

Vaughan Nelson Select Fund



QUARTERLY PORTFOLIO COMMENTARY

Performance Analysis % (Average Annual Total Returns)

	3 months	YTD	1 year	3 years	5 years	Life of class (6/29/12)
Class Y	1.99	20.16	1.61	12.69	10.39	14.30
S&P 500® Index ¹	1.70	20.55	4.25	13.39	10.84	13.74

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 1.29 % (Class Y share). Net expense ratio 1.21% (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 3/31/20. 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.

Market Overview

During the third quarter of 2019, equity markets experienced increased volatility as bond yields fell dramatically intra-quarter before recovering modestly in September. The S&P 500 continued to add to year-to-date gains, while small-cap indices fell during the quarter. During the quarter, the S&P 500 and Russell 2000 Value returned approximately 1.70% and -0.57%, respectively. The S&P 500 continues to make modest new highs, while small-cap indices remain well below their highs achieved in 2018.

As we previously noted, a global US dollar funding shortage would force the Federal Reserve to restart quantitative easing (QE). This US dollar funding shortage became more acute during the third quarter materially interrupting inter-bank lending via spiking general collateral overnight repo rates. This disruption forced the Federal Reserve to provide emergency liquidity during the quarter in order to force overnight rates in line with its policy objectives.

While the global economy continues to experience a manufacturing slowdown/recession driven by China’s internal rebalancing and by softening energy industry fundamentals, the biggest threat to risk assets is what we have termed a “liquidity recession”. The primary excess during the current 10-year bull market has been liquidity in the form of QE. The excess liquidity that wasn’t absorbed in the real economy found its way into risk assets’ prices. Liquidity began to retreat with the implementation of quantitative tightening by the Federal Reserve and with tightening capital controls by China. We have seen the declining liquidity conditions impact asset prices as global equity indices’ valuations, commodity prices, and global luxury real estate prices have declined. Most recently, the market has repriced the private equity “unicorns” and the IPO market has cooled with several high-profile offerings postponed.

Rising US deficits and slowing private sector fundamentals will further pressure liquidity and ultimately risk assets unless the US Federal Reserve begins to materially and sustainably increase its balance sheet. While central banks globally are beginning to cut interest rates, this will have a minimal impact on liquidity. Low rates are not the problem, the issue is interbank lending and the availability of US dollar funding capacity. We suspect the Federal Reserve will slowly be forced to provide dollar liquidity on a sustainable basis. Should this occur, the Federal Reserve will find itself at a familiar crossroad where it can choose to control either the price of money (i.e. interest rates) or the quantity of money (i.e. US dollar exchange rate/inflation), but not both. We suspect they will choose the former over the latter.

US equity markets continue to price in an earnings recovery beginning in the next two quarters. The leading economic indicators we track show economic activity stabilizing in Europe, but further weakness is expected in Japan, the United States, and China. While Japan is vulnerable to a recession, the United States and China are poised for a further slowdown, but not necessarily a recession. The next three months will be critical in determining whether the increasing stability we are forecasting in Europe can spread to China and the United States or whether the stability is a transitory improvement that presages further economic weakness. For the fourth quarter, we are anticipating further market volatility as weak Q3 earnings reports and modest earnings guidance occurs at a time of

liquidity strains in the market. Valuations have risen materially in the first half of 2019 as markets recovered, and we expect markets to remain volatile until we are in an environment of sustained economic growth and have adequate US dollar funding liquidity.

Portfolio Positioning

As a result of buys and sells and market action, our weightings in Information Technology, Communication Services, Consumer Staples, Health Care, and Utilities increased during the quarter. The portfolio's weighting in Financials, Energy, Industrials, Materials, and Consumer Discretionary declined during the quarter.

Contributors to Performance

During the quarter, the portfolio experienced positive absolute performance and outperformed the Russell 2000 Value index. Stock selection was positive in all sectors except Financials, Consumer Discretionary, and Utilities. The portfolio continues to be underweighted the traditional defensive sectors such as Consumer Staples, REITs, and Utilities while also underweight the more cyclical areas of the benchmark. As such, we continue to experience better support in broad market selloffs but remain economically exposed should economic growth reaccelerate.

Definitions

1 **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. **Russell 2000**[®] **Value Index** is an unmanaged index that measures the performance of the small-cap value segment of the US equity universe. It includes those Russell 2000[®] companies with lower price-to-book ratios and lower forecasted growth values. **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. **Non-diversified funds** invest a greater portion of assets in fewer securities and therefore may be more vulnerable to adverse changes in the market. **Options** may be used for hedging purposes, but also entail risks related to liquidity, market conditions and credit that may increase volatility. The value of the fund's positions in options may fluctuate in response to changes in the value of the underlying asset. Selling call options may limit returns in a rising market. **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 9/30/19)

Company	% of Portfolio
Sherwin-Williams Co. (The)	5.78
Home Depot, Inc. (The)	5.59
Electronic Arts, Inc.	5.41
Dollar Tree, Inc.	5.34
Berkshire Hathaway, Inc. Class B	4.67
Microsoft Corp.	4.59
Walt Disney Co. (The)	4.59
AT&T, Inc.	4.53
AbbVie, Inc.	4.39
General Dynamics Corp.	4.36

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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