



A Virtus  
Investment Partner

# NFJ GLOBAL SUSTAINABILITY WRAP STRATEGY

4Q 2023

# NFJ Investment Group

Over 30 Years of Value Investing



## KEY FACTS

- Established 1989
- Dallas, TX
- AUM: \$6.6 billion
- Seasoned team, averaging 20+ years industry experience
- Wholly owned affiliate of Virtus Investment Partners (NYSE: VRTS)

## U.S. Portfolios

Dividend Value

Large Cap Value

All Cap Value

Mid Cap Value

Small Cap Value

## Non-U.S./Global Portfolios

Emerging Markets Value

International Value

Global Infrastructure Income

Global Sustainability

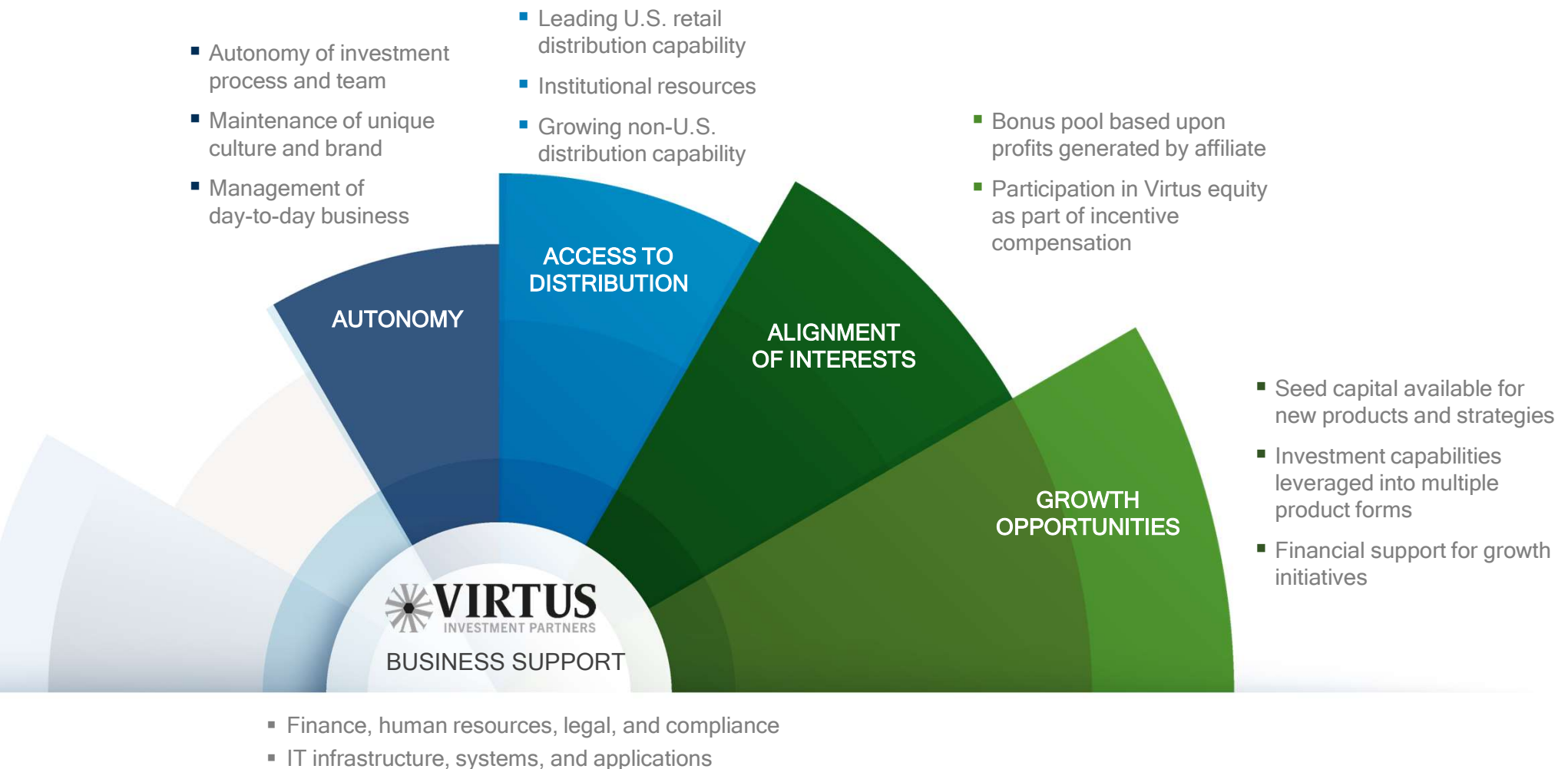
NFJ Investment Group assets under management, as December 31, 2023. This total includes \$2.4 billion in non-discretionary assets. Our predecessor firm (known as NFJ Investment Group at the time) was initially created in 1989, acquired by Allianz in 2000, and rolled into the Allianz Global Investors RIA as that firm's Dallas-based Value Equity US team in 2016. Effective February 1, 2021, Virtus lifted out Allianz Global Investors' Dallas-based Value Equity US team and established a new investment adviser for that team, which is registered with the SEC and known as NFJ Investment Group, LLC.

