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Separately Managed Accounts

Value

Small Cap Value Opportunities

Marketing communication | As of 30 Jun 2025

- **During the second quarter, the Small Cap Value Opportunities strategy generated positive returns, but underperformed its benchmark, the Russell 2000 Value Index.**
- **The quarter started with elevated volatility and negative sentiment as a result of President Trump's "Liberation Day" announcement, sending markets in a downward spiral. As the quarter progressed, positive earnings news along with what seemed to be a less hardened tariff stance drove markets higher.**
- **Tech names and industrials led the Q2 rally with AI, software, and infrastructure names being major beneficiaries. Growth largely outperformed value during the quarter.**

Market review

Global equities delivered strong results in the second quarter. Non-U.S. benchmarks generated double-digit gains, led by emerging markets (EM), with returns amplified by a weakening U.S. dollar. U.S. equities overcame a steep decline in early April following the Trump administration's "Liberation Day" announcement of high tariffs on U.S. trading partners. Monetary policy worldwide diverged considerably, as central banks continued to fight inflation amid concerns of disruptions to global trade. While the Federal Reserve and Bank of Japan (BoJ) stood pat, the European Central Bank (ECB) and Reserve Bank of India cut rates, and the Central Bank of Brazil (CBoB) hiked.

The **Fed** kept its target federal funds rate steady (a range of 4.25%-4.50%) in the second quarter of 2025. At its June meeting, Chair Jerome Powell stated that although conditions were "highly uncertain" due to the Trump administration's trade and immigration policy, the current environment is nonetheless "a solid economy with decent growth." But given that uncertainty, Powell emphasized that "the appropriate thing to do is hold where we are." Inflation rates have declined with the holdback on further interest rate cuts being the Fed's concern over the inflationary impact of potential tariffs.

In its updated Summary of Economic Projections, the Fed lowered its 2025 forecast for annualized GDP growth from +1.7% in March to +1.4%, while raising expectations for core inflation from 2.8% to 3.1% by year-end. As to the central bank's next move, its dot plot suggests two rate cuts (of 25 basis points apiece) over the next four meetings in 2025, in line with our outlook. This would take the policy rate range to 3.75%-4.00%.

Andrew C. Hwang
Portfolio Manager, Equity Analyst

Thomas J. Lavia, CFA
Portfolio manager, Equity Analyst

In contrast to the Fed, the **ECB** continued to ease policy, reducing its benchmark deposit rate by an additional 50 bps during the quarter, to 2.0%, but refusing to commit to further cuts or a particular rate path. At the same time, ECB President Christine Lagarde noted the ECB is "in a good position," suggesting a pause in cutting rates is forthcoming. The ECB's economic forecasts were little changed from March. Inflation is expected to register 2% by year-end, while annualized GDP growth is anticipated to hit 0.9%.

The S&P 500 kicked off a volatile quarter by plunging more than 11% — and almost 19% from its 19 February peak— while ten yield Treasury rates rose during the first six trading days through April 8 as the Trump administration unexpectedly unveiled "Liberation Day" broad increases to U.S. tariffs on its trading partners. U.S. stocks recouped most of those losses on April 9, with the index posting its highest one-day return (+9.5%) since 2008 following the president's decision to pause his reciprocal tariffs on most countries for 90 days and exempt certain sectors (such as steel and aluminum) from the levies. Returns for April ended modestly negative.

After April's sluggish start, the S&P 500 clawed back into positive territory for the year to date thanks to its best calendar May in 35 years. The advance was concentrated on May 2, after a better-than-expected U.S. payroll report that helped alleviate concerns of an economic slowdown, and on May 12 in the wake of news that the U.S. and China had agreed to dial back tariffs and continue negotiations on a long-term deal.

U.S. shares completed their sharp shaped recovery in June, with the S&P 500 hitting all-time highs. Investors overlooked fresh hostilities in the Middle East, focusing instead on resilient economic data, progress on trade deals moderating inflation, and hopes for Fed interest-rate cuts later this year. Outsized gains from the technology sector (+23.7% for the period), which made up 33% of the index as of 30 June, also drove stocks higher. The S&P 500 returned +10.9% in the second quarter, a major turnaround from its -4.3% first-quarter loss.

