

# 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 equity markets rose across the board as softer inflation and resilient economic growth boosted investor hopes of lower interest rates and a soft economic landing. Europe ex-UK markets led for the quarter, followed by strength across North America. Conversely, the UK and Emerging Markets lagged on a relative basis. In the MSCI All Country World Index, technology rose 18%, followed by robust gains from real estate, industrials, financials, and materials. In contrast, energy, consumer staples, healthcare, and communication services posted the weakest returns for the quarter.

## Portfolio Overview

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

## Portfolio Contributors

Stock selection was positive across the real estate and financials sectors. By region, selection was strongest across Europe. From a positioning standpoint, an underweight in the energy sector contributed and an overweight in Europe ex-Japan marginally benefitted results. **Dassault Systèmes** and **Alexandria Real Estate Equities** 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

### R. Burns McKinney, CFA

Managing Director,  
Co-Lead Senior Portfolio Manager/Analyst

### Jeff N. Reed, CFA, FDP

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,  
Senior Portfolio Manager/Analyst

### J. Garth Reilly

Managing Director,  
Senior Portfolio Manager/Analyst

# NFJ Global Sustainability Wrap Strategy

## Portfolio Contributors, cont.

**Dassault Systèmes** provides software applications services designed to support client's innovation processes in mission-critical industries such as aerospace and automotive. Management announced slightly better-than-expected 3Q results and largely reaffirmed FY2023 guidance on large deal strength and double-digit growth across major product segments.

High-quality office REIT **Alexandria Real Estate Equities** delivered solid 3Q results that beat the Street's estimates, and management raised adjusted funds from operations (AFFO) guidance on strong leasing trends. The company also increased the annual dividend by 5%. Alexandria Real Estate is ranked in the top 10% in ISS environmental and social scores and top 10% in S&P Global ESG scores (as of December 31, 2022), and was recognized by GRESB, a provider of standardized and validated ESG data to the capital markets, as a Regional and Global Sector Leader in the Science & Technology sector for outstanding ESG integration in the company's value-creation development projects.

Absolute Contributors	Avg Weight
Dassault Systèmes	2.9%
Alexandria Real Estate Equities	2.8%
Autodesk	4.4%
Intuit	3.1%
MarketAxess	1.9%

## Portfolio Detractors

Stock selection was negative across the industrials and consumer discretionary sectors, as well as among Emerging Markets and North America-based names. From a positioning standpoint, overweight positions in healthcare and across the Emerging Markets detracted. **Paycom Software** and **WuXi Biologics** were the strongest absolute detractors from quarterly results.

Cloud-based human capital management solutions provider **Paycom Software** delivered disappointing 3Q results, as one of its new products showed signs of cannibalizing other digital services. We exited the position during the quarter.

China's **WuXi Biologics** provides R&D and manufacturing services that enable pharmaceutical, biotech, and medical device companies to advance discoveries and deliver groundbreaking treatments to patients. Management cut sales and profit guidance amid a global downturn in biotech funding and regulatory delays in project deliveries and shares traded downward. The company launched a \$600 million share repurchase program, and we trimmed the position during the quarter.

Dividends reflect past performance and there is no guarantee they will continue to be paid.

Absolute Detractors	Avg Weight
Paycom Software	2.5%
WuXi Biologics	2.4%
Enphase Energy	0.6%
China Merchants Bank	2.3%
NICE	1.4%

## Outlook

Uncertainty remains elevated as equity investors look to navigate 2024. First, geopolitical volatility continues on multiple fronts as the war in Ukraine approaches its third year, while the long-term impacts of conflict across Israel, Gaza, and the Middle East are unknown. With the invasion of Ukraine, one implication investors considered was a possible energy crisis. As the war has reached a stalemate, uncertainty has somewhat subsided, and oil and gas supplies continue to meet market demand. Now, conflict in the Middle East poses the latest threat to oil supply. However, the U.S. has become a more impactful oil producer, and the conflict has yet to disrupt production. Other investor impacts have included periodic risk-off moves for global equities, creating a cap on interest rates, as well as offering long-term support for defense sector names.