# NFJ Investment Group

An Affiliate of Virtus Investment Partners



**Multi-boutique model:** Virtus Investment Partners preserves each affiliate's unique entrepreneurial culture, provides continued investment autonomy, and ensures appropriate alignment of interests.



## We believe:

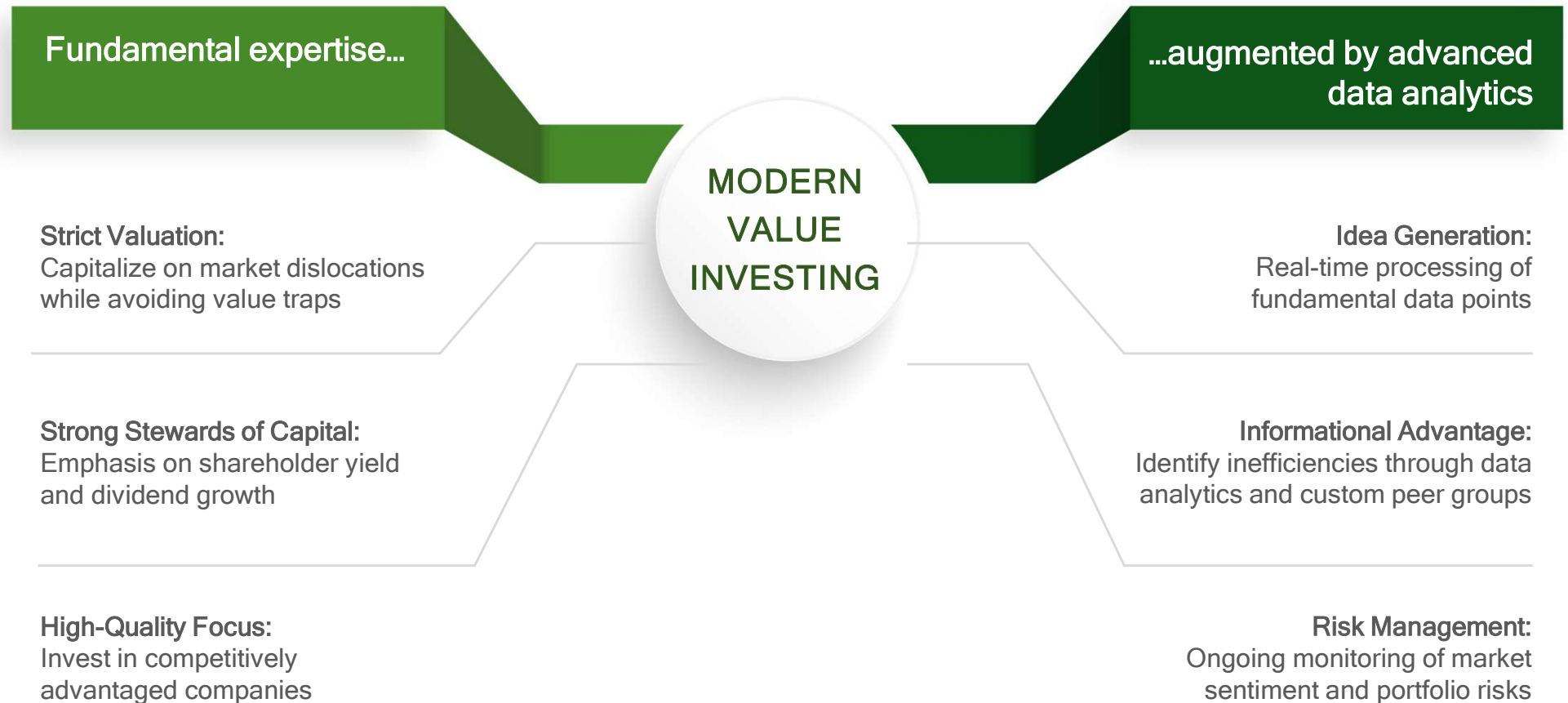
Our **Modern Value** approach harnesses the power of advanced data analytics and fundamental expertise to identify quality value businesses.

