NYLI Epoch Global Equity Yield (ADR)†

Portfolio managed by:

EPOCH

Shareholder Yield is poised to capture the productivity of a growing economy while remaining defensively positioned for resiliency should growth begin to falter quicker than expected.

Market Review

- Global markets were volatile during the fourth quarter of the year, ending the period with mixed returns. Growth indices were positive and outperformed value indices which logged negative returns. A majority of sectors were negative with materials, health care and real estate declining the most. Consumer discretionary, communication services, and information technology were the sectors that generated the strongest returns. After a challenging start to the quarter, stocks saw a big rally following the Trump win in the November presidential election, tabbed to factors including a resurgence in animal spirits, the removal of the election overhang, expectations for stronger economic growth, a bump higher of profit expectations, and a better regulatory and M&A environment.
- The Federal Reserve (Fed) lowered interest rates by 25 basis points (bps) in both November and December. However, in December the Fed's hawkish comments triggered a stock market sell-off after scaling back the number of interest rates cuts expected in 2025. This was due to persistently sticky inflation. The core Personal Consumption Expenditures (PCE) price index, which is the Fed's preferred measure of inflation, increased 2.8% year-on-year in November. The European Central Bank (ECB) cut interest rates by 25 basis points in both October and December while indicating there would likely be more cuts to come in 2025.

Portfolio Performance[1] (as of 12/31/24)

	Pure Gross Return	MSCI World Index	Net Return*
QTR	-4.03	-0.16	-4.76
1 Year	15.81	18.67	12.42
3 Years	8.14	6.34	4.95
5 Years	8.40	11.17	5.21
10 Years	7.34	9.95	4.18
Since Inception[2] (11/30/2010)	9.56	10.40	6.34

ADR = American Depository Receipt.

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

1. Pure Gross and Net composite performance reflects reinvestment of income and dividends.

2. Inception date is November 30, 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 Equity Yield ADR SMA was renamed NYLI Epoch Global Equity Yield SMA.

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

Portfolio Review

- For the fourth quarter of the year, the NYLI Epoch Global Equity Yield SMA posted a return of negative 4.0% (gross) while the broad market returned negative 0.2% as measured by the MSCI World Index. The strategy was challenged by the growth-focused nature of the quarter's rallies, with negative exposure to the growth factor providing a material headwind to performance. A reemergence of extremely narrow market leadership within U.S. big tech companies further hampered relative return.
- Absolute return was negative in most sectors, with the largest detractions coming from health care and communication services. Within health care, pharmaceutical stocks were the largest drag on return. Diversified telecommunications holdings accounted for the detraction within communication services.
- On a relative basis, the strategy trailed the broad market benchmark for the quarter, although it outperformed the MSCI Word High Dividend Yield Index. Market concentration within the Magnificent 7 was once again the primary impediment to relative return. Communication services and consumer discretionary were the two sectors most accountable for underperformance, and the detractions were significantly driven by having no position in Alphabet, Tesla, and Amazon. Tesla and Amazon remain outside of our investable universe due to not paying a dividend.
- Among the largest individual contributors to return were Broadcom and Salesforce. Broadcom is a designer and manufacturer of digital and analog semiconductors focused on connectivity. It also develops and maintains software for mainframe applications. Shares advanced on fiscal year end results which included a expanded outlook of the AI addressable market. They see their market for custom AI accelerators growing to 60-90 billion by 2027 from 15-20 billion today. Broadcom returns cash to shareholders via an attractive dividend with a target of paying out 50% of Free Cash Flow (FCF). The balance of cash generation is used to fund debt reduction, share repurchases, and/or accretive M&A. Salesforce is the worldwide market leading provider of Customer Relationship Management software. Shares outperformed on the launch and outlook for its Agentforce Artificial Intelligence (AI) platform. The underlying core business remains growing with cost control helping profitability. Agentforce provides a potential to take additional market share and reduce cost showing preliminary uptake and low hallucinogenic responses which has been a key block in adoption for other AI solutions. The company pays a regular dividend and returns 30-40% of cash generation in the form of share repurchases. The remainder of cash generation remains focused on acquisitions.
- Among the largest detractors were KLA and Novartis. KLA is a dominant provider of tools for inspection, process control, and yield management for the semiconductor industry. Shares underperformed on a wafer equipment manufacturer delivering a profit warning due to sales drying up in China and additional restrictions on sales from the U.S. government. Late in October KLA posted earnings which demonstrated strong earnings in China. Given the already installed capacity in the country as well as KLA's larger scope to address legacy semiconductor nodes we do not believe they are more insulated to the changing demand in China but not immune. Process control remains crucial to semiconductor yield and demand will remain growing over time. The company returns 70% of free cash flow back to shareholders through a progressive dividend and share repurchases. Novartis is a global pharmaceutical and consumer healthcare company with a broad portfolio of patented and generic medicines across a broad range of therapeutic areas. Novartis held a CMD (Capital Markets Day) in November where they increased 2024-2029 sales growth target from 5% to 6% and raised peak sales potential on some of its key drugs. However, the healthcare sector in general and Novartis in particular, came under pressure in the quarter with the announcement that President-Elect Trump had picked Robert F. Kennedy, Jr. to be his Secretary of Health and Human Services, given his unconventional views regarding the healthcare industry. With that said, at the CMD, management reiterated its focus on cash generation and dividends' growth and re-confirmed its commitment to buybacks.
- A new position was initiated in Lloyds Banking Group. Lloyds operates the largest retail banking franchise in the U.K., with 27 million customer relationships and leading market share across core product areas such as mortgages, credit cards, vehicle financing, and SME banking. The company maintains a valuable deposit franchise, well-capitalized balance sheet, and manages a loan portfolio with a strong credit quality history, all which drive net income and support a strong return on equity on a mid-cycle basis. Lloyds pays attractive, growing dividends, and regularly directs excess capital toward share repurchases.
- Positions were closed in Garmin (GRMN) and BCE. Garmin offers specialized activity tracking devices, marine tools, aviation tools and automotive products. Garmin is leveraged to multi-sport athletes, boat owners and small plane operators whose spending patterns are unlikely to be disrupted by macroeconomic cycles. GRMN earns and maintains share in its markets because it offers compelling products and a user-friendly interface that consumers find familiar across activities. The company is further differentiated from competition by its large R&D team and insourced production.

