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Separately Managed Accounts | Value

Small/Mid Cap Value

Marketing communication | As of 31 Dec 2024

- **During the fourth quarter, the Small-Mid Cap Value strategy produced positive returns, narrowly outperforming its benchmark, the Russell 2500 Value Index**
- **The index rallied sharply in November, but sold off in December as investors began to rethink the possibility for deep rate cuts**
- **The market looks to digest a more vocal leadership and shifts in monetary and political policies**

Thomas J. Lavia, CFA
Portfolio Manager, Equity Analyst

Andrew C. Hwang, CFA
Portfolio Manager, Equity Analyst

Market review

The U.S. economy continued to expand during the fourth quarter fueled by robust consumer spending. Although inflation worldwide remained above desired levels, monetary policy varied among key central banks. The Federal Reserve (Fed) made its second and third consecutive rate cuts of the year, trimming by 25 basis points in November and December. After the December meeting, however, Fed policymakers projected a slower pace of cuts in 2025 given still-sticky inflation and the potential for inflationary policy moves under the incoming Trump administration. The Bank of England made its second rate cut of the year in November and then paused, while the European Central Bank (ECB) made its fourth rate cut of this cycle in December amid signs of weakening European Union growth, political chaos in France and tariff concerns. The People's Bank of China remained on hold but continued to affirm its supportive policy stance as it faced pressure to reflate the country's economy. The Bank of Japan also stood pat at its October and December meetings, awaiting more information on the policies of the new U.S. administration while debating timing of a pending rate hike.

The U.S. equity market experienced significant volatility during the quarter, losing ground in October as strong economic data propelled U.S. Treasury yields higher. Stocks rebounded in November following Donald Trump's election victory and optimism over his pro-growth agenda featuring lower taxes and fewer regulations. However, the rally stalled in December as hawkish comments by the Fed quickly dampened the enthusiasm. The bond market struggled throughout the quarter with yields steadily rising as progress on inflation slowed and the election results increased the potential for more persistent price pressures down the road.

Despite fourth quarter's volatility, 2024 ended as a banner year for equity investors. The technology-heavy Nasdaq Composite continued to notch new record highs, particularly in the aftermath of the U.S. presidential election, crossing the 20,000 milestone during the period. The Nasdaq ended the quarter and year returning 6.35% and 29.57%, respectively, fueled by ongoing enthusiasm for technology stocks, artificial intelligence (AI) and crypto in the wake of lower rates and the Trump victory.

Meanwhile, the Dow Jones Industrial Average faced more downward pressure in December, posting its worst monthly performance in more than two years. However, the index still eked out a positive return of 0.93% for the quarter and was up 14.99% over the full year.

The S&P 500 Index ended the quarter up 2.41% despite some year-end weakness caused by the Fed comments. However, only four of 11 sectors posted positive returns for the quarter including consumer discretionary, communication services, financials, and information technology. The materials and health care sectors lagged the most, both declining by double digits over the three-month period. For the full year, the S&P 500 produced a stellar return of 25.02%, only the fourth time in history that the index has notched two consecutive years of returns over 20%.

After rallying in the third quarter following the Fed's super-sized rate cut, small-cap and value-oriented stocks took a back seat once again during the fourth quarter as policymakers dampened expectations for cuts in 2025. The small-cap focused Russell 2000® Index was virtually flat for the quarter with a 0.33% return and continued to significantly lag large-cap stocks for the full year with an 11.54% advance. Meanwhile, value stocks across the market cap spectrum posted negative returns for the quarter as measured by Russell indexes.