Other major U.S. equity benchmarks also enjoyed healthy rebounds, led by the tech-heavy Nasdaq Composite (+18%), which was bolstered by the stellar performance of stocks like Microsoft (+32.7%), Nvidia (+45.8%) and Meta (+28.2%). These three stocks propelled the Magnificent Seven +18.6% following a 16% downdraft in the first quarter. Based on respective Russell indexes, more economically sensitive small caps (+8.5%) matched mid-caps (+8.5%) but lagged large cap stocks (+11.1%).

Non-U.S. equity market returns were significantly amplified by a plunging dollar. The greenback, as measured by the U.S. Dollar Index, fell -10.7% against a basket of currencies — its worst first half of the year since 1973, when the U.S. stopped linking the dollar to the price of gold. The dollar's decline reflected investors' concerns over projections for ballooning U.S. deficits, geopolitical tensions due to President Trump's trade policies, and reduced confidence in continued outperformance by U.S. assets. Based on non-U.S. MSCI benchmark indexes in U.S. dollar terms, EM (+12%) and developed markets (+11.8%) both topped the S&P 500 for the quarter, with the MSCI EAFE outpacing U.S. stocks for the year to date by 13.3 percentage points — the widest margin of outperformance over the first half of the year since 1993.

The Bloomberg Aggregate Index returned +1.21% for the quarter led by lower Treasury yields. The rally was led by the front end of the yield curve, while longer-tenor yields increased. The 2-year/10-year and 5-year/30-year segments finished the quarter 19 bps and 36 bps steeper, respectively. While the 10-year Treasury yield peaked in May at nearly 4.60%, it finished the quarter at 4.24%, only 1 bp higher than where it started.

Portfolio review

The **Nuveen Small Cap Value Opportunities** portfolio underperformed its benchmark on a gross of fees and net of fees basis, the Russell 2000 Value, during the 2nd quarter of 2025 although both the benchmark and portfolio generated positive results. The quarter started off inundated in volatility with the benchmark falling 4.0% in April, but May ushered in a period of positive sentiment with small value stocks gaining 4.0% in May and another 5.0% in June, finishing the quarter up 5.0%. The best performing sectors leading the index were tech (+25.1%), materials (+11.9%), and communication services (+11.2%). The largest declines occurred in consumer staples (-5.3%) followed by energy (-2.2%) and real estate (-1.9%).

The majority of the portfolio's equity underperformance came from stock selection in tech, health care, and materials. Offsetting some of the underperformance were our investments in financials, consumer discretionary, and industrials. Our top stock contributors in the second quarter were **Arlo Technologies**, **MYR Group**, and **Perdoceo Education** while leading detractors included **California Resources, Atlas Energy Solutions,** and

Independence Realty Trust.

Contributors

Shares of **Arlo Technologies** performed well during the quarter as the company reported an over 20% year-over-year increase in subscription service revenue. The security services company has strategically shifted its focus from its hardware business to its much more profitable subscription services model which was one of the main catalysts we initially identified in our initial research.

Our investment in electrical infrastructure contractor **MYR Group** was a top contributor to relative return during the quarter. The company announced a significant positive earnings surprise during the quarter driven by revenue in its Commercial and Industrial division which offset slower utility segment growth. The company also announced that they continue to have a large backlog of projects and a massive increase in operating cash flow year-over-year. Demand for data centers and renewable energy continue to be robust which should be a substantial tailwind for the business.

Shares of **Perdoceo Education** outperformed during the quarter as the company reported strong enrollment data along with significant revenue growth, largely driven from its Q4 2024 acquisition of University of St. Augustine for Health Sciences. The added growth helped fuel an earnings beat for the quarter. Additionally, momentum and optimism continue in the for-profit education sector which has led to a wider investor base.

