AlphaSimplex Global Alternatives Fund

ALPHASIMPLEX

QUARTERLY PORTFOLIO COMMENTARY

Market commentary

Volatility across global markets in the third quarter was down materially compared to the trailing two quarters. Around the end of August a clear, consistent change of sentiment took place as the outlook dimmed into the fourth quarter. Throughout the quarter, activity in commodities was the exception to the lower-volatility environment, as agricultural markets responded to strong technical factors and surged through the period. Otherwise, monetary and fiscal support fostered constructive sentiment for the reflation trade in July and August, which ultimately softened in September on higher virus case counts and geopolitical uncertainty.

The US dollar's steady weakening continued in the third quarter, reflecting a pervasive risk-on sentiment through the end of August. Most currencies appreciated against the dollar in the third quarter, with the exception of the Turkish lira and the Brazilian real, which carried their own unique, elevated geopolitical and public health-related risks. Concerns about inflation re-emerged this year following the unprecedented, coordinated, and renewed response by central banks and politicians, which also likely contributed to moves out of the US dollar in the first two months of the third quarter. After plunging dramatically in March, a standard market benchmark for inflation expectations (the 5-year, 5-year Forward Inflation Rate) steadily pushed above the important 2% level in August for the first time since May of last year, nurturing new debates about price stability amidst the Fed's new, more tolerant inflation policy.

In commodity markets, agricultural prices strengthened significantly in the third quarter, while energy showed downward price pressure and both precious and industrial metals moved up in an unusually correlated way. Both supply and demand factors in agricultural markets aligned, as severe weather combined with renewed expectations of stronger demand out of China pushed prices up sharply. Energy commodities reflected seasonality and more visibility into the uncertain outlook for economic recovery in the US.

Equities in the US came through the third quarter with the strongest returns among the largest developed markets around the world. The reflation trade pushed the S&P 500® Index to pre-pandemic levels, peaking on September 2 at 3,580. At the same time, European and Japanese markets remained well short of the highs both markets reached earlier in 2020. In the UK, snags in the Brexit negotiations and higher virus numbers pulled the FTSE 100 Index down to just under 5% for the quarter. The notable exception to the US outperformance was the substantially smaller Swedish stock market which gained just under 10% in the three months from June 30 to September 30.

Interest rates in developed markets were overwhelmed by the firm hand of central banks' execution of accommodative policies. However, the steady risk-on sentiment in US equities from June 30 to the beginning of September followed an increase in the 10-year benchmark US Treasury yield in a classic rotation out of the safety of US Treasuries and into the equity market. From its low on August 4 of 0.507%, the yield ran up to 0.752% in just over three weeks, only to trade in a lower, narrower range as stocks pulled back in the uniform change of sentiment that pervaded markets around the world at that time.

Explanation of Fund performance

AlphaSimplex Global Alternatives Fund Class Y shares returned 1.14% during the third quarter of 2020. Although the Fund does not seek to track any particular index, the Barclay Fund of Funds Index may be used as a benchmark for performance analysis. This benchmark returned 3.32% for the same period. It is important to note that there are material differences between the Fund and its benchmark.

The Fund seeks to take on exposures that reflect the liquid, dynamic broad market exposures of the hedge fund industry as well as exposures related to hedge fund-like alternative risk premia strategies. When the Fund takes on a "long"[1] exposure to a market, the

[1] The purchase of an asset with the expectation that the asset will rise in value.

long exposure generally profits as the price of the underlying market rises, but suffers losses when its price falls. When the Fund takes on a “short”[2] exposure, the short exposure generally suffers losses as the price of the underlying market rises, but profits as its price falls. In taking on these exposures, the Fund typically makes extensive use of futures[3] and forward[4] contracts on global stock indexes, fixed income securities, currencies, and commodities. The Fund can also use short and long exposures to single-name equities as part of its risk premia strategies. As market events unfold, these market exposures result in a profit or loss for the Fund.

The third quarter is a tale of two market environments: July and August saw a continued strong rebound in risk assets and remarkably low volatility, while some of those gains were surrendered during the month of September as volatility increased. The Fund’s underperformance relative to its benchmark was largely driven by our risk management and volatility targeting. The Fund targets a stable level of volatility. If the instruments we trade show a large increase in volatility, we bring down the allocation to those instruments such that the portfolio volatility is expected to remain fairly constant.

The annualized volatility of the S&P 500 during the 6 months ending February 21, 2020 was approximately 11%. During the period of February 24, 2020 to April 30, 2020, the volatility of the S&P 500 was closer to 70%. This led to smaller position sizes coming out of the severe crisis months – particularly in the Hedge Fund Consensus component of the portfolio – and thus to more limited participation from that component’s long equities positions as the markets moved substantially higher in July and August. We often think about the volatility targeting of equities as being like buying insurance: When there is a short drop followed by a rebound, one ends up paying an insurance premium, but when it's a short drop that continues, the policy pays out (as in 2008).