Outside the U.S., equity markets generally performed poorly for the quarter. Fueled by the health of the U.S. economy and the Fed's hawkish outlook comments in December, the U.S. dollar reached its highest level in more than two years against a basket of currencies. This dollar strength weighed heavily on non-U.S. stock market returns when translated into dollars. Broadly speaking, both emerging markets (EM) and non-U.S. developed markets trailed the S&P 500 by more than 10% during the quarter as measured by the MSCI Emerging Markets Index return of -8.01% and the MSCI EAFE Index return of -8.11%. European markets notably struggled amid sluggish economic data in the eurozone and markedly softer business and consumer confidence in the U.K. Chinese equities, which represent a significant weight in the EM index, also lost ground despite the government's pledge to implement looser policies to boost consumption and domestic demand.

Portfolio review

The Nuveen Small-Mid Cap Value portfolio narrowly outperformed its benchmark on a gross of fees and net of fees basis, the Russell 2500 Value, during the 4th quarter of 2024 and generated strong gains above the index for the year (both gross and net of fees). The benchmark declined during the quarter; initially falling in October, the index had a sharp rise in November after the U.S. election, and then proceeded to fall in December as consensus for steep interest rate cuts seemed to wane. Performance varied within sectors from gains in financials of 6.4% to losses of 7.8% in health care. Following financials, sectors that managed positive quarter performance included energy (+5.4%), tech (+4.8%), and consumer staples (+3.7%). Bettering health care, at the opposite end but still negative were real estate (-6.1%), materials (-5.7%), consumer discretionary (-2.3%), industrials (-1.9%), utilities (-1.4%), and communication services (-1.1%).

The portfolio's performance was led by strong stock selection in industrials, health care, and energy. Conversely, our picks in financials, materials, and consumer discretionary detracted from relative performance.

Contributors

Our position in **Chart Industries**, which was added to the portfolio in August, contributed to the portfolio's relative performance during the 4th quarter. The company generated over $200 million from operating activities and almost $175 million in free cash flow. Strength in the company's order book and 22% rise in sales provide confidence in the product portfolio. The company is paying down debt, reducing its net leverage ratio to ~3.0x on progress toward its target range of 2 to 2.5 by 2025. The company surpassed its original 2026 target for $250 million in annualized cost synergies, achieving it in Q3 2024, combined with continued operational efficiency and profit improvements.

Ciena shares performed well during the quarter. Strength in the product pipeline, following meaningful years of R&D investment are driving forecasts of improved revenue growth of 8 to 11% over the next three years. Ciena's CEO also highlighted that the company sees future increased demand for bandwidth, driven by cloud services and AI, which they perceive as aiding revenue growth and potential for market share expansion.

Our position in Biopharma oncology company **Exelixis** helped boost portfolio performance in Q4. The company reported strong EPS numbers that beat expectations lead by a 14% year over year sales growth. The company also announced that the FDA accepted its supplemental New Drug Application for cabozantinib (CABOMETYX®) for patients with advanced neuroendocrine tumors. This regulatory progress enhances the potential for expanded use of Exelixis' therapies. Exelixis completed enrollment for the Phase 3 STELLAR-303 study evaluating Zanzalintinib in metastatic colorectal cancer and announced plans to initiate the STELLAR-311 pivotal trial in advanced neuroendocrine tumors in the first half of 2025.

Detractors

Alternative asset manager **DigitalBridge** shares stumbled in Q4 after announcing a year over year drop in revenue, raising investor concern over the company's revenue generation capabilities. Additionally, the digital infrastructure sector faced challenges during this period, including increased competition and market saturation.

Despite **Seagate** reporting strong financial results during the quarter including revenue growth of 18% year-over-year, the stock declined on concerns regarding the uptake of the company's HAMR-based drives. Strength in gross margins and continued qualification at Cloud and Enterprise customers remains underway. Industry discipline and data center requirements serve as strong underpinnings for the company.

Agricultural sciences company **FMC Corporation** stock declined in the fourth quarter of 2024 was influenced by the company facing supply chain disruptions, leading to increased costs and operational inefficiencies. Additionally, fluctuations in commodity prices and changes in demand within the agricultural sector affected FMC's revenue streams.

