

Natixis/Vaughan Nelson Mid Cap Strategy



QUARTERLY STRATEGY COMMENTARY

US equity markets continued to move higher in the second quarter, although leadership of a few mega cap stocks continued to be the dominant theme. The Fed continued its holding pattern on overnight interest rates, now signaling a single rate cut later this year as its base case. Inflation continued to soften, although it remains above target and a key watchpoint along with a backdrop of greater geopolitical unease heading into a fall US election. The US economy has had resilient growth and historically low unemployment levels. As Q2 brought more normalized economic data, investors are increasingly expecting a soft landing. Annual US inflation was 3.3% in May, down slightly from Q1 levels, and unemployment rose slightly to 4.0%. United States GDP rose by an annualized rate of 1.4% in the first quarter of 2024, significantly lower than last year's robust growth. The S&P 500® Index rose (4.3%) for the quarter, with broadly positive results. Information technology (+13.8%), communication services (+9.4%), and utilities (+4.7%) were the top performers during the quarter. Materials (-4.5%), industrials (-2.9%), energy (-2.4%), and real estate (-0.6%) were the top detracting sectors during the quarter. Growth substantially outperformed value over the quarter, with the Russell 1000® Growth Index (+8.3%) versus the Russell 1000® Value Index (-2.2%), and the Russell 1000® Index (+3.6%) outperformed the Russell 2000® Index (-3.3%).

The Natixis/Vaughan Nelson Mid Cap Strategy fell in value and underperformed the Russell Midcap® Value Index gross and net of fees. During the quarter, relative underperformance was driven by both sector allocation and security selection. Underweights to utilities and real estate were the largest detractors, while an overweight to information technology contributed to results. Securities selected in healthcare were the largest detractor and were partially offset by modestly positive selection in information technology, consumer discretionary and utilities.

QTD top/bottom contributors to relative performance:

- The most significant relative contributors were Monolithic Power Systems, Royal Caribbean, Tyler Technologies, CACI International and Skechers U.S.A.
- The most significant relative detractors were DoorDash, Bruker, Constellium, IQVIA and Ulta Beauty.

Trades and positioning:

- At the end of the quarter, the largest overweight sector was industrials, while the largest underweight sector was utilities.
- There were eight new purchases and seven full sellouts during the trailing three months ended May 2024. The new purchases were: Royal Caribbean, Corteva, Flowserve, Kemper and Kosmos Energy. The most significant sells were: Mongo DB, Ulta Beauty, WillScot Mobile Mini, First American Financial, and Republic Services.

Year-to-date (YTD), the strategy rose in value and outperformed the benchmark gross and net of fees. Stock selection drove relative outperformance, while sector allocation was modestly positive. Investments in utilities, industrials, energy and consumer discretionary were the largest contributors to relative return, offset partially by underperforming names in financials, information technology, healthcare and real estate. From a sector allocation perspective, an underweight to communication services was the largest contributor, while an underweight to utilities was the largest detractor.

YTD top/bottom contributors to relative performance:

- The most significant relative contributors were: Vistra, Vertiv, Monolithic Power Systems, Royal Caribbean and TechnipFMC.
- The most significant relative detractors were MongoDB, MSCI, Ulta Beauty, ON Semiconductor and DoorDash.

Markets have performed well thus far in 2024, although gains leveled off during Q2. Traditionally, markets have reacted positively in election years, although slowing GDP growth, inflation, and future monetary policy remain key concerns for investors. With these uncertainties, ongoing geopolitical tensions and macroeconomic weakness may spur market volatility. The resulting market environment has increasingly proven challenging to navigate. We continue to believe that active fundamental research combined with investment discipline provides an attractive way to navigate market uncertainty.

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Definitions

The **S&P 500® Index** is an unmanaged index of US common stocks frequently used as a measure of stock market performance. **Russell 1000® Growth Index** is an unmanaged index consisting of those companies in the Russell 1000® Index with higher than average price-to-book ratios and forecasted growth. The **Russell 1000® Value Index** is an unmanaged index consisting of those companies in the Russell 1000® Index with lower than average price-to-book ratios and forecasted growth. The **Russell 1000® Index** measures the performance of the 1,000 largest companies in the Russell 3000® Index. The **Russell 2000® Index** measures the performance of the small-cap segment of the US equity universe. The Russell 2000® is a subset of the Russell 3000® Index and includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The **Russell 2500™ Index** measures the performance of the 2,500 smallest companies in the Russell 3000® Index. **Russell Midcap® Value Index** is an unmanaged index that measures the performance of the mid-cap value segment of the US equity universe. It includes those Russell Midcap® Index companies with lower price-to-book ratios and lower forecasted growth values. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Russell Investment Group. You may not invest directly in an index. These indexes are referred to for comparative purposes only and are not necessarily intended to parallel the risk or investment approach of the accounts included in the composites or the accounts managed by Natixis Advisors. Indexes are unmanaged and not available for direct investment.

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