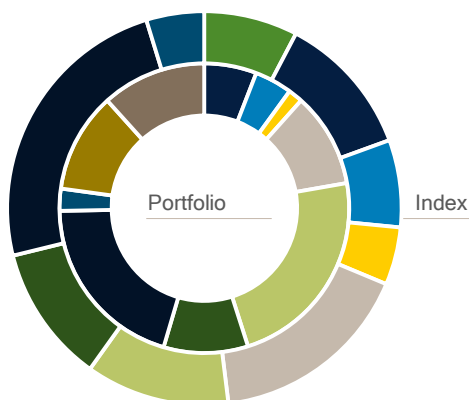
Another contributor to overseas investors' uncertainty is the implications of China's faltering economic reopening for its trade partners. At the start of 2023, stock pickers had high hopes for the reversal of lockdowns in China. Instead, consumer confidence sagged and China's housing market remained in a downturn. Even with these struggles, China's economic growth remains solid compared to global peers, and policymakers have many tools to stimulate business and consumer spending. Today, the MSCI China Index trades at a 32% discount to its ten-year median price-to-earnings ratio while the country's economic rebound continues at a choppy but upward trajectory.

After a year in which U.S. equities generally led international markets, the relative valuation discount on overseas stocks remains near all-time high levels. The S&P 500 Index trades at 22x forward earnings, while the MSCI ACWI is over 16x and the MSCI ACWI ex-U.S. is just under 13x. Emerging Markets are even more discounted, with the MSCI EM Index trading under 12x and the MSCI China at 9x forward earnings. While geopolitical conflicts can always pose increasing and/or unpredictable risks, we believe discounted companies that provide strong balance sheets, predictable earnings, and grow return of cash flow to shareholders offer positive prospects in 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.

# NFJ Global Sustainability Wrap Strategy

Portfolio Statistics as of December 31, 2023

## Sector Allocation (%)



	Portfolio	MSCI ACWI
Communication Services	0.0	7.3
Consumer Discretionary	5.7	11.1
Consumer Staples	4.1	6.8
Energy	1.6	4.5
Financials	10.3	15.9
Health Care	22.4	11.2
Industrials	9.2	10.7
Information Technology	19.7	22.9
Materials	2.4	4.5
Real Estate	10.9	2.4
Utilities	11.4	2.6

Characteristic	Portfolio	MSCI ACWI
Dividend Yield (trailing 1YR, %)	1.7	2.0
Dividend Growth (5YR wtd. avg, %)	11.4	7.6
Price-to-Earnings (next 12Mos.)	17.1x	16.6x
Price-to-Earnings (trailing 1YR)	23.4x	19.8x
Return on Equity (%)	15.9	14.2
Return on Assets (%)	8.0	9.7
Earnings Growth (trailing 3YR avg.)	20.0	20.5
Earnings Growth (trailing 5YR avg.)	17.3	14.8
Market Cap (weighted avg., \$ bn)	86.5	422.6
Number of Holdings	51	2,921

## Top Ten Positions

Top Ten Positions	Portfolio Weight (%)
Autodesk	4.0
NextEra Energy	3.7
MonotaRO	3.6
ENN Energy	3.4
Intuit	3.3
Humana	3.2
Alexandria Real Estate Equities	3.2
Dassault Systèmes	3.0
Eversource Energy	2.7
Edwards Lifesciences	2.4
<b>TOTAL</b>	<b>30.2</b>

## Region Allocation (%)

	Portfolio	MSCI ACWI		Portfolio	MSCI ACWI
Asia/Pacific ex-Japan	0.0	2.9	Japan	3.7	5.4
Emerging Markets	12.1	10.2	North America	60.3	63.7
Europe ex-UK	19.6	14.0	UK	4.4	3.8

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

---

## 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.