Hedge Fund Consensus. The Fund’s Hedge Fund Consensus models drove slightly more than half of the quarter’s gains. The continued rally in risk assets drove gains in long positions in the S&P 500, Russell 2000, and DAX futures. Bonds also contributed nicely, with contributions from 10-year Treasury futures and the Bund. Lower real interest rates in the US relative to other countries seemed to drive the US dollar lower, which hurt the short euro position within the Hedge Fund Consensus component of the Fund, thus leading to a negative contribution from currencies. Finally, commodities contributed positively to the Hedge Fund Consensus sleeve, seemingly driven by the same underlying macro trends; lower real yields and inflation concerns seemed to drive gold prices higher, thus benefiting the Fund’s long position in the metal.

Alternative Risk Premia. Interestingly, more than all of the gains contributed by the alternative risk premia (ARP) component of the portfolio (which were slightly less than half of the quarter’s gains) occurred in the month of September – a month during which equities were down. For the quarter, the Trend and Momentum category was the most substantial contributor, with some of the category’s more unique strategies (an enhanced equity momentum strategy and a cross-sectional commodities momentum strategy) performing best. The Value category also contributed nicely. Despite a strong rebound in September, the largest negatively contributing category during the quarter was Structural and Flow Premia, as a currency model, a low-volatility model, and a commodity strategy focused on mean reversion contributed negatively. Finally, the Carry and Curve category’s contribution was approximately flat. We broadly increased the allocation of these ARP strategies during the quarter in order to reflect our confidence in their ability to provide a highly diversifying element of the Fund’s overall return stream.

AlphaSimplex aims to gradually increase the breadth of techniques employed in the Fund to continue to capture the exposures and investment approaches found in hedge funds. During the quarter, we added allocations to two ESG-related strategies that trade single-name equities. While modest, the contribution from the Fund’s money market holdings was positive over the quarter.

Risk management

The Fund’s portfolio is adjusted on a daily and monthly basis to incorporate changing market dynamics and new information about hedge funds’ exposures, and on a daily basis to control risk. The risk control mechanism is designed to target an average annual

[2] The sale of an asset with the expectation that the asset will fall in value.
[3] A standardized contract using a clearinghouse to buy or sell an underlying commodity, security, currency, or index at a predetermined price in the future.
[4] A private agreement between two parties to buy or sell an underlying commodity, security, currency, or index at a predetermined price in the future.

volatility of 9% or less.[5] As market volatility increases, position sizes are reduced, and as market volatility decreases, position sizes are increased.

At the beginning of July, the Fund's risk controls continued to be activated in response to the extreme rise in volatility that began during the last two weeks of February and lasted throughout the remainder of the second quarter. Because we use recent realized volatility as an input in our future volatility estimates, it generally takes some time for the Fund's realized volatility to respond to the reduced exposures that result from the Fund's risk controls. Partially based on the lingering effects of the ultra-high volatility environment that began in late February, and then followed by extremely low volatility during the months of July and August, the Fund's realized volatility was lower than typical in the third quarter at 3.89%.

Outlook

The general outlook for the fourth quarter is deeply uncertain. The resumption of the third quarter's reflation trade is subject to ongoing risks posed by geopolitics and public health factors. Another dominant factor looming over markets is the outcome of the US presidential election – not just the election-day winner, but the expectation of a legal conflict over the results of mail-in voting. Beyond these, there are many more variables that carry a wide array of outcomes, including the US Supreme Court nomination, Brexit, virus data, economic recoveries, fiscal support, and civil unrest.

The discrete change to less-constructive market sentiment at the end of August and into September may represent a persistent trend in the fourth quarter as concerns outweigh constructive factors. The US dollar and Treasury markets would continue to benefit from that risk-off sentiment scenario. Credit spreads would also likely widen in response.

Inflation has moved back up the list of tail risks to markets. Owing to technological innovation and demographic shifts in the last decade, inflation has remained remarkably stable at a low level despite massive increases in money supply in the world's largest economies. The combination of fresh exponential growth in money supply and trillions of dollars and euros in fiscal support flowing directly to consumers and small business owners has raised the specter of higher inflation and its implications for global markets and policy.

Average annualized total returns (%) † as of 9/30/2020

	3 months	YTD	1 year	3 years	5 years	10 years
Class Y	1.14	-6.34	-3.99	0.68	0.67	2.34
Class A at NAV	1.06	-6.53	-4.24	0.41	0.40	2.08
Class A with 5.75% maximum sales charge	-4.74	-11.89	-9.73	-1.53	-0.78	1.47
Barclay Fund of Funds Index	3.32	1.81	4.26	1.69	1.92	2.20

Performance data shown represents past performance and is no guarantee of, and not necessarily indicative of, future results. Total return and value will vary, and you may have a gain or loss when shares are sold. Current performance may be lower or higher than quoted. For most recent month-end performance, visit im.natixis.com. Performance for other share classes will be greater or less than shown based on differences in fees and sales charges. †Performance for periods less than one year is cumulative, not annualized. Returns reflect changes in share price and reinvestment of dividends and capital gains, if any. You may not invest directly in an index.