**Valuation, shareholder yield, and quality** are key to long-term investment success.

Emphasizing **diversification** and **numbers over narrative** can help achieve better risk-adjusted returns and client outcomes.

# NFJ Investment Group

A Modern Approach to Value Investing



# NFJ Global Sustainability Wrap

## Investment Strategy Overview



### Seasoned Portfolio Management Team

Our portfolio managers have worked together for over 15 years



**R. Burns McKinney, CFA**  
Co-Lead Senior  
Portfolio Manager/  
Analyst

Industry/Team Start  
Year: 1996/2006



**Jeff N. Reed, CFA, FDP**  
Co-Lead Senior  
Portfolio Manager/  
Analyst

Industry/Team Start  
Year: 2004/2007



**John R. Mowrey, CFA**  
Chief Investment Officer  
Senior Portfolio  
Manager/Analyst

Industry/Team Start  
Year: 2007/2007



**Thomas W. Oliver, CFA, CPA**  
Senior Portfolio  
Manager/Analyst

Industry/Team Start  
Year: 1995/2005



**J. Garth Reilly**  
Senior Portfolio  
Manager/Analyst

Industry/Team Start  
Year: 2005/2005

### Additional Resources

**Kris P. Marca, CFA**  
Portfolio  
Manager/Analyst

Industry/Team Start  
Year: 2003/2011

**Yue Wang, CFA, CPA, FDP**  
Senior Research  
Analyst

Industry/Team Start  
Year: 2015/2018

**Andrew J. Setaro, CFA, FDP**  
Senior Research  
Analyst

Industry/Team Start  
Year: 2018/2019

**Krysta M. Hill**  
Product Specialist

Industry/Team Start  
Year: 2005/2008

#### Overview

##### BENCHMARK

Dow Jones Sustainability  
World Index, MSCI ACWI  
Index

##### NUMBER OF HOLDINGS

40-60

##### AVAILABLE VEHICLES

Institutional Separate  
Account; Separately  
Managed Account; Mutual  
Fund

##### STRATEGY AUM

\$126.1 million

Assets shown as of December 31, 2023. Team Start Year refers to when each team member joined our predecessor firm (known as NFJ Investment Group at the time), which was initially created in 1989, acquired by Allianz in 2000, and rolled into the Allianz Global Investors RIA in 2016. NFJ Investment Group became an affiliate of Virtus Investment Partners, Inc. effective February 1, 2021, when Virtus lifted out Allianz Global Investors' Dallas-based Value Equity US team. NFJ Investment Group is an investment adviser registered with the SEC.



## ESG Risk Rating

NFJ Proprietary Score

## ESG Momentum

Forward Looking In-  
House Momentum Score

## Corporate Communication

Text Analytics  
Company  
Communication  
Proxy Voting

# ESG Risk Rating

NFJ ESG Pillars



## Proprietary Scoring System

Our differentiated ESG approach leverages NFJ's use of big data, data analytics, and custom peer groups to arrive at a proprietary ESG score

- **MSCI Data:** MSCI is good at identifying key issues and quantifying risk exposures
- **Peer Weighting:** Apply our own weightings and normalize score based on NFJ custom peer set
- **Final Score:** The result is a proprietary NFJ score that can, but doesn't have to, differ from MSCI
- **NFJ versus MSCI**
  - NFJ's scoring system is more strict than MSCI within the MSCI All Country World stock universe
  - A and above: NFJ = 42%, MSCI = 54%
  - B and lower: NFJ = 21%, MSCI = 18%