Portfolio positioning

Within the quarter, the portfolio experienced turnover as more richly and larger cap positions were eliminated. In the consumer discretionary sector, we initiated a position in **Under Armour**, as CEO Kevin Plank has returned to the helm and an increased focus on margins and inventory management looks to maximize on the brands innovation and technology attributes. Online furniture provider **Wayfair** was added, as the company refinances debt, undertakes cost initiatives and looks to divest non-core operations. We also added sports retailer **Academy Sports.** The company generates meaningful cash flow to fund its stores growth and improves its customer engagement with loyalty programs and enhanced logistics.

In health care, a new position in **Alkemes** was initiated. Alkemes offers drugs for psychiatric diseases- its pipeline for narcolepsy and sleep disorders provides meaningful catalysts. We eliminated Acadia Healthcare Company, as higher scrutiny comes on the company for lawsuits and legal challenges.

For the technology sector, the portfolio remains slightly overweight. We initiated a position in **Lumentum**, where the company's offerings for Data Center Interconnect product started to have meaningful design wins, and telecom and industrial laser orders appear to be coming to cyclical lows. **Cognex**, which provides camera technologies for productivity and inspection, was also added to the portfolio. We believe the company stands to benefit from AI applications and factory floor productivity initiatives. We eliminated **Teradyne** as the company's collaborative robots remain under pressure from competition and underearn relative to expectations.

Within the quarter, we also eliminated **Acadia Healthcare**, **American Homes 4 Rent**, **Atmus Filtration**, **Dave & Buster's**, **Euronet Worldwide**, **Exelixis**, **FirstCash Holdings**, and **Iron Mountain**. New additions included **Bruker**, **Equity Lifestyle Properties**, **Mr. Cooper Group**, (Banco) **Popular**, **Quidelortho**, and **Vicor**.

Outlook

As we usher in the new year, an inflection is underway is in the market on two fronts: a renewed and vigorous Trump administration and a more accommodative Federal Reserve, seemingly past its peak in short term rates. Both changes garner meaningful headline attention; however, markets and the real economy rarely run at reality TV speed. Despite meaningful rhetoric around paradigm shift and regime change from the financial media, in both cases, real change may come slower than anticipated.

In the case of the Fed, once again, the market implied expectations of 5-6 rate cuts in 2025 has quickly faded to 1-2 with the backdrop of better employment and stickier inflation. The notion of higher for longer looks to persist, barring a more pronounced impact to employment or inflation. For small cap stocks, hope springs eternal, with numerous constructive drivers falling in place.

On the rate front, despite a slower rate glide, the prospects for a virtuous cycle of debt refinancing lies in the wings, with at least the prospects of peak rates seemingly behind us. Volatility and credit spreads remain narrow, with high appetite in the market for issuances. With regard to a number of Trump policy initiatives, the domestically driven, pro-growth, lower regulatory, lower tax agenda provide positive underpinnings for small cap stocks.

Small/Mid Cap Value

With a less stringent regulatory environment endorsed by domestically driven companies, small caps stand to benefit due to their higher domestic manufacturing base. A lighter burden of regulations and accommodative M&A backdrop also suits small cap stocks. Finally, these agenda items coupled with the evolution of artificial intelligence and big data tools drive both productivity and profitability to the entire spectrum of companies from megacaps down to microcaps.

We believe the Trump 2.0 Presidency will certainly bring a more visible and vocal agenda to the markets. In response, we expect market action of fits and starts, with bursts of both fear and enthusiasm as the market fully digests policy initiatives and impacts. Our bottom-up process continues to focus on mispriced companies where tangible catalysts drive improvements of the business though realizations of process, product and productivity to enhance profits. To that end, we welcome the challenges and opportunities of the new year.

For more information contact: 800.752.8700 or visit nuveen.com

Minimum investment is $100,000.

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Glossary

Russell 2500® Value Index measures the performance of the 2500 smallest companies in the Russell 3000® Index. **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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