

# NFJ Dividend Value Wrap Strategy

## Market Overview

U.S. equities largely rebounded in the fourth quarter on signs that inflation may have peaked, though investors remained wary of future rate hikes and a hard landing for the economy. Value stocks led growth while large-cap companies outpaced their smaller-cap counterparts over the quarter. Within the benchmark Russell 1000® Value Index, cyclicals led, with energy appreciating 23%, followed by strength from the industrials, materials, and consumer staples sectors. In contrast, the communication services, real estate, and technology sectors lagged over the quarter.

## Portfolio Overview

Absolute returns for the NFJ Dividend Value Wrap Strategy were strong but failed to keep pace with the Russell 1000 Value Index on a relative basis over the quarter. Negative sector allocations drove performance results while stock selection modestly detracted from returns.

Relative underperformance in 2022 was disappointing, and due in part to double-digit gains from energy and relative strength in more defensive areas of the market. Notably, the Strategy held up in Q2—the benchmark's weakest quarter during the year. The team took advantage of attractive valuations among quality cyclicals to reposition the portfolio in Q3. The market began to reward that positioning in November, and we believe the portfolio offers a compelling risk/reward opportunity for investors in 2023.

## Portfolio Contributors

Selection was positive across the consumer discretionary, technology, and communication services sectors. Underweight exposures in communication services and utilities, as well as an overweight in materials, also contributed to quarterly results. **JPMorgan Chase** and **Ross Stores** were the strongest absolute contributors.

**JPMorgan Chase**, the country's largest bank by revenue, benefited from higher interest rates, higher strength from the trading business due to volatile markets, as well as continued consumer spending. Though CEO Jamie Dimon warned of a likely U.S. recession in the next six to nine months, the bank has noticed little sign of slower consumer spending.

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

### R. Burns McKinney, CFA

Managing Director,  
Co-Lead Senior Portfolio Manager/Analyst

### Thomas W. Oliver, CFA, CPA

Managing Director,  
Co-Lead Senior Portfolio Manager/Analyst

### Jeff N. Reed, CFA

Managing Director,  
Co-Lead Senior Portfolio Manager/Analyst

### John R. Mowrey, CFA

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

## Performance Data as of December 31, 2022

| Annualized Returns (%) <sup>1</sup>       | QTD   | YTD    | 1 Year | 3 Year | 5 Year | 10 Year | Since Inception |
|---|-------|--------|--------|--------|--------|---------|-----------------|
| NFJ Dividend Value Wrap Composite (gross) | 11.11 | -12.68 | -12.68 | 4.04   | 5.02   | 8.75    | 8.86            |
| NFJ Dividend Value Wrap Composite (net)   | 10.30 | -15.30 | -15.30 | 0.97   | 1.92   | 5.55    | 5.66            |
| Russell 1000 Value Index                  | 12.42 | -7.54  | -7.54  | 5.96   | 6.67   | 10.29   | 10.01           |

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.

# NFJ Dividend Value Wrap Strategy

## Portfolio Contributors, cont.

Discount retailer **Ross Stores** reported better-than-expected fiscal third quarter results as same store sales accelerated on improved traffic in the off-brand category, which continues to take share from department stores. Excess merchandise and ongoing inflation pressures have encouraged more off-price retailing, and management raised full year 2022 profit guidance.

| Top Absolute Contributors | Avg Weight |
|---------------------------|------------|
| JPMorgan Chase            | 4.5%       |
| Ross Stores               | 2.1%       |
| Merck                     | 1.8%       |
| BlackRock                 | 1.9%       |
| Home Depot                | 3.2%       |

## Portfolio Detractors

Stock picking was negative in the industrials, real estate, and materials sectors. An underweight in energy and overweight positions in technology and real estate also detracted from quarterly results. **Crown Castle** and **TransUnion** were the strongest absolute detractors.

Tower REIT **Crown Castle** shares slumped as markets tend to penalize the real estate sector during rising interest rate periods. However, the company's fundamentals remain sound, with growing funds from operations and manageable interest expenses, while backed by powerful secular tailwinds from rising smartphone/mobile data usage to the rollout of 5G.