# ESG Momentum

NFJ ESG Pillars

## Definition

- Designed to be more in-depth and more predictive than MSCI ESG Rating Trend, which reports rating changes after they occur
- Identifies changes in top Key Issues, often prior to a company receiving a ratings change

## Implementation

- Look for positive momentum when initiating new positions, but not required
- Existing portfolio holdings with negative rating changes warrant further analysis
  - Company communication
  - Text analytics

# Corporate Communication

NFJ ESG Pillars



## Text Analytics

- Perform text analytics by retrieving ESG-relevant sentences from company's public disclosures to assess the adequacy of addressing key issues
- Assess score trend based on frequency and depth of public disclosures

## Company Communication

- Proactively dialogue with management / IR to understand ESG considerations and express our desire for material change
- Assess score trend by gaining a better understanding of management's attitude toward ESG as well as efforts to improve in material issues
- Use ISS Norm-Based Engagement services

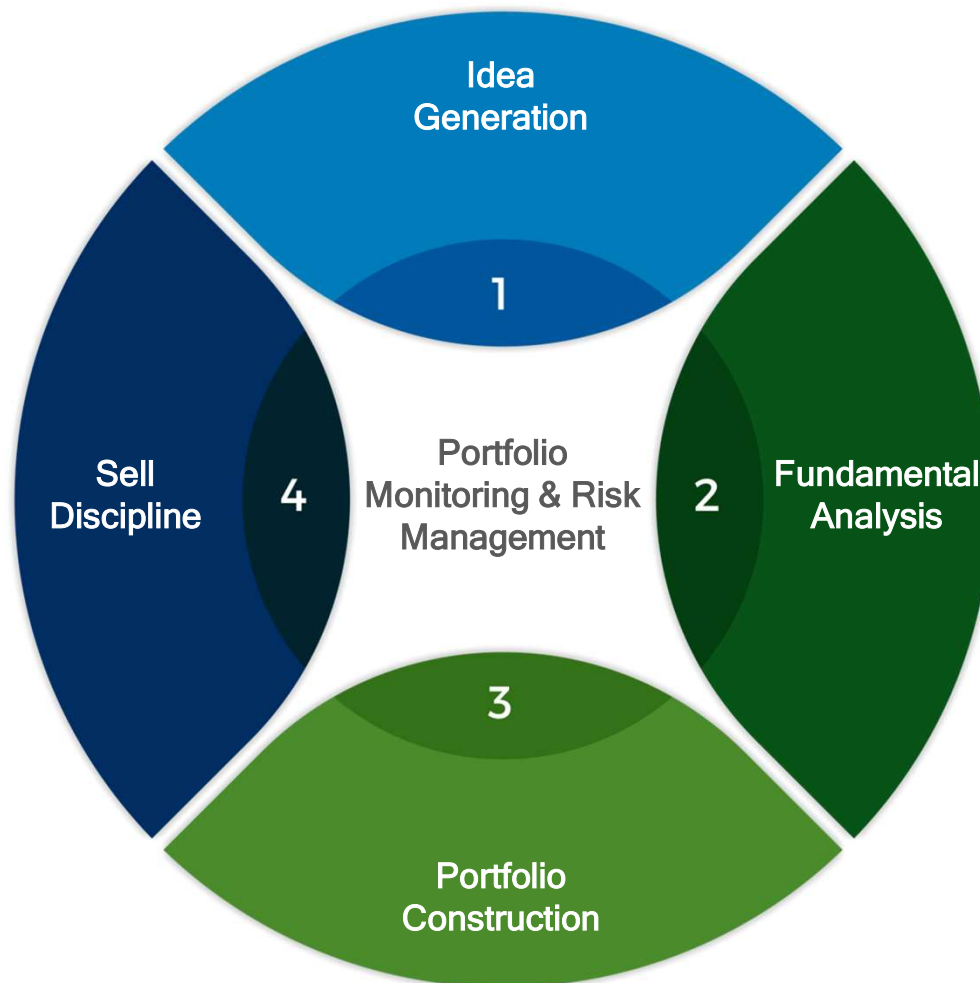
## Proxy Voting

- Vote proxies to promote strong ESG practices

# Investment Process Overview

An Integrated Approach

NFJ's **Modern Value Approach** combines advanced data analytics and other proprietary quantitative tools with fundamental analysis to identify attractively valued, high-quality companies.



