QUARTERLY COMMENTARY Q4 2024

NYLI Epoch Global Choice ADR†

Portfolio managed by:

EPOCH

While the macroeconomic and geopolitical environment provides important context to be mindful of, we are stock pickers at heart. We aim for our results to be dictated by the fundamental developments with our companies and not by big top-down macro bets.

Market Review

- Equity indices delivered mixed returns in the fourth quarter. The U.S. was amongst the best performers, with the S&P 500 index rising 2% and the technology heavy Nasdaq Index returning 6%. The best performing sectors included consumer discretionary, communication services, and information technology. These sectors were perceived by investors as benefitting from Trump's election victory and expectations for better growth and less regulation. The worst performing sectors were materials, health care, and real estate. Health care found itself in political crosshairs throughout the quarter while real estate and other rate sensitive sectors were pressured by a rise in longer-term interest rates.
- Outside the U.S., the MSCI EAFE index declined 8%. Almost all major countries saw their benchmark equity indices decline. Sluggish economic growth, political dysfunction, ongoing military conflicts, the prospects of more severe tariffs under Trump 2.0, and a strong U.S. dollar have weighed on international markets. The persistent under-performance of international markets vs. the U.S. has resulted in record valuation discounts for the former and a record high allocation in global indices for the latter.
- Economic data has been choppy, but the totality of the evidence suggests the U.S. labor market remains firm while progress with inflation may be stalling. In the fixed income markets, central banks around the world including the Federal Reserve (Fed), the Bank Of England (BOE), and the European Central Bank (ECB) continued to cut short-term rates. However, due to the slowing pace of disinflation expectations for future rate cuts have been tempered. Investors now only expect 1-2 cuts in the U.S. in 2025. The major outlier with respect to monetary policy remains Japan, where the Bank of Japan (BOJ) maintained a hawkish stance and has been raising rates.

Portfolio Performance

	Pure Gross Return	MSCI World Index	Net Return*
QTR	0.46	-0.16	-0.28
1 Year	15.57	18.67	12.21
3 Years	3.56	6.34	0.55
5 Years	7.08	11.17	3.96
10 Years	7.99	9.95	4.84
Since Inception[1] (05/31/2010)	10.26	10.85	7.05

ADR = American Depository Receipt.

Past performance is no guarantee of future results, which will vary.

1. Inception date is May 31, 2010. Performance for the most recent quarter is preliminary and subject to change.

* Maximum program fee or highest advisory fee of 3% per annum (25 basis points per month).

† Effective 8/28/24, MainStay Epoch Global Choice ADR was renamed NYLI Epoch Global Choice ADR SMA.

Market Review (Continued)

- In other asset markets, the U.S. dollar strengthened almost 8% against a broad basket of foreign currencies, its largest gain since 2015. Gold declined 1% but hit an all-time high just above $2,800 per ounce in October. Bitcoin rose 49%, eclipsing the $100,000 price level for the first time. Returns across assets appear to be sending mixed messages about future economic growth and inflation.

