

Natixis/Vaughan Nelson Small Cap Value Equity Strategy



QUARTERLY PORTFOLIO 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%) vs. 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 Small Cap Value strategy fell in value but outperformed the Russell 2000® Value Index gross of fees (lagged net of fees). Security selection drove relative outperformance during the quarter, while sector allocation detracted from results. Investments in healthcare, information technology and consumer staples were the largest contributors, while those in financials, industrials, consumer discretionary and energy underperformed. From a sector-attribution perspective, the largest detractors were underweights to financials and utilities. This was partially offset by an underweight to healthcare and an allocation to cash that contributed to results.

QTD top/bottom contributors to relative performance:

- The most significant relative contributors were Kirby, Fabrinet, TransMedics Group, Globus Medical and Coca-Cola Consolidated.
- The most significant relative detractors were Alamo Group, Installed Building Products, Janus International, Skyline Champion and Academy Sports and Outdoors.

Trades and positioning:

- At the end of the quarter, the largest overweight sector was industrials, while the largest underweight sector was financials.
- There were four new purchases and four full sellouts during the trailing three months ended May 2024. The new purchases were AMN Healthcare Services, Atkore, NAPCO Security Technologies and TransMedics Group. The full sales were Encore Wire, Landstar System, Old National Bancorp and Skechers U.S.A.

Year to date (YTD), the strategy rose in value and outperformed the benchmark gross and net of fees. Security selection was the primary driver of outperformance. Investments in information technology, industrials, healthcare, consumer discretionary and consumer staples were the largest contributors. They were partially offset by underperforming selections in materials. Sector allocation was broadly positive, and the largest contributor was an overweight to industrials. An underweight to energy detracted from YTD results.

YTD top/bottom contributors to relative performance:

- The most significant relative contributors were Kirby, Core & Main, Element Solutions, TransMedics Group and Fabrinet.
- The most significant relative detractors were not holding Carvana, Chemours, First American Financial, Alamo Group and Academy Sports and Outdoors.

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 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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