

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 largely appreciated over the second quarter, lifted by enthusiasm for the benefits and applications of artificial intelligence (AI). Developed equities generally outpaced emerging markets, as a resilient U.S. consumer and strength from Japan helped offset weakness from Europe, which slipped into recession, while EM was dragged down in part by continued negative sentiment for China. In the MSCI All Country World Index, technology led with double-digit gains, followed by strength from the consumer discretionary and communication services sectors. In contrast, the materials, utilities, and consumer staples sectors slumped into negative territory.

Portfolio Overview

The NFJ Global Sustainability Value Wrap Strategy underperformed the MSCI All Country World benchmark Index for the quarter. Negative stock selection drove performance results, while sector and regional allocations contributed over the period.

Portfolio Contributors

Stock selection was positive across the health care and utilities sectors. By region, selection was strongest across the UK and EM. From a positioning standpoint, an overweight in the technology sector and underweight exposures in Asia/Pacific ex-Japan and EM boosted results. **Adobe** and **Microsoft** were the strongest absolute contributors.

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, cont.

Adobe released better-than-anticipated quarterly results and revised FY23 guidance upward, with management stating that Adobe's innovative positioning will "lead the new era of generative AI." Management recently declared new water and waste reduction commitments, and accelerated the company's push to use 100% renewable electricity at Adobe sites from 2035 to 2025.

Microsoft posted upbeat quarterly results, with revenue well ahead of the Street's expectations. Sales within the More Personal Computing unit were particularly strong, indicating a potential PC refresh cycle, while the company's cloud unit, Azure, grew revenue 31% on a currency adjusted basis. Further, generative AI should be a long-term driver of the company's cloud business. 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. We harvested gains and trimmed the position during the quarter.

Absolute Contributors	Avg Weight
Adobe	4.4%
Microsoft	4.8%
Dechra Pharmaceuticals	0.6%
Paycom Software	1.2%
Apple	2.8%

Portfolio Detractors

Stock selection was negative across the technology and industrials sectors, as well as Europe ex-UK and North America. From a positioning standpoint, an overweight in the real estate sector and across Europe ex-UK, as well as an underweight in North America detracted from quarterly results. **Teleperformance** and **Estee Lauder Companies** were the strongest absolute detractors.

Teleperformance, a global leader in outsourced digital integrated business services, posted mixed 1Q results, though management's FY23 outlook included higher EBITA margins. The company also provides content moderation services to social media platforms, and that unit faced scrutiny regarding working conditions in Colombia. Management has performed an internal audit of the practices, and reports robust growth in its content moderation business. The company has above average ESG scores in all three pillars and strong management practices to address carbon emissions relative to peers.

Despite reporting largely in line FQ3 results, shares of **Estee Lauder Companies** traded downward after management

lowered guidance given a slower-than-anticipated recovery in the Asia travel retail market. We exited the position during the quarter.

Absolute Detractors	Avg Weight
Teleperformance	1.8%
Estee Lauder Companies	1.6%
Kering	2.0%
MonotaRO	2.7%
PayPal	1.9%

Outlook

Investors have been keenly focused on the reversal of multidecade trends in globalization. Since the 1990s, international trade has doubled as policymakers accepted the economic benefits of open markets and trade liberalization, namely faster economic growth, efficiency gains, and wider corporate margins. These have long been tailwinds for global GDP and earnings across developed and emerging markets. However, these gains have not been universal and unfiltered globalization has left many people, companies, and countries behind.

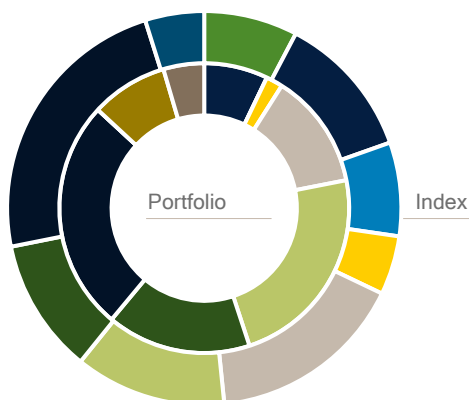
As early as 2016, the U.S. and China escalated a trade war and the UK exited the European Union. Covid effectively fast-tracked this trend, as delays in everything from medical supplies to technological components lead to calls for shorter supply chains and "near-shoring" accessibility and security of goods took precedence over efficiency and cost in some cases. Additionally, Russia's attacks caused Europe to scramble for access to resources and national security, while the U.S. began incentivizing companies to build factories domestically to reduce supply chain challenges.

One outcome of these geopolitical restructurings and shorter supply chains has been rising inflation. Another result for investors to consider is a re-orientation of alliances and trade partners. Further, certain sectors and industries may experience tailwinds from these shifts. For example, heightened geopolitical tensions are expected to drive defense spending. Also, industrials could benefit from a boom in factory investment as countries refocus manufacturing at home. Active managers seeking high quality companies with pricing power as well as the ability to pay and raise dividends could help investors navigate this seemingly ever-changing environment. 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.

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Portfolio Statistics as of June 30, 2023

Sector Allocation (%)



	Portfolio	MSCI ACWI
Communication Services	0.0	7.3
Consumer Discretionary	6.9	11.3
Consumer Staples	0.0	7.3
Energy	1.8	4.6
Financials	12.5	15.4
Health Care	22.3	11.8
Industrials	15.6	10.5
Information Technology	25.0	22.1
Materials	0.0	4.6
Real Estate	8.3	2.3
Utilities	4.4	2.8

Characteristic	Portfolio	MSCI ACWI
Dividend Yield (trailing 1YR, %)	1.2	2.1
Dividend Growth (5YR wtd. avg, %)	10.9	8.0
Price-to-Earnings (next 12Mos.)	19.3x	16.3x
Price-to-Earnings (trailing 1YR)	27.9x	19.3x
Return on Equity (%)	22.6	14.3
Return on Assets (%)	9.5	9.8
Earnings Growth (trailing 3YR avg.)	17.4	14.6
Earnings Growth (trailing 5YR avg.)	19.8	15.9
Market Cap (weighted avg., \$ bn)	166.0	400.0
Number of Holdings	46	2,935

Top Ten Positions	Portfolio Weight (%)
Intuit	4.4
Paycom Software	4.2
Adobe	4.1
Agilent Technologies	4.0
Visa	3.8
MonotaRO	3.4
Microsoft	3.4
Sartorius Stedim Biotech	3.4
IDEXX Laboratories	3.1
ASML Holding	3.0
TOTAL	36.8

Region Allocation (%)

	Portfolio	MSCI ACWI		Portfolio	MSCI ACWI
Asia/Pacific ex-Japan	0.0	3.0	Japan	3.6	5.5
Emerging Markets	7.2	10.2	North America	58.3	63.2
Europe ex-UK	31.0	14.2	UK	0.0	4.0

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.