# Idea Generation

Proprietary Research Tool and Advanced Data Analytics



Uncovering unique valuation insights seeks to offer a competitive advantage and begins with processing large amounts of data in an efficient and scalable manner

The NFJ Research Workbench is designed to help identify valuation dislocations more efficiently

- Proprietary database tool spanning the global equity universe
- Highly customized data analysis across multiple financial metrics helps to identify a company's true peers
- Quantitative model overlay helps avoid potential idiosyncratic risks and value traps
- Leverages new technologies to continually improve our powerful front-end process

## Advanced Data Analytics

Data synthesis through programming language and other quantitative tools



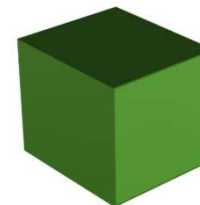
## Actionable Insights

Process identifies companies across the globe that are trading cheaply to peers and the market



## Investment Candidates

Most attractively valued stocks are candidates for additional fundamental research



# Fundamental Analysis

Investing at the Intersection of Valuation, Shareholder Yield, and Quality



## NFJ conducts a rigorous analysis of company fundamentals and financial output

### Valuation & Custom Peers:

Identify attractive entry points

- Statistically derived custom peer groups
  - Identify relationships determined by global equity market
  - Data analytics and statistical calculations uncover valuation insights
- Absolute/relative measures to company's history and the market
  - Industry-specific metrics; P/E, P/B, P/S, EV/EBITDA, P/FFO

### Shareholder Yield:

Evaluate capital allocation policies

- Emphasis on dividend growth over absolute yield
- Focus on forward buyback programs
- Assess quality of earnings
- Consider dividend policy changes and capital deployment stewardship

### Quality Evaluation:

Identify consistent and above-average financial output

#### Qualitative

- Consistent and above-average Return on Capital
- Low balance sheet stress
- High and improving margins; stability over time
- Expected and historical earnings growth

#### Quantitative

- Price Momentum
- Short Interest

#### Inputs that can result in higher quality:

- Favorable industry dynamics
- High barriers to entry
- Differentiation, first-mover advantage
- Scalability, brand equity, network effect
- Duopoly or functional duopoly
- Recurring revenues

# Portfolio Construction: NFJ Global Sustainability

Diversification and Risk Mitigation within a Sustainability Framework



Construct a portfolio of quality companies diversified across industries that can help generate alpha and mitigate risk

## Position Sizing

- 40-60 holdings
- Initial position size: 1-4% (at cost)
- Maximum position size: 5% (at market)
- Cash typically 2-3%

## Portfolio Positioning

- Sustainability exclusions
- Seek broad sector and industry exposure
- At least 40% invested in non-U.S. securities\*

## Market Capitalization

- Market cap greater than \$5 billion

## Diversification

- Diversified portfolio to help reduce downside risk
- Long-term alpha generation begins with intelligent portfolio construction

\*Should the weight of non-U.S. securities in the Dow Jones Sustainability World Index drop below 45%, the strategy may invest a lower amount in non-U.S. securities.

# Portfolio Construction: Sustainability Exclusions

Diversification and Risk Mitigation within a Sustainability Framework

UN Global Compact	Weapons	Coal	Tobacco
<ul style="list-style-type: none"><li>▪ Violations of the ten UN Global Compact principles</li><li>▪ Engagement in certain cases</li></ul>	<ul style="list-style-type: none"><li>▪ All controversial weapons (cluster munitions, landmines, atomic, biological, or chemical)</li><li>▪ Conventional weapons revenue threshold of 10%</li></ul>	<ul style="list-style-type: none"><li>▪ Thermal coal extraction revenue threshold of 10%</li><li>▪ A coal revenue threshold of 20% for utility companies</li></ul>	<ul style="list-style-type: none"><li>▪ All companies in the making of tobacco products</li><li>▪ A tobacco distribution revenue threshold of 5%</li></ul>
Alcohol	Pornography	Gambling	
<ul style="list-style-type: none"><li>▪ Revenue threshold of 5%</li></ul>	<ul style="list-style-type: none"><li>▪ Revenue threshold of 5%</li></ul>	<ul style="list-style-type: none"><li>▪ Revenue threshold of 5%</li></ul>	



