

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

The third quarter challenged global equity markets, as credit tightening drove equity risk premiums upward and stock valuations downward. European markets were some of the hardest hit, as interest rate increases hampered economic growth. In contrast, Japan and the UK held on a relative basis—the former benefitting from companies’ more investor-friendly practices and the latter from greater exposure in energy and materials names that outperformed. Emerging markets also held up relative to developed equities. In the MSCI All Country World Index, just two sectors—energy and communication services—posted positive returns, followed by relative strength from financials and health care. In contrast, the utilities, real estate, consumer staples, and technology sectors led declines over the quarter.

Portfolio Overview

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

Portfolio Contributors

Stock selection was positive across the health care and technology sectors. By region, selection was strongest across Europe ex-UK. From a positioning standpoint, an underweight in the consumer staples sector and an underweight in Asia/Pacific ex-Japan boosted results.

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.

Sartorius Stedim Biotech and **WuXi AppTec** were the strongest absolute contributors.

Sartorius Stedim Biotech is the leading provider of single-use biopharmaceutical fermentation and fluid management solutions. Management confirmed FY2023 sales revenue and profitability guidance, and successfully closed the Polyplus acquisition. We harvested gains and exited the position during the quarter.

China's **WuXi AppTec** provides R&D and manufacturing services that enable pharmaceutical, biotech, and medical device companies to advance discoveries and deliver groundbreaking treatments to patients. Management released strong 2Q and 1H23 results, including year-over-year revenue and profit growth. We added to the position during the quarter. The company continues to integrate ESG priorities in all aspects of its business operations. Notably, carbon emissions, energy consumption, and water use were all down >17% in 2022. Further, WuXi AppTec was ranked in the top 2% of global pharmaceutical peers by Sustainalytics and received a leadership level of "A-" in the CDP Climate Change rating.

Absolute Contributors	Avg Weight
Sartorius Stedim Biotech	1.6%
WuXi AppTec	2.0%
Intuit	3.8%
Adobe	2.5%
Kingspan	0.7%

Portfolio Detractors

Stock selection was negative across the financials and utilities sectors, as well as North America and the Emerging Markets. From a positioning standpoint, an underweight in energy, as well as overweight positions across Europe ex-UK and the Emerging Markets detracted from quarterly results. **ENN Energy** and **Paycom Software** were the strongest absolute detractors.

ENN Energy is a non-state owned gas distributor in China that operates gas pipeline infrastructure. The company reported lower-than-expected 1H23 core profit due in part to a weak economic recovery. Management announced a share award program for employees to foster an ownership mindset, as well as plans for a controlling shareholder to increase their position in the stock in a show of confidence in ENN's current strength and future prospects. We added to this high conviction position during the quarter. Additionally, the company has a very strong ESG profile—its AA MSCI

rating is the highest rating among utility peers in the Greater China region.

Cloud-based human capital management solutions provider **Paycom Software** reported in-line 2Q results and modestly increased 2023 revenue guidance. However, expectations may have been too high coming off solid 1Q results and shares largely declined. The company has a robust privacy framework to deal with data related risks.

Absolute Detractors	Avg Weight
ENN Energy	1.8%
Paycom Software	1.6%
Enphase Energy	2.0%
MonotaRO	2.7%
Edwards Lifesciences	1.9%

Outlook

While the NFJ team's expertise does not include geopolitical analysis, we join those expressing sympathy for the victims and the tragic loss of innocent lives during the Hamas terrorist attacks on Israel and the ensuing war. It is too early to fully grasp the longer-term implications of this war. However, there are a few considerations of which we believe market participants should be mindful.

The most immediate impact has been a flight from risk assets. While the September rise in interest rates meant higher costs of capital—negatively impacting stock valuations, the recent flight to havens and several Fed governors' walking back their prior hawkishness has precipitated a pullback in yields, giving stock prices a boost.

Looking across areas of the stock market, defense stocks could see a boost from the latest conflict, on top of the uncertainty created by Russia's invasion of Ukraine and China's threats toward Taiwan. The war could also create a floor on energy prices in the near term, should hostilities escalate and spread throughout the Middle East. The counterbalance for oil might depend on the extent to which any loss of confidence in consumers in the U.S. or economic weakness in China affects the demand side of the equation.

More broadly, we reiterate that it is too early to know the longer-term implications of these terrorist attacks. That said, they do drive home how crucial diversification can be in investor portfolios. While geopolitical conflicts can always pose increasing and/or unpredictable risks, investors can help shield capital in uncertain environments by owning companies that provide strong balance sheets, predictable earnings, and grow return of cash flow to shareholders.

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Portfolio Statistics as of September 30, 2023

Sector Allocation (%)



	Portfolio	MSCI ACWI
Communication Services	0.0	7.6
Consumer Discretionary	7.3	11.2
Consumer Staples	1.0	7.1
Energy	1.7	5.2
Financials	10.9	15.8
Health Care	24.3	11.9
Industrials	15.0	10.4
Information Technology	22.3	21.6
Materials	0.0	4.5
Real Estate	7.8	2.3
Utilities	8.2	2.6

Characteristic	Portfolio	MSCI ACWI
Dividend Yield (trailing 1YR, %)	1.6	2.2
Dividend Growth (5YR wtd. avg, %)	11.3	8.0
Price-to-Earnings (next 12Mos.)	16.1x	15.5x
Price-to-Earnings (trailing 1YR)	22.1x	18.7x
Return on Equity (%)	16.3	14.2
Return on Assets (%)	7.4	9.7
Earnings Growth (trailing 3YR avg.)	21.1	19.3
Earnings Growth (trailing 5YR avg.)	21.2	15.8
Market Cap (weighted avg., \$ bn)	67.5	364.2
Number of Holdings	48	2,947

Top Ten Positions

Top Ten Positions	Portfolio Weight (%)
Autodesk	4.5
NICE	4.1
MonotaRO	3.8
Humana	3.7
Paycom Software	3.7
Paylocity	3.2
ENN Energy	3.1
China Merchants Bank	3.1
Intuit	2.9
WuXi AppTec	2.9
TOTAL	35.2

Region Allocation (%)

	Portfolio	MSCI ACWI		Portfolio	MSCI ACWI
Asia/Pacific ex-Japan	0.0	2.9	Japan	3.9	5.5
Emerging Markets	17.6	10.4	North America	57.1	63.3
Europe ex-UK	20.5	13.8	UK	0.9	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.