**TransUnion** delivered mixed third quarter results, with adjusted EBITDA ahead of consensus and revenue below consensus. Management anticipates healthy results for FY2022, but lowered guidance due to foreign exchange headwinds and moderated growth expectations in Q4.

| Top Absolute Detractors      | Avg Weight |
|------------------------------|------------|
| Crown Castle                 | 1.9%       |
| TransUnion                   | 1.7%       |
| Medical Properties Trust     | 2.1%       |
| Apple                        | 1.1%       |
| West Pharmaceutical Services | 0.7%       |

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. Price changes may be short- or long-term. Local, regional, or global events such as war or military conflict (e.g., Russia's invasion of Ukraine), acts of terrorism, the spread of infectious illness (e.g., COVID-19 pandemic) 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's 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

Many indicators suggest a recession is probable in 2023, likely in the back half of the year, following a slowing in the coming months. In the near term, the job market remains solid and consumer balance sheets are robust. However, the 10- and 2-year Treasury yield curve is as inverted as it has been at any point in over 20 years. Further, the Federal Reserve (Fed) has a poor track record of raising interest rates while engineering a soft landing.

With recession fears surpassing inflation fears in the new year, we do see some bright spots on the horizon. Given the stock market typically reacts poorly to surprises, a highly anticipated recession in 2023 would not catch investors off guard. Also, if the U.S. does encounter a recession, it appears that it would primarily be a "goods recession," as the services side of the economy is still strong. In our view, these scenarios should offer active managers opportunities to separate winners from losers and generate alpha.

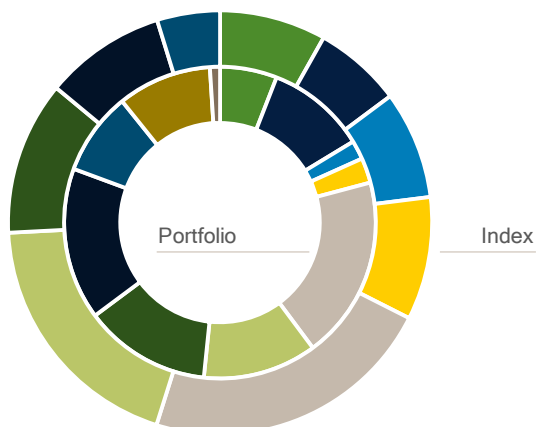
Nevertheless, stock prices continue to see day-to-day fluctuations largely determined by inflation. If inflation figures keep progressing toward the Fed's desired levels of 2-3%, it could act as a catalyst for the Fed to slow its record tightening pace. While we do not foresee the Fed lowering its target rate this year, the rate path could become more stable and predictable, offering a potentially positive catalyst to investors.

Currently, U.S. stocks are not particularly cheap, with the S&P 500® Index finishing the year at around 17.5 times forward earnings. However, consecutive years in the red are rare for U.S. equities. Since 1946, there were three years when the S&P 500 was down by the magnitude we experienced in 2022. The S&P 500's average annual return following those three years was 27%. While we do not expect that level of return in 2023, we remain constructive for a more muted return, and possibly a slight gain. That is the type of environment when stocks with attractive dividends and dividend growth can have an outsized impact on investor portfolios.

# NFJ Dividend Value Managed Account

Portfolio Statistics as of December 31, 2022

## Sector Allocation (%)



|                          | Portfolio | Russell 1000 Value |
|--------------------------|-----------|--------------------|
| ■ Communication Services | 5.7       | 7.3                |
| ■ Consumer Discretionary | 10.0      | 6.0                |
| ■ Consumer Staples       | 1.9       | 7.4                |
| ■ Energy                 | 2.5       | 8.4                |
| ■ Financials             | 18.3      | 20.1               |
| ■ Health Care            | 11.4      | 17.4               |
| ■ Industrials            | 12.7      | 10.5               |
| ■ Information Technology | 15.2      | 8.3                |
| ■ Materials              | 8.3       | 4.3                |
| ■ Real Estate            | 9.4       | 4.5                |
| ■ Utilities              | 1.0       | 5.8                |