# Sell Discipline

Dispassionate Approach to Exiting Companies



## NFJ's strict sell discipline seeks to remove emotion from the investment process

### Valuation Consideration

- Stock becomes *expensive* on absolute and relative valuations
- Compared to historical average, broad market, and custom peers

### Quality Deterioration

- Change in company-specific fundamentals or thesis
- Erosion of industry dynamics or competitive landscape
- Price momentum

### Portfolio Upgrade

- Better alternative available; candidate becomes more attractive relative to a current holding
- Improve portfolio construction and risk-adjusted positioning

### Acquisition Activity

- Current holding is acquired
- Current holding makes acquisition that fundamentally changes its business

# Portfolio Monitoring & Risk Management

Integrated Throughout the Investment Process



**Qualitative analysis and quantitative tools help identify and avoid idiosyncratic risks**

## **Internal Integrated Risk Management**

Portfolio risk is embedded throughout NFJ's investment philosophy and process:

- Portfolio level controls: position size and diversification
- CIO/PM reviews and quarterly investment meetings

## **Quantitative Elements**

NFJ custom functions actively monitor for quantitative changes in:

- Price momentum
- Short interest

## **Independent Review: Virtus Investment Oversight Committee**

- Quarterly meetings with Virtus CEO, CIOs, strategist to discuss markets and performance
- Responsible for evaluating investment skill and discipline within stated investment guidelines
- Ongoing monitoring of investment style, performance, and portfolio risk exposures

# Sustainable Investing with NFJ

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1

## Proprietary ESG Scores Backed by Data Analytics

- Leverage big data, data analytics, and custom peer groups to determine a proprietary ESG score
- Forward looking ESG momentum score identifies changes in top Key Issues

2

## Sustainability Exclusions

- Exclude industry groups and companies not aligned with sustainable investing
- Emphasis on diversification to help achieve better risk-adjusted returns and client outcomes

3

## Modern Value Investing Approach

- Proprietary tools and methods to meet the challenges of today's dynamic capital markets
- Focus on valuation, shareholder yield, and quality

# Appendix

# ESG Risk Rating: MSCI Data Feed

NFJ ESG Pillars



## Why MSCI?

We use MSCI data as an input to our proprietary ESG scoring system because MSCI has...

- A 40+ year track record with 200+ analysts
- ESG ratings for 8,500 companies
- A solid track record of identifying key ESG issues and quantifying ESG risks

## MSCI's Methodology

- Measure 35 ESG key issues, divided into 3 pillars (ESG) and 10 themes: climate change, natural resources, pollution & waste, environmental opportunities, human capital, product liability, stakeholder opposition, social opportunities, corporate governance, and corporate behavior.
- Assess company risk exposure and risk management relative to industry peers
- Industry-specific key issues are scored (0-10) using a rules-based methodology

# NFJ Investment Team



**John R. Mowrey, CFA**  
Chief Investment Officer  
Senior Portfolio Manager/Analyst  
Industry/Team Start Year: 2007/2007



**Paul A. Magnuson**  
Senior Portfolio Manager/Analyst  
Industry/Team Start Year: 1985/1992



**R. Burns McKinney, CFA**  
Senior Portfolio Manager/Analyst  
Industry/Team Start Year: 1996/2006



**Thomas W. Oliver, CFA, CPA**  
Senior Portfolio Manager/Analyst  
Industry/Team Start Year: 1995/2005



**Jeff N. Reed, CFA, FDP**  
Senior Portfolio Manager/Analyst  
Industry/Team Start Year: 2004/2007



**J. Garth Reilly**  
Senior Portfolio Manager/Analyst  
Industry/Team Start Year: 2005/2005



**Kris P. Marca, CFA**  
Portfolio Manager/Analyst  
Industry/Team Start Year: 2003/2011



**Yue Wang, CFA, CPA, FDP**  
Senior Research Analyst  
Industry/Team Start Year: 2015/2018



**Andrew J. Setaro, CFA, FDP**  
Senior Research Analyst  
Industry/Team Start Year: 2018/2019



**Krysta M. Hill**  
Product Specialist  
Industry/Team Start Year: 2005/2008

**Strategically organized  
and committed to seeking  
strong investment  
performance**

- Collaborative culture
- A three-decade foundation of value investing
- Fresh insights/perspectives

