

## Strategy Overview

The NFJ Global Sustainability Wrap Strategy seeks attractive long-term competitive returns and to have a positive societal benefit by considering environmental, social, and corporate governance (ESG) criteria. A disciplined investment process is used to identify high-quality companies considered best-in-class in ESG practices and financial fundamentals.

## Strategy Highlights

- **Sustainability and Robust Growth Potential** – Assessing the quality of a corporation’s ESG practices can help identify information not reflected in its stock price and provide insights into how the company manages its business risk.
- **Innovative Focus on Fundamentals** – A disciplined, fundamental research process that uses big data and data analytics to uncover differentiated insights into valuations quickly and efficiently helps identify companies with attractive quality characteristics, shareholder yield, and consistent financials.
- **ESG Expertise** – Utilizing proprietary ESG scores, custom peer groups, and fundamental research to produce an ESG-driven portfolio of 40-60 stocks with attractive valuations and high-quality characteristics.

## Market Overview

Investors embraced risk in the first quarter and propelled global equities to extend their fourth quarter gains. This, despite the second and third largest bank failures on record and a majority of central banks committed to tightening monetary policy to combat lingering inflation. One of last year’s hardest-hit sectors, technology, staged a comeback as interest rates pulled back and the sector was perceived as a haven amidst the banking turmoil. By region, Europe ex-UK equities boasted the strongest returns, as the EU economy grew faster than the U.S. or China in 2022. In the MSCI All Country World Index, technology, communication services, and consumer discretionary led with double-digit gains. In contrast, the energy, health care, utilities, and financials sectors slumped into negative territory.

## Portfolio Overview

The NFJ Global Sustainability Value Wrap Strategy outperformed the MSCI All Country World benchmark Index for the quarter. Robust stock selection drove performance results, though regional and sector allocations also contributed.

## Portfolio Contributors

Stock selection was robust across the health care and financials sectors. Selection was positive across all regions, led by strength from North America and Europe ex-UK. From a positioning standpoint, an overweight in technology and overweight in Europe ex-UK boosted results. **ASML** and **Microsoft** were the strongest absolute contributors.

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.

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

### 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

### Thomas W. Oliver, CFA, CPA

Managing Director,  
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### J. Garth Reilly

Managing Director,  
Senior Portfolio Manager/Analyst

# NFJ Global Sustainability Wrap Strategy

## Portfolio Contributors, cont.

Netherlands-based semiconductor equipment company **ASML** beat fourth quarter earnings and net profit estimates. Management expects to report more than 25% sales growth in FY2023, despite uncertainty in the semi space, as the “strategic nature” of the company’s extreme ultraviolet lithography machines continues to buoy demand. The company is focused on five areas of sustainability: circular economy, climate and energy, innovation ecosystem, people, and responsible supply chain. According to ASML’s 2022 Annual Report, the company seeks to achieve carbon neutrality with net zero emissions across its operations by 2025, net zero emissions across its supply chain by 2030, and net zero emissions from the use of its products by customers by 2040.

Investors shifted into tech giants like **Microsoft** amid the quarter’s banking crisis, creating a haven-like environment within the technology sector. Quarterly results from Microsoft’s Azure cloud business were strong, and management announced an AI upgrade across its suite of office productivity programs, including Microsoft Word, Excel, PowerPoint, Outlook, and Teams. Also, the company has committed to become carbon negative, water positive, and zero waste by 2030, and in 2021, four of Microsoft’s data centers were Zero Waste certified.

Absolute Contributors	Avg Weight
ASML	4.4%
Microsoft	4.7%
West Pharmaceutical Services	2.0%
IDEXX Laboratories	2.8%
Apple	2.4%

## Portfolio Detractors

Stock selection was negative across the real estate and technology sectors. From a positioning standpoint, an underweight in communication services and underweight in North American marginally detracted from quarterly results. **Vonovia** and **Teleperformance** were the strongest absolute detractors.

Real estate was one of the weaker performing sectors in the benchmark Index, dragging down shares of **Vonovia**. Though the German-based apartment REIT posted a net loss for 2022, in spite of higher operational profitability, management issued an upbeat outlook for 2023. Management has committed to being almost completely climate-neutral by 2045.

The team purchased France-based **Teleperformance**, a global leader in outsourced digital integrated business services, due in part to attractive valuations and above average ESG scores in all three pillars. Also, Management announced the company has already met its 2026 goal of reducing carbon emissions and will set new aggressive carbon emissions targets later this year.

Absolute Detractors	Avg Weight
Vonovia	1.9%
Teleperformance	1.7%
Baxter International	1.2%
Alexandria Real Estate Equities	2.0%
Crown Castle	1.3%

## Outlook

We continue to see impressive investment opportunities across the global investment universe as we enter a new year. For example, while U.S. markets have largely benefitted from a flight to safety during the recent pandemic and geopolitical crises, we still see valuation dislocations in part among more cyclical value and small- to mid-cap companies.