Portfolio Review (Continued)

Garmin returns cash to shareholders through a growing, well-covered dividend and has recently initiated a share buyback program. We closed the position to fund better yielding opportunities. Bell Canada Enterprises is Canada's largest communication company with over 21 million customers. Shares underperformed as the company announced a foray into the U.S. market acquiring Ziply Fiber. The acquisition will be near term FCF cash dilutive as they build out their fiber footprint in the Northeast. Longer term it should develop into an opportunity to grow in a market with less competition and favorable demographics. With the pressure on the shares in light of the reduced debt reduction expectations we exited the name to meet to better meet the overall objectives of the portfolio. BCE is committed to maintaining its dividend.

Outlook

- After another consecutive year of very strong performance, we expect more moderate equity returns looking forward, reflecting a mixed macroeconomic and geopolitical backdrop. Continued strength in the U.S. economy alongside moderating inflation have seen fears of recession in the near-term erode, however, the path forward is still not set in stone. Fed easing is underway, coming alongside rhetoric conveying a shift in focus from inflation to unemployment. Going forward, supportive policy for the labor market will need to be carefully balanced against the risk of reigniting inflation. Donald Trump's recent victory, while generally received favorably by markets, also raises new questions around the implied impacts of his economic policy, especially pertaining to broad based tariffs, which are currently one of the largest drivers of uncertainty for investors regarding the year ahead.
- Corporate earnings have been strong, although much of that earnings strength has been concentrated in a handful of U.S. tech companies. We are encouraged by the resilience we observe in recent earnings away from big tech and believe that investors' fixation on that cohort for much of 2024 offers a strong opportunity to find value in less rewarded market segments that are expected to produce strong, sustainable growth in earnings and free cash flow. Recent market broadening has supported this belief, and if we can avoid a hard landing and the Fed and other central banks get it right, we should see a continuation of this trend and good earnings from more companies. We note, however, that there are several risks to economic growth and corporate earnings. It is still premature to call victory against inflation. Wage growth remains elevated in labor intensive service industries and housing costs are proving sticky. Should inflation reassert itself, or should the lagged effects of monetary tightening begin to bite more acutely, there exists the possibility of a significant policy error by central banks around the world.
- Outside the U.S., the geopolitical and macroeconomic backdrop remains more challenging. A general uptick in geopolitical tension has remained an ongoing trend, with broad deglobalization and realignment of global supply chains via onshoring/reshoring threatening to suppress long term growth potential. Further catalysts for volatility stem from multiple armed conflicts that have erupted globally with little end in sight. Sustained escalation between Israel and Iran is particularly concerning, as it threatens a destabilization in global energy prices and the myriad knock-on effects that come with such a disruption. Monetary tightening has been felt more sharply abroad as well, with many central banks making their first rate cut much earlier in 2024 than the Fed in response to slowing economies.
- We remain cautiously optimistic on the path forward for the economy and for equities, but in our opinion the wide array of possible outcomes is something that investors should be considering while managing risk exposures and positioning for the year ahead. Shareholder Yield is poised to capture the productivity of a growing economy while remaining defensively positioned for resiliency should growth begin to falter quicker than expected. The strategy offers a diversified portfolio of high-quality companies with reliable free cash flow growth and long-standing track records for sound capital allocation practices, providing durable stability and long-term consistency.

Before You Invest

Definitions:

Earnings Per Share (EPS) is a figure describing a public company's profit per outstanding share of stock. It is the ratio of company's net income to the number of its shares outstanding.

The **Personal Consumption Expenditures (PCE**) price index is a measure of how much people in the United States pay for goods and services.

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.

The **MSCI World High Dividend Yield Index** is based on the MSCI World Index, its parent index, and includes large and mid cap stocks across 23 Developed Markets (DM) countries. The index is designed to reflect the performance of equities in the parent index (excluding REITs) with higher dividend income and quality characteristics than average dividend yields that are both sustainable and persistent. It is not possible to invest directly in an index.

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

Past performance does not guarantee 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.

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.

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.

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