nuveen
A TIAA Company

Separately Managed Accounts

Value

Multi Cap Value

Marketing communication | As of 30 Sep 2024

- **During the third quarter, the Multi-Cap Value strategy underperformed its benchmark, the Russell 3000 Value Index, year to date results ahead of benchmark**
- **The index rallied sharply in July, and continued through August (after a brief selloff) and September, resulting in near double digit gains for the quarter**
- **Small stock outperformance: Although the S&P 500 underperformed the Russell 2000 by over 300 basis point in the quarter, it remained ahead year-to-date by nearly 1100 basis points**
- **Federal Reserve cut rates in September, the expected start of lowering short-term interest rates**

Market review

Economic growth continued to expand during the third quarter, although more signs of a slowdown emerged. Second quarter's U.S. gross domestic product (GDP) growth came in stronger than expected at an annualized pace of 3.0%, while full-year growth is tracking just slightly below that rate, underpinning investors' hopes for an economic soft landing. Encouraging headline inflation prints during the quarter led key central banks to lower interest rates, even as core inflation remained sticky. The Federal Reserve (Fed) garnered the biggest headline by kicking off its long-awaited policy easing cycle with a 50-basis-point cut in September, larger than many investors had expected. The Bank of England also began lowering rates while the European Central Bank made its second rate cut of this cycle. The People's Bank of China launched a battery of stimulus measures including rate cuts to help kickstart the country's deteriorating economy and ward off deflation. Meanwhile, the Bank of Japan (BoJ) was the outlier with a surprise increase to the country's key interest rate to help curb the yen's fall versus the U.S. dollar.

The stock market started the quarter on a positive note in July, aided by falling Treasury yields and optimism over approaching Fed rate cuts. By month end, the bullish start had given way to concerns about slowing earnings growth for technology companies, which have powered the market for much of the year. In early August, global equity markets sold off sharply after a disappointing U.S. jobs report fanned recession fears, China's economy showed greater signs of deterioration, and the BoJ's surprise rate hike sparked an unwinding of the yen carry trade. As the month progressed, however, the tide quickly turned as inflation reports showed pricing pressures continuing to ease, corporate earnings remained strong, and Fed Chair Powell indicated the time had come for U.S. rate cuts. Throughout September, various market indexes such as the Dow Jones Industrial Average, S&P 500 Index and Nasdaq Composite notched new record highs as investors anticipated the Fed's cut.

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Multi Cap Value

While all major U.S. equity indexes performed well, the market rally broadened out during the quarter with small- and mid-cap stocks and more value-oriented stocks leading the way. Smaller companies, which tend to carry more floating-rate debt on their balance sheets, rallied as the Fed lowered borrowing costs. The small-cap focused Russell 2000® Index returned 9.27% for the quarter but still substantially lags large caps with its 11.17% year-to-date return.

The Bloomberg Aggregate Index returned +5.20% for the quarter and +4.45% YTD. A significant portion of the return came from the rally in interest rates during the quarter, as the excess return for the Aggregate Index was just +40 bps. The yield curve steepened as US Treasury yields declined, with the 2s-10s curve moving towards positive territory after being negative for the past two years. During the quarter, the 2yr Treasury declined 111 bps to 3.64% while the 10yr moved 62 bps lower to 3.78%. While short term rates fell, yields on intermediate to long term bonds actually rose post the Federal rate cut on September 18th. Investment grade corporates posted a total return of +5.84% and an excess return of +77 bps.

The S&P 500 ended the final day of the quarter at another all-time high, gaining 5.89% for the quarter and now up 22.08% year to date. The defensive utilities sector led the pack as earnings expectations continued to be very high for these companies. Real estate and industrials followed close behind as the market rotated into interest-rate sensitive sectors in anticipation of the beginning of the Fed's easing cycle. Energy was the worst-performing sector, and the only S&P 500 sector in the red, as oil prices fell amid cooling demand from China.

Portfolio review

The Nuveen Multi-Cap Value portfolio underperformed (both gross and net of fees) the Russell 3000 Value Index benchmark during the third quarter of 2024, but generated strong gains that had outperformed the index year-to-date (gross and net of fees). The value benchmark had strong returns during the quarter; initially rising in July, dropping in early August, and then strengthening through the rest of August and September, closing the quarter with near double-digit returns. With the exception of energy, all sector returns in the index were positive, with the largest gainers including utilities (+18.2%), real estate (+16.6%), and consumer discretionary (+12.0%). All sectors for the year-to-date results generated positive returns.