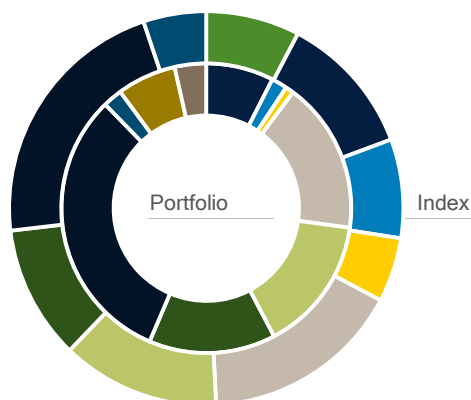
Additionally, European equities have staged a comeback that may have staying power. European indices tend to comprise more cyclical exposures, with a greater weighting toward energy and financials, and less exposure to technology when compared to U.S. markets. Europe in general rose in part on slowing inflation at the end of last year, after trading downward on fears of an energy shock early in 2022 following Russia’s invasion of Ukraine. Extreme pessimism has driven down valuations to an extraordinary degree. For example, the MSCI Germany and MSCI China Indices ended last year with similar forward earnings multiples. Further, Europe’s heavy exposure to trade mean the region could benefit from outsized tailwinds from China’s economic reopening.

While many indicators suggest a U.S. recession is probable in 2023, likely in the back half of the year, we believe a quality portfolio of companies that pay and grow their dividends can benefit investors. If stocks fall, dividend income can cushion the blow. Further, dividends and dividend growth can have an outsized impact on investor portfolios in a flat-to-muted return environment. Also, dividend-yielding stocks have historically outperformed non-yielders the last several recessions. Finally, we believe investing in companies with best-in-class ESG practices can help investors avoid certain tail risks in an increasingly unpredictable investment landscape.

# NFJ Global Sustainability Wrap Strategy

Portfolio Statistics as of March 31, 2023

## Sector Allocation (%)



	Portfolio	MSCI ACWI
Communication Services	0.0	7.3
Consumer Discretionary	7.3	11.0
Consumer Staples	1.7	7.7
Energy	0.9	5.0
Financials	16.4	15.6
Health Care	14.6	12.3
Industrials	13.7	10.4
Information Technology	30.3	20.5
Materials	2.1	4.9
Real Estate	6.4	2.4
Utilities	3.4	3.2

Characteristic	Portfolio	MSCI ACWI
Dividend Yield (trailing 1YR, %)	1.6	2.2
Dividend Growth (5YR wtd. avg, %)	9.9	7.9
Price-to-Earnings (next 12Mos.)	18.5x	15.6x
Price-to-Earnings (trailing 1YR)	24.2x	18.1x
Return on Equity (%)	22.5	14.4
Return on Assets (%)	11.0	9.6
Earnings Growth (trailing 3YR avg.)	13.2	14.1
Earnings Growth (trailing 5YR avg.)	14.1	15.3
Market Cap (weighted avg., \$ bn)	268.3	316.6
Number of Holdings	48	2,888

## Top Ten Positions

Top Ten Positions	Portfolio Weight (%)
Microsoft	5.1
ASML Holding	4.6
Adobe	4.2
Intuit	3.8
Visa	3.7
IDEXX Laboratories	3.2
Zoetis	3.0
American Express	2.8
S&P Global	2.7
Apple	2.6
<b>TOTAL</b>	<b>35.6</b>

## Region Allocation (%)

	Portfolio	MSCI ACWI		Portfolio	MSCI ACWI
Asia/Pacific ex-Japan	0.0	3.3	Japan	5.0	5.5
Emerging Markets	4.4	10.7	North America	53.2	61.6
Europe ex-UK	32.7	14.7	UK	4.7	4.2

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. The **MSCI ACWI Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets. **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. Portfolio holdings are subject to change daily. 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. 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, MSCI, Factset.

# NFJ Global Sustainability Wrap Strategy

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## INVESTMENT RISKS

**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. **Foreign & Emerging Markets:** Investing in foreign securities, especially in emerging markets, subjects the portfolio to additional risks such as increased volatility, currency fluctuations, less liquidity, and political, regulatory, economic, and market risk. **Sustainable Investing:** Because the portfolio focuses on investments in companies that the Manager believes exhibit strong environmental, social, and corporate governance records, the portfolio's universe of investments may be smaller than that of other portfolios and broad equity benchmark indices.

## HOLDINGS DISCLOSURE

The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed do not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the securities transactions or holdings discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

## INVESTMENT PROCESS, STRATEGIES AND PROCEDURES

Investment process, strategies, and procedures detailed in this presentation are intended to be general guidelines, subject to market conditions and client-specific investment guidelines and restrictions, and are measured at time of purchase. NFJ Investment Group, LLC may deviate from these guidelines if market conditions warrant, or if the investment professionals deem doing so would be in the clients' best interests. Guidelines do not guarantee any reduction of risk or loss. There is no guarantee the strategy will be successful or work as described.