Team Start Year refers to when each team member joined our predecessor firm (known as NFJ Investment Group at the time), which was initially created in 1989, acquired by Allianz Global Investors US LLC in 2000, and rolled into the Allianz Global Investors RIA in 2016. NFJ Investment Group became an affiliate of Virtus Investment Partners, Inc. effective February 1, 2021, when Virtus lifted out Allianz Global Investors' Dallas-based Value Equity US team. NFJ Investment Group is an investment adviser registered with the SEC.

# NFJ Team Biographies

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## **John R. Mowrey, CFA**

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

John Mowrey is an executive managing director, senior portfolio manager/analyst, and chief investment officer, responsible for the overall investment policy for all value equity portfolios, hiring new talent, and building out the team's investment capabilities. He serves as co-lead portfolio manager for the NFJ Mid Cap Value, NFJ Small Cap Value, NFJ Emerging Markets Value, and NFJ Global Infrastructure Income strategies. Mr. Mowrey joined NFJ in 2007 and has been quoted and featured in a number of national publications, including Barron's, Fortune, Kiplinger's, Funds Europe, and MarketWatch, and has been a featured guest on CNBC, Bloomberg TV, Fox Business News, TD Ameritrade Network, and Yahoo! Finance. He earned a B.A. in political science from Rhodes College and an M.B.A. from Southern Methodist University. He is a Chartered Financial Analyst® (CFA®) charterholder. He began his career in the investment industry in 2006.

## **Paul A. Magnuson**

Managing Director, Senior Portfolio Manager/Analyst

Paul Magnuson is a managing director and senior portfolio manager/analyst at NFJ Investment Group. He serves as a portfolio manager on the NFJ Small Cap Value, NFJ Mid Cap Value, and NFJ Large Cap Value strategies. In 2010, he was nominated for Domestic-Stock Fund Manager of the Year by Morningstar. Prior to joining NFJ in 1992, Mr. Magnuson was a quantitative analyst in the trust investment department at NationsBank (predecessor organization to Bank of America). Mr. Magnuson earned a B.B.A. in finance from the University of Nebraska-Lincoln. He began his career in the investment industry in 1985.

## **Thomas W. Oliver, CFA, CPA**

Managing Director, Senior Portfolio Manager/Analyst

Thomas Oliver is a managing director and senior portfolio manager/analyst. He serves as a co-lead portfolio manager of the NFJ Dividend Value, NFJ Large Cap Value and NFJ All Cap Value strategies. Prior to joining NFJ in 2005, Mr. Oliver was a manager of corporate reporting at Perot Systems and an auditor at Deloitte & Touche. Mr. Oliver earned a B.B.A. and an M.B.A. from the University of Texas. He is a Chartered Financial Analyst® (CFA®) charterholder and has his Certified Public Accountant (CPA) designation. He began his career in the investment industry in 1995.

## **R. Burns McKinney, CFA**

Managing Director, Senior Portfolio Manager/Analyst

R. Burns McKinney is a managing director and a senior portfolio manager/analyst. He serves as a co-lead portfolio manager of the NFJ Dividend Value, NFJ International Value, and NFJ Global Sustainability strategies. He has been quoted and featured in a number of national publications, including the Wall Street Journal and Barron's, and has been a featured guest on CNBC and Bloomberg TV. Prior to joining NFJ in 2006, Mr. McKinney was an equity analyst at Evergreen Investments, an investment banking analyst at Alex. Brown & Sons, a vice president in equity research at Merrill Lynch, and an equity analyst at Morgan Stanley. Mr. McKinney earned a B.A. in economics from Dartmouth College and an M.B.A. from The Wharton School, The University of Pennsylvania. He is a Chartered Financial Analyst® (CFA®) charterholder. He began his career in the investment industry in 1996.