Detractors

Our investment in energy and carbon management company **California Resources Corporation** (CRC) detracted from relative return during the quarter. We sold our position early in the quarter during the week when "Liberation Day" was announced. Trump's tariff news led to a major market selloff along with crude oil prices falling nearly 17%. The stock later rebounded during the quarter, but we had moved on to put the capital to work in other areas.

Similar to CRC, **Atlas Energy Solutions** shares fell sharply early on in the second quarter of 2025, but did not recover to the extent of CRC. Atlas, which is an oilfield services company provider of fracking sand in the Permian Basin, reported in line earnings, but issued a weaker forward looking outlook as the company believes macro headwinds will be challenging.

Multi-family apartment owner/operator **Independence Realty Trust** shares detracted from portfolio performance during the quarter as investors rotated out of REITs. The company primarily operates in Southeastern states including the Tampa and Atlanta markets which have been experiencing slowing rent growth and rising vacancy rates. Additionally, higher interest rates continue to be a headwind for REIT valuations.

Portfolio positioning

Following the meaningful turmoil within the quarter, sentiment around early policy fears and the worst of tariff worries had abated in the market. Accordingly, the portfolio looks more toward the potentials of a Powell pivot and the prospects of Trump tax extensions and incentives to promote domestic self-sufficiency and employment as well as improved trading terms. It appears that changes in the regulatory and anti-trust regime have provided for a more accommodative Department and Federal Trade Commission. Deal flow and increased mergers and acquisitions appear to be accelerating, with a more populated IPO calendar.

With regard to investments in the portfolio, we increased consumer sensitive positions, with new holdings in Signet Jewelers, where new management is accelerating product refresh, and Yeti, where product innovation and global branding stands to improve. In financials, we lightened our insurance weights, trimming Axis Capital, Ategrity, and Skyward Specialty Insurance. We did this in favor of raising our bank exposure, adding to existing names Atlantic Union Bank and Seacoast Banking. We also exited our position in SouthState as the name had appreciated to a level we felt was no longer appropriate for the portfolio.

Merger activity in the quarter ramped, with portfolio companies Cantaloupe being acquired by private competitor 365 Retail Markets, and Chart Industries being acquired by Flowserve. In real estate and energy, larger market cap positions were replaced by smaller, in adherence with portfolio guidelines.

Outlook

For the quarter, the market seems to carry a short memory, with the worst of tariff and trade fears waning with each week throughout the quarter. Some companies, while claiming to be 'driving without the headlights on', still stayed on track to deliver profits and product. Several management teams truncated annual guidance to only one quarter out or wholeheartedly withdrew guidance for the year. Despite the turmoil, however, peak volatility waned, credit spreads remain tight, and long-term rates remain relatively rangebound.

With the second half of the year now underway, positioning by Trump administration continues to look for wins, large and small, on trade policy, economic growth, and employment gains. With the pending "One Big Beautiful Bill" Act, tax cuts, spending cuts, and the budget priorities look to catalyze capital activity and further onshoring incentives. We believe data center and AI tech initiatives continue as top of mind, with supporting infrastructure riding along, albeit at lofty valuations. Recognition of niche, more domestically focused smaller caps stand to benefit from the belief that the worse of fears are largely embedded in the market. In this most recent heightened retail investor activity and the 'risk off' trade, we have witnessed companies with higher beta, momentum, with lower return hurdles and higher levered companies outpacing the index. Our focus remains on identifying and investing in catalyst rich displaced securities for the portfolio. The spread between large cap and small cap valuations remains near historic highs; the breadth of the market may widen following the massive concentration of leading technology holdings.

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 **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. The **Russell 2000® Value Index** measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.The **S&P 500® Index** is widely regarded as the best single gaugeof large-cap U.S. equities. The index includes 500 leading companies and captures approximately 80% coverage of available marketcapitalization. **It is not possibletoinvest directly in an index.** Clients should consult their financial professionals regarding unknown financial terms and concepts.

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