Portfolio Review

- The Epoch Global Choice ADR portfolio returned 0.46% (Gross) and -0.28% (Net), exceeding the negative 0.16% decline of the MSCI World Index. Sector allocation effect was positive (+50 basis points), due to our overweight in consumer discretionary and underweights in real estate and utilities, which were pressured by the rise in longer-term interest rates. Security selection was essentially neutral (+10 bps), with positive results in industrials and financials offset by underperformance in the health care and consumer discretionary sectors.
- At the individual security level, our top positive contributors in the quarter included Broadcom, Amazon, and Salesforce.
- Broadcom, Amazon, and Salesforce all delivered double-digit returns, benefitting from the broader technology rally. At a macro level, investors believe a Trump administration will mean less regulation, less anti-trust scrutiny, and a more favorable M&A backdrop for technology companies. In addition, investor enthusiasm for Artificial Intelligence remains high and each of these companies is well positioned to win in this domain. At a micro level, these holdings continue to report strong quarterly revenue and profit growth while investing heavily to maintain their leadership positions.
- Getting a little more granular, Broadcom reported a 51% year-on-year revenue increase in its most recent quarter, including a 220% rise in its Artificial Intelligence (AI)-related revenue. The company is increasingly viewed as a leader in the AI chip space, with a focus on customization that complements the offerings from NVIDIA.
- Amazon continues to grow quarterly revenue at a double-digit pace. Results in its AWS cloud business remain strong and affirm it is a strong player in an oligopoly market alongside Microsoft and Alphabet. Data points and news flow during the fourth quarter suggest the world's largest online retailer had a stellar holiday season, which bodes well for its next earnings report.
- Salesforce also reported strong quarterly results, with 8% revenue growth and continued margin expansion, which has been a keen focus of management. Investors have heavily debated whether the company is an AI winner or loser. The most recent set of results suggest its AI-driven platform, Agentforce, is experiencing very strong commercial demand, setting up Salesforce to be an AI winner, which has been our view all along.
- Our top detractors in the quarter included Novo Nordisk, Zoetis, and AstraZeneca.
- Novo Nordisk shares declined after the company reported disappointing phase III trial results for its obesity drug CagriSema. CagriSema showed an intent-to-treat weight loss of 20.4%, below the threshold of 25% the market had been anticipating. But digging through the details there were some promising data points. 40% of patients lost 25% or more of body weight and, at lower doses, the drug's tolerability was more favorable than existing drugs on the market. While the data suggests CagriSema has not established a new best-in-class benchmark, it is comparable to current best-in-class drugs and should be commercially viable.
- Zoetis is a niche healthcare company, providing products for companion animals and livestock. Shares declined on the back of negative news flow surrounding one of its key drugs, Librela. Librela is a relatively new drug used for pain management in dogs with osteoarthritis. There have been reports of adverse side effects, culminating in the Food and Drug Administration (FDA) issuing a letter to veterinarians notifying them of potential issues. While the situation bears monitoring, the general consensus is the drug is doing more good than harm and should continue to see additional growth in the market.
- AstraZeneca is a global pharmaceutical company with what we believe to be one of the broadest, deepest pipelines in the industry. Shares declined on the back of news reports of a Chinese insurance fraud investigation. We think the likely commercial and financial impact will be very manageable and the share price reaction overdone. We find it encouraging that China approved a new AstraZeneca drug for sale post this news, suggesting the company's China business is not at risk of going away.
- During the quarter, we initiated positions in two new holdings, Entergy Corporation in utilities and PACCAR Inc. in industrials. Entergy is a long-term holding within our Shareholder Yield franchise. PACCAR is held in our Quality Capital Reinvestment strategies. We believe these investments upgrade the portfolio in terms of business quality, risk diversification, and multi-year compounding potential.
- Entergy is a regulated electric utility serving residential, commercial, and industrial customers in Arkansas, Louisiana, Mississippi, and Texas. The company's geographic footprint on and near the Gulf Coast uniquely positions it at the intersection of four major secular trends - onshoring, clean energy, electrification, and technology which could drive above average growth for decades.

Portfolio Review (Continued)

- For example, Entergy's markets offer access to international markets, profuse infrastructure for transportation and energy, supportive communities and governments, and low-cost energy. These distinctive advantages are highly compelling to industrial companies seeking to invest in onshore manufacturing capacity. Likewise, for technology companies looking to build massive AI data centers, states like Mississippi and Louisiana offer business friendly terms and speed-to-market advantages due to their abundance of land and reliable electricity. In early 2024, Entergy announced an agreement to power a new $10 billion data center campus for Amazon in Mississippi to support its cloud services business. More recently, Entergy announced an agreement with Meta Platforms to build three natural gas plants that will serve a $10 billion data center in Louisiana. With Meta carrying a significant portion of the financial burden, Entergy will be able to grow its rate base withing burdening existing rate payers. Reflecting these favorable trends and developments, we believe Entergy's earnings growth rate should accelerate to the high-single digit rate and sustain for many years to come, though this does not appear fully reflected in valuation.
- PACCAR is a leading global truck manufacturer. It makes premium quality commercial vehicles under the Kenworth, Peterbilt, and DAF brands, as well as diesel engine and powertrain components. It distributes aftermarket parts through its vast dealer network and offers finance and leasing services to customers. PACCAR operates in a large, cyclical, and structurally growing market that is the lifeblood of the U.S. and global economies. It generates industry-best unit economics and excess through-cycle returns due to its oligopolistic industry structure and wide competitive moat. Its moat is sustained by its leading brands, innovation advantage, and strong dealer network. Management delivers strong and growing free cash flow over time by regularly expanding its vehicle product range, upgrading its manufacturing and parts distribution facilities, and investing in technologies that enhance vehicle fuel efficiency and reliability. The stock appears mispriced due to short-term concerns related to the current market downcycle and the sustainability of margins. However, a 2026 truck prebuy ahead of the 2027 Environmental Protection Agency (EPA) emissions standards change, coupled with continued mix shift towards higher-margin parts and services as the installed base grows, could alleviate these concerns over time and serve as catalysts for the shares.
- We did not close any positions in the portfolio in Q4.

