NATIXIS INVESTMENT MANAGERS

SOLUTIONS

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Natixis/Vaughan Nelson Select Strategy

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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 remains 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 Select Strategy fell in value and underperformed the Russell 3000® Index gross and net of fees. During the quarter, security selection drove relative underperformance and sector allocation was modestly negative. Securities selected in industrials, information technology, consumer staples, financials, communication services, health care, materials and real estate were the largest detractors, partially offset by outperforming selections in energy. From a sector allocation perspective, an overweight to materials was the largest detractor, while an underweight to industrials contributed to results.

QTD top/bottom contributors to relative performance:

- The most significant contributors were: Monolithic Power Systems, Alphabet, NVIDIA, Intuit and Hess.
- The most significant relative detractors were: Saia, Estee Lauder, Kinsale Capital, not holding Apple and Walt Disney.

Trades and positioning:

- At the end of the quarter, the largest overweight sector was materials, while the largest underweight sector was industrials.
- There were three new buys during the trailing three months ended May 2024: Corteva, DoorDash and Intuit. There were four full sellouts during this period: Accenture, Hess, Prologis and Salesforce.

Year-to-date (YTD), the strategy rose in value and underperformed the benchmark gross and net of fees. Security selection was the primary driver of underperformance, though sector allocation was also negative. Securities selected in health care, information technology, consumer staples, industrials, materials, energy and real estate were the largest detractors. They were partially offset by outperforming selections in consumer discretionary and financials. From a sector allocation perspective, the largest detractors were: an overweight to materials and an allocation to cash. An underweight to industrials was the largest contributor to returns from a sector allocation perspective.

YTD top/bottom contributors to relative performance:

- The most significant relative contributors were NVIDIA, Monolithic Power Systems, Alphabet, not holding Tesla and Amazon.

YTD top/bottom contributors to relative performance:

- The most significant relative contributors were NVIDIA, Monolithic Power Systems, Alphabet, not holding Tesla and Amazon.
- The most significant relative detractors were Snowflake, Estee Lauder, Zoetis, Accenture and DexCom.

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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