Our performance vs the benchmark in the quarter was hurt underperformance in our industrials, consumer discretionary, and communication services holdings, while our investments in consumer staples substantially outperformed the benchmark. Our top outperforming sectors for the nine months ending September 30 were health care, consumer staples, and industrials, while technology, real estate, and energy results were our biggest detractors. Our top stock contributors in the third quarter were **ADMA Biologics, Haleon,** and **Oracle**, while leading detractors included **Intel, Rambus,** and **Permian Resources.**

Contributors

Shares of **ADMA Biologics** rose substantially during the quarter, driving fantastic year to date gains. The company continues to strengthen its commercial biopharmaceutical portfolio with further plasma-derived products for immunodeficient patients. During the quarter, the company raised its guidance on revenues and profits for both 2024 and 2025. We have continued our discipline in trimming our position during the stock's tremendous appreciation.

Haleon's strong stock performance in Q3 2024 can be attributed to several key factors. The company reported 9% growth in operating profit, driven by successful pricing strategies and operational efficiencies that helped offset inflationary pressures. Growth in core product categories, particularly oral care (with brands like Sensodyne), pain relief (such as Voltaren), and respiratory treatments (like Theraflu), also contributed to its success. International markets like China and Australia saw significant demand, further boosting revenues. Additionally, Haleon experienced strong performance from its Centrum brand, supported by consumer campaigns and new scientific findings promoting the cognitive benefits of Centrum Silver, especially for older adults. These factors, combined with effective cost management and positive operating leverage, positioned Haleon for solid growth in a challenging market. Haleon has substantially outperformed consumer staples peer Kenvue, which we initially trimmed, and subsequently eliminated, to fund our investment.

Our investment in **Oracle** was a top contributor during the quarter, largely driven by its continued success in cloud services, which grew by 25%, including a 49% jump in its cloud infrastructure segment (IaaS). This growth was fueled by increasing demand for Oracle's Gen2 Cloud, particularly for AI applications, where demand far exceeded supply. Additionally, the company reported a 29% increase in total Remaining Performance Obligations, reaching an all-time high of $80 billion, indicating sustained future revenue from large cloud contracts. Oracle's cloud-based Enterprise Resource Planning (ERP) offerings also performed well, with both Fusion and NetSuite Cloud ERP revenues growing by double digits, reflecting strong demand from businesses for cloud transformation solutions.

Detractors

Intel stock performed poorly in Q3 2024 due to a combination of factors, including weaker-than-expected financial results. Revenue was below estimates, impacted by sluggish demand in the PC and data center markets. The company's gross margin also fell, partly due to increased costs from its aggressive five-nodes-in-four-years strategy, which has yet to translate into meaningful gains. Additionally, concerns over Intel's ability to keep up with rivals like AMD in the AI and semiconductor space dampened investor sentiment. The company is under pressure to find a solution to its subscale position in its foundry operation, where it is predominantly it's only customer.

Our stake in **Rambus** detracted during the quarter. While the company saw growth in product revenues, particularly from DDR5 memory technologies, it faced a few key challenges. Rambus encountered pricing pressures with its first-generation DDR5 RCDs, which saw a slight price decline, affecting revenue growth. Additionally, the transition from DDR4 to DDR5 has caused slower sales of older products like DDR4 components, contributing to a revenue dip. Additionally, the broader semiconductor industry has been volatile which has caused investor concern. We had previously trimmed our position on share strength.

Shares of **Permian Resources** fell in Q3 2024 due to a combination of industry-specific and company-specific challenges. One major factor was the decline in oil and natural gas prices, which negatively impacted cash flow across U.S. oil and gas firms. Additionally, political uncertainties ahead of the 2024 elections weighed on investor sentiment toward energy stocks. Another challenge was the weak market conditions at the West Texas Waha hub, where negative pricing during the summer led some producers to reduce output. Despite Permian Resources' efforts to control costs and increase production, the company's stock dropped by over 22% in the six months leading to Q3. However, the company has strengths, such as efficient cost management and solid free cash flow growth, which could present long-term recovery opportunities once market conditions improve. We believe the management team is truly one of the best in the industry, and the valuation is compelling.

Portfolio positioning

The portfolio continues to be broadly diversified, with sector overweights in energy (largest position is Shell, holdings in Baker Hughes and Cheniere less oil price dependent) and communications services (continued investment in Alphabet, though trimmed position in the quarter). While we are not overweight consumer discretionary stocks, we have a meaningful exposure to the automotive sector through our significant investment in General Motors, one of our largest positions and top performing companies/stocks in the portfolio. Our belief has been that traditional ICE (internal combustion engines) will generate profits for a longer than expected period given lack of demand for EV's. Currently we maintain underweight positions in industrials (no current holdings in transports), health care (no current holdings in instruments after eliminating investments in Medtronic and BioRad earlier this year), and REITs (increased investments but less than the Russell 1000 Value Index).