Outlook

- As usual, there is a broad mix of tailwinds and headwinds facing markets as we kick-off the new year. On the positive side of the ledger, the U.S. economy remains resilient, inflation is slowly moving toward target, central banks continue to cut rates, and there remain substantial assets sitting in money market funds. On the negative side of the ledger, valuations are moderately expensive, the payoff from a massive AI-led investment cycle remains unknown, and geopolitical risk is high with ongoing military conflicts and several new governments being formed around the world.
- With respect to U.S. exceptionalism, it is remarkable to note the U.S. now comprises 74% of the MSCI World Index, up from 58% a decade ago. Despite this long period of out-performance, we suspect U.S. stock markets can continue to outpace their international brethren. We expect better economic and earnings growth in the U.S. vs. the rest of world. The results of the U.S. elections are likely to create a more favorable corporate environment with less regulatory and anti-trust pressures, greater acceptance of M&A, and perhaps lower taxes. The U.S. is at the forefront of AI, which is still in its early days. In contrast, international markets will need to contend with the prospects of increasing tariffs and intensifying trade wars, deteriorating demographics, and the knock-on effects of a slowing China.
- While the macroeconomic and geopolitical environment provides important context to be mindful of, we are stock pickers at heart. We aim for our results to be dictated by the fundamental developments with our companies and not by big top-down macro bets. Reflective of this approach, 85% of the portfolio's active risk was allocated to stock selection at year-end. Our emphasis on stock-specific risk lends itself to a balanced portfolio construction approach, focusing on owning a diversified portfolio of quality companies that consistently earn excess returns and generate, sustain, and grow free cash flow over time. We desire such companies to be run by management teams with a demonstrated ability to thoughtfully allocate capital between value-creating reinvestment and shareholder distributions, and whose economic interests are aligned with those of minority owners. Finally, we seek to buy these companies at reasonable or cheap valuations. We believe this investment approach creates a winning proposition for our clients over time and through market cycles.

Before You Invest

Definitions:

The **S&P 500 Index** is widely regarded as the standard index for measuring large-cap U.S. stock market performance.

The **Nasdaq-100 Index** includes 100 of the largest domestic and international non-financial companies listed on The Nasdaq Stock Market based on market capitalization.

The **Morgan Stanley Capital International World Index—the MSCI World Index**—is a free float-adjusted market capitalization weighted index that is designed to measure the equity performance of 23 developed markets. An index is unmanaged and investors can not invest directly in an index.

The **Nikkei 225 Index** is a price weighted equity index, which consists of 225 stocks in the prime market of the Tokyo Stock Exchange.

Free cash flow (FCF) represents the cash available for the company to repay creditors or pay dividends and interest to investors.

About risk

The principal risk of investing in value stocks is that the price of the security may not approach its anticipated value. Investing in smaller companies involves special risks, including higher volatility and lower liquidity. Investing in mid-cap stocks may carry more risk than investing in stocks of larger, more well-established companies. Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks. These risks may be greater for emerging markets.

Past performance is not indicative of future results. Portfolio data and holdings are as of 12/31/24, are based on total net assets, and may change daily. The opinions and statements expressed herein are for informational purposes and subject to change without notice. The securities discussed are not intended to be, and are not, an indication to buy, sell, or hold. Rather, the securities are mentioned to give insight into the largest contributors to performance and the largest detractors from performance so that clients and prospective clients can more readily obtain an understanding of the risk characteristics of the portfolio and the portfolio management process followed by Epoch.

Please keep in mind that there is no assurance that investment objectives will be met, as the underlying investment options are subject to market risk and fluctuate in value.

These are Epoch's opinions, which are subject to change, and there is no guarantee that these results will occur.

New York Life Investments Managed Accounts engages the services of Epoch Investment Partners, Inc., a non-affiliated federally registered advisor, to subadvise the portfolio.

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