## **Jeff N. Reed, CFA, FDP**

Managing Director, Senior Portfolio Manager/Analyst

Jeff Reed is a managing director and senior portfolio manager/analyst. He serves as a co-lead portfolio manager of the NFJ Dividend Value, NFJ Large Cap Value, NFJ All Cap Value, and NFJ Global Sustainability strategies. Prior to joining NFJ in 2007, Mr. Reed was a credit analyst at Frost Bank. Mr. Reed earned a B.B.A. in finance and e-business from Texas Christian University, an M.B.A. from the University of Texas, McCombs School of Business, and an M.S. in Data Science with a specialization in machine learning from Southern Methodist University. He is a Chartered Financial Analyst® (CFA®) charterholder. He also is a Financial Data Professional® (FDP) charterholder, a credential that focuses on big data, artificial intelligence, and machine learning applications in the financial industry. He began his career in the investment industry in 2004.

## **J. Garth Reilly**

Managing Director, Senior Portfolio Manager/Analyst

J. Garth Reilly is a managing director and senior portfolio manager/analyst. He serves as a co-lead portfolio manager of the NFJ Emerging Markets Value, NFJ International Value, and NFJ Global Infrastructure Income strategies. Prior to joining NFJ in 2005, he was an intern at Luther King Capital Management and Citigroup Alternative Investments. Mr. Reilly earned a B.A. in political economy from Princeton University and an M.B.A. from Southern Methodist University. He began his career in the investment industry in 2005.



# NFJ Team Biographies

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## **Kris P. Marca, CFA**

Director, Portfolio Manager/Analyst

Kris Marca is a director and portfolio manager/research analyst. He serves as a portfolio manager on a closed-end fund that NFJ subadvises, the Virtus Dividend, Interest & Premium Strategy Fund (NYSE: NFJ), as well as on the NFJ Mid Cap Value and NFJ Small Cap Value strategies. Prior to joining NFJ in 2011, he was on the equity derivatives desk at HBK Capital Management. Mr. Marca earned a B.A. in biology from the University of Texas and an M.B.A. from Texas Christian University. He is a Chartered Financial Analyst® (CFA®) charterholder. He began his career in the investment industry in 2003.

## **Yue Wang, CFA, CPA, FDP**

Senior Research Analyst

Yue Wang is a senior research analyst, responsible for supporting the full suite of NFJ's investment strategies. Prior to joining NFJ in 2018, she was an empirical capital market research assistant at the University of Texas at Austin and an equity research analyst at Chinese International Capital Corporation. Ms. Wang earned a B.B.A. in accounting and finance from the University of Hong Kong and an M.S. in accounting from the University of Texas. She is a Chartered Financial Analyst® (CFA®) charterholder and has her Certified Public Accountant (CPA) designation. She also is a Financial Data Professional® (FDP) charterholder, a credential that focuses on big data, artificial intelligence, and machine learning applications in the financial industry. She began working in the investment industry in 2015.

## **Andrew J. Setaro, CFA, FDP**

Senior Research Analyst

Andrew Setaro is a senior research analyst, responsible for supporting the full suite of NFJ's investment strategies. Prior to joining NFJ in 2019, Mr. Setaro worked as an analyst for Columbia Threadneedle Investments, where he was responsible for conducting quantitative analysis on large data sets, including various tests to determine the efficacy of MSCI's ESG ratings on return enhancement. He earned a B.A. in economics and an M.S. in Data Science from the University of Virginia. He is a Chartered Financial Analyst® (CFA®) charterholder and holds the CFA Institute Certificate in ESG Investing. He also is a Financial Data Professional® (FDP) charterholder, a credential that focuses on big data, artificial intelligence, and machine learning applications in the financial industry. He began his career in the investment industry in 2018.

## **Krysta M. Hill**

Director, Product Specialist

Krysta Hill is director and product specialist. She serves as a liaison between the investment, distribution, and client service teams, ensuring messaging alignment between NFJ, and its clients, prospects, consultants, and internal partners. Before joining an NFJ affiliated manager in 2008, Ms. Hill worked at Lehman Brothers as a communications specialist in its high-net-worth marketing department, and at Sard Verbinen & Co. as an associate in financial public relations and crisis communications. She earned a B.A., magna cum laude, in communications from the University of Pennsylvania. She began working in the investment industry in 2005.

