ Utilities	10.1	7.5

Characteristic	Portfolio	Russell Midcap Value
Price-to-Earnings (next 12Mos.)	13.8x	15.2x
Price-to-Earnings (trailing 1YR)	19.7x	23.6x
Dividend Yield (trailing 1YR, %)	2.6	1.9
Dividend Growth (5YR wtd avg, %)	11.4	6.8
Return on Equity (%)	12.6	13.3
Return on Assets (%)	6.2	6.0
Earnings Growth (trailing 3YR avg, %)	6.3	15.2
Earnings Growth (trailing 5YR avg, %)	8.0	10.1
Market Cap (wtd avg, \$ bn)	24.8	25.7
Number of Holdings	99	699

Top Ten Positions	Portfolio Weight (%)
Alexandria Real Estate Equities	2.0
Edwards Lifesciences	2.0
Eversource Energy	2.0
MonotaRO	2.0
Rexford Industrial Realty	2.0
Stepan	2.0
Truist Financial	2.0
Aptiv	1.5
Citizens Financial	1.5
Commerce Bancshares	1.5
<b>TOTAL</b>	<b>18.1</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, 2022

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)
2022	-11.1	-13.7	-12.0	22.4	24.4	0.2	20	4	4,217
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	*

\*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 December 31, 2022. 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 NFJ Mid Cap Value Wrap Composite has had a performance examination for the periods February 1, 2021 to December 31, 2022. The verification and performance examination 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 and 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 monthly basis.

**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.**