

Natixis/Vaughan Nelson Small Cap Value Equity Strategy



QUARTERLY PORTFOLIO COMMENTARY

US Equity markets fell in the first quarter, with the S&P 500® and Dow Jones Industrial Average shedding -4.3% and -0.9%, respectively. Notably, the tech-heavy Nasdaq Composite entered correction territory, falling -10.3% in the quarter as markets continue to digest the tariff-driven volatility. The Fed held rates steady, maintaining the 4.25%–4.50% range at both the January and March Federal Open Market Committee (FOMC) meetings. Although inflation expectations rose, annual US inflation continued to moderate, with a reading of 2.8% in February, while the unemployment rate came in at 4.2% in March. United States Gross Domestic Product (GDP) rose by an annualized rate of 2.4% in the fourth quarter of 2024, down slightly from 2.8% in the third quarter. The Atlanta Fed's GDPNow model estimates a 2.8% contraction in first quarter GDP, based on data available through the end of March. Within the S&P 500®, energy (+9.9%), healthcare (+6.4%), and consumer staples (+5.0) were the top contributing sectors, while consumer discretionary (-13.9%), information technology (-12.7%), and communication services (-6.3%) were the largest detractors. During the quarter, value (Russell 1000 Value, +2.1%) sharply outperformed growth (Russell 1000 Growth, -10.0%) and large-cap stocks (Russell 1000 Index, -4.5%) held up better than small-cap stocks (Russell 2000, -9.5%).

The Natixis/Vaughan Nelson Small Cap Value strategy fell in value and outperformed the Russell 2000® Value Index gross and net of fees. Security selection drove relative outperformance during the quarter, as sector allocation was flat. Investments in industrials, consumer discretionary, energy, and financials were the largest contributors, while those in materials and healthcare detracted from results. From a sector attribution perspective, the largest detractors were an underweight to utilities, an overweight to industrials, and an underweight to real estate. This was partially offset by contribution from underweights to information technology and healthcare.

Quarter-to-date top/bottom contributors to relative performance:

- The most significant relative contributors were Beacon Roofing Supply, FirstCash Holdings, Antero Resources, First American Financial, and Celestica.
- The most significant relative detractors were Columbus McKinnon, Cushman & Wakefield, AAON Inc, Bruker Corp, and Acadia Healthcare.

Trades and positioning:

- At the end of the quarter, the largest overweight sector was industrials, while the largest underweight sector was real estate.
- There were four new purchases, 12 full sell-outs during the trailing three months ended February 2025. The four new purchases were Bruker Corp., GXO Logistics, Spire Inc., and Hanover Insurance. The five most significant full sales by weight were Axalta Coating Systems, United Bankshares, Acadia Healthcare, Fabrinet, and Coty Inc. During this period, Vaughan Nelson both initiated and liquidated a position in R2000V ETF as part of its cash management.

Global markets faced increased volatility in the first quarter, as tariff-driven economic and geopolitical concerns have risen to the forefront. Resulting recession risks, unemployment uncertainty, weakening consumer sentiment, and sticky inflation may spur further 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 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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