| Characteristic                        | Portfolio | Russell 1000 Value |
|---------------------------------------|-----------|--------------------|
| Price-to-Earnings (next 12Mo.)        | 13.2x     | 13.3x              |
| Price-to-Earnings (trailing 1YR)      | 14.0x     | 17.1x              |
| Dividend Yield (trailing 1YR, %)      | 3.0       | 2.2                |
| Dividend Growth (5YR wtd avg, %)      | 11.5      | 7.2                |
| Return on Equity (%)                  | 18.3      | 15.3               |
| Return on Assets (%)                  | 10.3      | 7.5                |
| Earnings Growth (trailing 3YR avg, %) | 15.9      | 9.4                |
| Earnings Growth (trailing 5YR avg, %) | 17.1      | 12.9               |
| Market Cap (wtd avg, \$ bn)           | 166.3     | 151.2              |
| Number of Holdings                    | 68        | 852                |

## Top Ten Positions

|                          | Portfolio Weight (%) |
|--------------------------|----------------------|
| Bank of America          | 3.9                  |
| Stanley Black & Decker   | 3.9                  |
| JPMorgan Chase           | 3.9                  |
| Home Depot               | 3.0                  |
| Celanese                 | 3.0                  |
| Verizon Communications   | 2.9                  |
| Medical Properties Trust | 2.5                  |
| Microsoft                | 2.4                  |
| Morgan Stanley           | 2.0                  |
| FedEx                    | 2.0                  |
| <b>TOTAL</b>             | <b>29.4</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. The forward P/E ratio shown uses funds from operations, instead of earnings, for REITs. **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, Russell Investments.

# NFJ Dividend Value Wrap Strategy

Schedule of composite performance results as of December 31, 2021

| Year | Composite Return Gross (%) | Composite Return Net (%) | Russell 1000 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 | 29.4                       | 25.7                     | 25.2                                 | 17.8                        | 19.1                        | 0.3                 | 436  | 241   | 5,923                        |
| 2020 | -0.4                       | -3.3                     | 2.8                                  | 18.2                        | 19.6                        | 0.8                 | 556  | 269   | *                            |
| 2019 | 25.0                       | 21.3                     | 26.5                                 | 11.6                        | 11.8                        | 0.3                 | 742  | 333   | *                            |
| 2018 | -9.2                       | -11.9                    | -8.3                                 | 10.7                        | 10.8                        | 0.4                 | 794  | 283   | *                            |
| 2017 | 16.7                       | 13.3                     | 13.7                                 | 10.4                        | 10.2                        | 0.6                 | 1,178  | 517   | *                            |
| 2016 | 15.6                       | 12.3                     | 17.3                                 | 10.8                        | 10.8                        | 0.7                 | 1,381  | 583   | *                            |
| 2015 | -7.3                       | -10.1                    | -3.8                                 | 10.6                        | 10.7                        | 0.4                 | 3,767  | 1,389   | *                            |
| 2014 | 11.3                       | 8.1                      | 13.5                                 | 9.4                         | 9.2                         | 0.4                 | 4,520  | 1,961   | *                            |
| 2013 | 30.1                       | 26.3                     | 32.5                                 | 12.0                        | 12.7                        | 0.5                 | 5,085  | 2,090   | *                            |
| 2012 | 15.0                       | 11.7                     | 17.5                                 | -                           | -                           | 0.4                 | 5,690  | 1,988   | *                            |

\*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.

GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

**The Composite:** The NFJ Dividend Value Wrap Composite (the “Composite”) consists of portfolios that invest in a diversified group of large to mid-capitalization stocks considered to have attractive valuations and return value to shareholders. Each company typically has a minimum market capitalization of at least \$3.5 billion at purchase and holdings pay or are expected to pay dividends. 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 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 1000 Value Index measures the performance of the 1,000 largest companies in the Russell 3000 Index with lower price-to-book ratios and lower forecasted growth values. The Russell 3000 Index measures the performance of the 3,000 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.

The three-year annualized standard deviations for the composite and the benchmark are not presented as of year-end 2012 because 36 months of composite returns are not available.

**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.**