

NFJ Global Sustainability Wrap Strategy

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

Global equities were largely positive for the quarter, led by strength across the developed markets, including Japan and North America, while Asia/Pacific ex-Japan slipped into negative territory and emerging markets posted weaker gains on sensitivity to China. While China declined over the quarter—adding to its already steeply discounted valuations—the country’s purchasing managers’ indexes (PMIs) rebounded into expansion territory. In the MSCI ACWI Index, the technology, communication services, and energy sectors led, while real estate slumped into negative territory, followed by weakness from utilities and materials.

Portfolio Overview

The NFJ Global Sustainability Value Wrap Strategy underperformed the MSCI All Country World benchmark Index over the quarter. Negative stock selection and sector allocations drove performance results, while regional allocations also detracted, albeit to a lesser extent.

More specifically, the Strategy experienced a challenging 1Q24 as global equity markets rewarded the strongest momentum names in 1Q24 (see chart below). Many companies we’ve identified as quality names (i.e., returning value to shareholders via buybacks and dividend raises) often do not participate in growthy/momentum-driven markets. Importantly, the reversals coming out of past momentum blowoffs have been swift and we believe NFJ is uniquely prepared for this shift.

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

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Portfolio Contributors

Stock selection was positive across the utilities and materials sectors, as well as in the UK. From a positioning standpoint, underweight exposures in the consumer staples sector and the Asia/Pacific ex-Japan region benefitted results. **ASML** and **Edwards Lifesciences** were the strongest absolute contributors.

Netherlands-based semiconductor equipment company **ASML** ended 2023 with an order backlog worth €39B and management expects a “surge of demand” in 2025. The company expects that secular growth drivers like the transition to renewable energy, electrification, and AI, will continue to buoy demand for advanced lithography tools.

Edwards Lifesciences beat quarterly revenue expectations and announced earlier-than-anticipated approval of its EVOQUE tricuspid valve replacement system. The medical device company also continues to benefit from sustained demand for medical procedures previously delayed during the pandemic.

Absolute Contributors	Avg Weight
ASML	2.8%
Edwards Lifesciences	2.9%
Veeva Systems	2.4%
Taiwan Semiconductor Manufacturing	1.1%
Target	1.3%

Portfolio Detractors

Stock selection was negative across the health care and consumer discretionary sectors, as well as among North America-based names. From a positioning standpoint, overweight positions in the real estate sector and across Europe ex-UK detracted. **Humana** and **MarketAxess** were the strongest absolute detractors from quarterly results.

Humana lowered its full-year 2023 earnings guidance on rising medical care costs and reduced Medicare Advantage enrollment growth in 2024. The investment team exited the position in the health insurance company on deteriorated fundamentals.

Though electronic trading platform operator **MarketAxess** recorded an EPS beat and hiked its quarterly dividend by 2.8%, comments from management that market share may come under pressure amid near-term challenges disappointed investors.

Absolute Detractors	Avg Weight
Humana	2.0%
MarketAxess	1.8%
Neste	1.6%
WuXi Biologics	0.5%
PUMA	1.5%

Outlook

While inflation continues to trend downward, economic growth remains stable, and earnings growth has held, lofty stock valuations have discounted the good news and then some. The S&P 500® Index now trades at 22 times forward earnings and offers a paltry 1.4% dividend yield. While the stock market appears rich, it is also a broader “market of stocks,” providing opportunity for active investors to take advantage of specific areas and sectors that appear historically attractive.

Looking abroad, recent missteps by Chinese policymakers have resulted in stock valuations there now at their lowest levels since the 2008 Global Financial Crisis. Investors with a strong stomach can take advantage of what is now an extremely attractive entry point, with the MSCI China Index trading at 9 times forward earnings—almost half the multiple of the MSCI All Country World Index. At the same time, economic growth in China is showing signs of bottoming out with factory PMI back in expansion territory and 5.2% GDP growth last year, nearly double its growth from 2022. Also, recent reversals from policymakers, from pausing regulatory crackdowns to cutting bank reserve ratios, appear to be having a positive impact. While any economic rebound would not likely return to the heady figures of the early 2000s, it could be enough to reward patient investors.

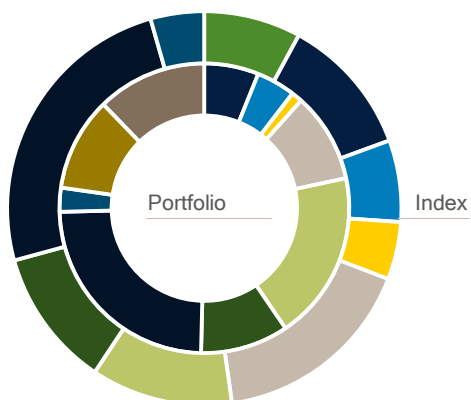
Though macroeconomic uncertainty and geopolitical instability can always pose increasing and/or unpredictable risks for investors, we believe discounted companies that provide strong balance sheets, predictable earnings, and grow return of cash flow to shareholders offer positive prospects for the remainder of 2024. 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.

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.

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Portfolio Statistics as of March 31, 2024

Sector Allocation (%)



	Portfolio	MSCI ACWI
Communication Services	0.0	7.6
Consumer Discretionary	5.9	10.9
Consumer Staples	4.2	6.4
Energy	1.2	4.5
Financials	9.7	16.1
Health Care	18.3	11.1
Industrials	9.5	10.8
Information Technology	23.5	23.7
Materials	2.6	4.2
Real Estate	10.1	2.2
Utilities	11.9	2.5

Characteristic	Portfolio	MSCI ACWI
Dividend Yield (trailing 1YR, %)	1.8	1.9
Dividend Growth (5YR wtd. avg, %)	12.8	8.0
Price-to-Earnings (next 12Mos.)	17.7x	17.8x
Price-to-Earnings (trailing 1YR)	24.4x	21.1x
Return on Equity (%)	17.0	14.5
Return on Assets (%)	8.6	9.6
Earnings Growth (trailing 3YR avg.)	16.0	20.2
Earnings Growth (trailing 5YR avg.)	14.7	13.8
Market Cap (weighted avg., \$ bn)	105.6	466.7
Number of Holdings	51	2,841

Top Ten Positions

Top Ten Positions	Portfolio Weight (%)
NextEra Energy	4.3
Autodesk	4.2
MonotaRO	3.9
Edwards Lifesciences	3.5
ENN Energy	3.5
Veeva Systems	3.5
Intuit	3.4
Alexandria Real Estate Equities	3.2
IDEXX Laboratories	3.2
Dassault Systèmes	2.7
TOTAL	35.4

Region Allocation (%)

	Portfolio	MSCI ACWI		Portfolio	MSCI ACWI
Asia/Pacific ex-Japan	0.0	2.6	Japan	4.0	5.5
Emerging Markets	10.7	9.7	North America	61.3	64.8
Europe ex-UK	18.2	13.7	UK	5.8	3.7

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.

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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.