In terms of new investments, we initiated a position in **Las Vegas Sands (LVS),** a major operator of casinos in Macau and Singapore. LVS's Singapore operations continue to execute at a high level, while the company's Macau properties have been negatively impacted by a sluggish Chinese economy, disruptions from renovations/expansions which are nearing completion, and uncertain policies toward Macau. We believe that the stock reflects maximum uncertainty and negative sentiment, and the possibility of a New York license provides a free option. During the quarter, we also initiated a position in **Pfizer** after a dramatic decline from its 2021 Covid vaccine driven highs, where it incurred two and a half years of dreadful stock and earnings performance. We believe the worst is behind the company, which offered a 6% dividend yield at the time of our purchase. There is tremendous pressure to improve performance, the benefits of the Seattle Genetics acquisition should start to surface, earnings have bottomed, and the company is also in clinical trials with their GLP-1 drug (weight loss) which we view as a free option. We also invested in **Pfizer** after a dramatic decline from its 2021 Covid vaccine driven highs, where it incurred two and a half years of dreadful stock and earnings performance. We believe the worst is behind the company, which offered a 6% dividend yield at the time of our purchase. There is tremendous pressure to improve performance, the benefits of the Seattle Genetics acquisition should start to surface, earnings have bottomed, and the company is also in clinical trials with their GLP-1 drug (weight loss) which we view as a

lower probability but a potential free option.

We eliminated our investments in **Globe Life and Kenvue**. **Globe Life** recovered a substantial portion of its second quarter losses following a short report on the company's purported aggressive sales practices. At that point, the stock no longer offered compelling risk/reward as the sales practice issue remained outstanding and we decided to remove the potential tail risk. We initially made consumer health company Kenvue one of our largest positions following its spinoff from Johnson and Johnson.

We added to our positions in **Ford, Honeywell,** and **Viasat,** during the quarter and trimmed our positions in **ADMA Biologics, Alphabet, AT&T, Curtiss-Wright, DuPont, Haleon,** and **Oracle.**

Outlook

With the recent first cut by the Fed at 50 basis points, market expectations for an additional 50 basis points by year end is anticipated, along with up to another 100 basis points by midyear 2025. At this time, it appears that peak inflation has passed and a path toward a neutral rate around 2% is hoped for by the markets. The fact that longer term bond yields have actually increased since the Fed rate cut implies meaningful skepticism though. The impact of government deficits and debt may certainly provide an issue in achieving inflation targets. What remains to be seen is if or how these cuts affect business planning, relieve pressures, or liberate shareholder returns.

Irrespective of one's political affiliation or leaning, the outcome of the upcoming Presidential and Congressional elections resulting in other that divided government poses risks to the markets (government gridlock is generally a more favorable backdrop), let alone we believe greater than expected risk in any outcome. Volatility and fear remain at extremely low levels, and again,it has been a market with upward momentum and almost at worst, just a question of which stocks to buy. We would not expect a significant increase in oil and gas capital spending with a Trump win (No "drill baby drill), but a less burdensome regulatory framework and less hostile attitude toward mergers and acquisitions would be favorably received broadly. Tariffs, higher taxes, regulatory burdens lifting or becoming more burdensome are certainly major issues.

Our consistent search for unrecognized and unrealized catalyst rich companies remains at the heart of our process. While broad indexes have attained recent highs, we believe our portfolio remains undervalued, mispriced, and full of catalysts. Our continued focus on identifying and investing in companies actively addressing problems, liberating hidden assets and free options, and driving to improve corporate returns remains our core focus.

Once again, we greatly appreciate the opportunity to be stewards of your capital.

For more information contact: 800.752.8700 or visit nuveen.com

Minimum investment is $100,000.

Important information on risk

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Glossary

The **MSCI EAFE Index** (Europe, Australasia,Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. **Russell 2000® Index** measures the performance of the small cap segment of the U.S. equity universe which includes approximately 2000 of the largest securities based on a contribution of their market cap and current index measurement. **Russell 3000® Value Index** measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market with lower price-to-book ratios and lower forecasted growth values. **S&P 500® Index** is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. **It is not possible to invest directly in an index.** Clients should consult their financial professionals regarding unknown financial terms and concepts.

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