

Vaughan Nelson Mid Cap Fund



QUARTERLY PORTFOLIO COMMENTARY

Market Overview

Following the largest quarterly decline on record in Q1 2020, the S&P 500 and Russell 2000 Value rose 20.5% and 18.9%, respectively, during the second quarter. This equity market rally is consistent with the unprecedented monetary and fiscal policy support that went into the economy and with the bottoming of economic activity in late March to early April.

We continue to monitor high frequency data to ascertain the trajectory and sustainability of the ongoing economic recovery. While the recovery continues, the rate of improvement is starting to moderate as pent-up demand is being exhausted and economic agents remain leery of taking on incremental risk. There are still approximately 30 million people on unemployment benefits, and the various components of the fiscal stimulus package are set to begin expiring in August. Without an extension of many of these components or additional stimulus added to the economy, it will not be possible to return our economy to its previous level of economic output and sustain risk assets at current valuation levels. Fortunately, monetary officials and members of Congress are aware of this fact and will likely move quickly, barring an interruption by the political calendar, to implement additional measures, as necessary.

While the United States has finally reached the point where the federal government has become the marginal lender and spender of last resort, we are not alone. Planned stimulus measures across Europe and Asia are likely to dwarf those undertaken during the global financial crisis of 2008/2009. While policy support is very much warranted, investors will be dealing with the intended and unintended consequences of these actions for many years.

Portfolio Positioning

As a result of buys and sells and market action, sector weightings increased in Consumer Discretionary, Consumer Staples, Health Care, Industrials, Technology, Materials, and Real Estate and decreased in the Communication Services, Energy, Financials, and Utilities sectors. The portfolio is overweight Technology, Materials, and Utilities while underweight Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, and Real Estate.

Contributors to Performance

During the quarter, the portfolio experienced positive absolute performance but underperformed the benchmark. The relative performance was primarily driven by stock selection. Stock selection within Consumer Discretionary, Technology, Industrials, and Materials detracted the most from relative performance. Stock selection within Communication Services, Financials, Consumer Staples, and Health Care contributed the most to relative performance. The portfolio was also underweight Real Estate, which contributed to relative performance since Real Estate underperformed the market.

Performance Analysis % (Average Annual Total Returns)

| | 3 months | YTD | 1 year | 3 years | 5 years | 10 years |
|--|----------|--------|--------|---------|---------|----------|
| Class Y | 18.81 | -14.70 | -7.26 | 0.65 | 0.20 | 9.59 |
| Russell Midcap [®] Value Index ¹ | 19.95 | -18.09 | -11.81 | -0.54 | 3.32 | 10.29 |

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. You may not invest directly in an index. 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.

Gross expense ratio 1.20% (Class Y share). Net expense ratio 1.16% (Class Y share). As of the most recent prospectus, the investment advisor 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 4/30/21. When an expense cap has not been exceeded, the gross and net expense ratios 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.

Definitions

The **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. **S&P 500® Index** is a widely recognized measure of US stock market performance. It is an unmanaged index of 500 common stocks chosen for market size, liquidity, and industry group representation, among other factors. It also measures the performance of the large-cap segment of the US equities market. **Alpha** is a measure of the difference between a portfolio's actual returns and its expected performance, given its level of systematic market risk. A positive alpha indicates outperformance and negative alpha indicates underperformance, relative to the portfolio's level of systematic risk.

Risks

Equity securities are volatile and can decline significantly in response to broad market and economic conditions. **Smaller company investments** can be more volatile than those of larger companies. **Value investing** carries the risk that a security can continue to be undervalued by the market for long periods of time.

Disclosure

Top 10 Holdings (as of 6/30/20)

| Company | % of Portfolio |
|--|----------------|
| Nexstar Media Group, Inc. Class A | 3.07 |
| Vistra Energy Corp. | 2.18 |
| TCF Financial Corp. | 2.17 |
| Constellation Brands, Inc. Class A | 2.14 |
| Crown Holdings, Inc. | 2.08 |
| ServiceMaster Global Holdings, Inc. | 2.08 |
| Fidelity National Information Services, Inc. | 2.06 |
| FMC Corp. | 2.03 |
| Crane Co. | 2.03 |
| Fiserv, Inc. | 2.02 |

This information is dated and cannot be relied upon as current thereafter. This portfolio is actively managed and holdings are subject to change. There is no guarantee the fund continues to invest in the securities referenced. Reference to specific securities or holdings should not be considered recommendations for action by investors.

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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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