Gross expense ratio 1.37% (Class Y share) / 1.62% (Class A share). Net expense ratio 1.34% (Class Y share) / 1.59% (Class A share). As of the most recent prospectus, the investment adviser has contractually agreed to waive fees and/or reimburse expenses (with certain exceptions) once the expense cap of the Fund has been exceeded. This arrangement is set to expire on 4/30/22. When an expense cap has not been exceeded, the gross and net expense ratios and/or yields may be the same. Not all share classes available for purchase by all investors. Class Y shares are available to institutional investors with a minimum initial investment of $100,000 and through certain wrap-fee programs, retirement plans, and investment advisory accounts with no minimum. See prospectus for more details.

[5] The Fund seeks to target a relatively stable level of annualized volatility (as measured by standard deviation), but the targeted volatility is subject to change. There is no guarantee that the target will be achieved and the realized volatility level of the Fund can be higher or lower than its target volatility at any given point in time. Volatility is not an indicator of expected return or a measure of protection against loss.

Risks

Leverage can increase market exposure and magnify investment risk. **Futures and forward contracts,** like other derivatives, can involve a high degree of risk and may result in unlimited losses. Because they depend on the performance of an underlying asset, they can be highly volatile and are subject to market, credit, and counterparty risks. **Short exposures** using derivatives may present various risks. If the value of the asset, asset class or index on which the Fund holds short investment exposure increases, the Fund will incur a loss. The potential risk of loss from a short exposure is theoretically unlimited, and there can be no assurance that securities necessary to cover a short position will be available for purchase. **Equity securities** are volatile and can decline significantly in response to broad market and economic conditions. **Foreign and emerging market securities** may be subject to greater political, economic, environmental, credit, currency and information risks. Foreign securities may be subject to higher volatility than US securities, due to varying degrees of regulation and limited liquidity. These risks are magnified in emerging markets. **Commodity-related investments,** including derivatives, may be affected by a number of factors including commodity prices, world events, import controls, and economic conditions and therefore may involve substantial risk of loss. **Currency exchange rates** between the US dollar and foreign currencies may cause the value of the fund's investments to decline. **Interest rate risk** is a major risk to all bondholders. As rates rise, existing bonds that offer a lower rate of return decline in value because newly issued bonds that pay higher rates are more attractive to investors. **Concentrated investments** in a particular region, sector, or industry may be more vulnerable to adverse changes in that industry or the market as a whole.

Index definitions

The Barclay Fund of Funds Index is a measure of the average return of all Funds of Funds ("FoFs") in the Barclay database. The index is simply the arithmetic average of the net returns of all the FoFs that have reported that month. Index returns are recalculated by Barclay Hedge, Ltd. throughout each month. The Fund does not expect to update the index returns provided if subsequent recalculations cause such returns to change. In addition, because of these recalculations, the Barclay Fund of Funds Index returns reported by the fund may differ from the index returns for the same period published by others. The performance of the Index reflects the managed fees and other expenses of both the funds of funds in the Index and the hedge funds in which these funds of funds invest.

DAX Index is a stock index that represents 30 of the largest and most liquid German companies that trade on the Frankfurt Exchange. The prices used to calculate the DAX Index come through Xetra, an electronic trading system. A free-float methodology is used to calculate the index weightings along with a measure of average trading volume. The DAX was created in 1988 with a base index value of 1,000. DAX member companies represent roughly 75% of the aggregate market cap that trades on the Frankfurt Exchange.

The U.S. Dollar Index (USDX®) (also sometimes referred to as DXY) is a geometrically averaged calculation of six currencies weighted against the U.S. dollar.

The Merrill Lynch Option Volatility Estimate Index (MOVE) is the bond market's equivalent of the Chicago Board Options Exchange Volatility Index (VIX), and helps to gauge the current level of fear or complacency in fixed income markets.

Nikkei is short for Japan's Nikkei 225 Stock Average, the leading and most-respected index of Japanese stocks. It is a price-weighted index composed of Japan's top 225 blue-chip companies on the Tokyo Stock Exchange. The Nikkei is equivalent to the Dow Jones Industrial Average Index in the US. In fact, it was called the Nikkei Dow Jones Stock Average from 1975 to 1985.

TOPIX is an index that measures stock prices on the Tokyo Stock Exchange (TSE). This capitalization-weighted index lists all firms that are considered to be under the 'first section' on the TSE, which groups all of the large firms on the exchange into one pool. The second section groups all of the remaining smaller firms.

You may not invest directly in an index.

Disclosure

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Before investing, consider the Fund’s investment objectives, risks, charges, and expenses. Please visit im.natixis.com or call us at 800-225-5478 for a prospectus or a summary prospectus containing this and other information. Read it carefully.

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