NATIXIS INVESTMENT MANAGERS

Q3 | September 30, 2019

Vaughan Nelson Value Opportunity Fund

VAUGHAN NELSON INVESTMENT MANAGEMENT

QUARTERLY PORTFOLIO COMMENTARY

Performance Analysis % (Average Annual Total Returns)

	3 months	YTD	1 year	3 years	5 years	10 years
Class Y	2.13	22.61	-1.34	6.23	4.86	10.11
Russell Midcap® Value Index[1]	1.22	19.47	1.60	7.82	7.55	12.29

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 1.20% (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 4/30/20. 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 leading 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 U.S. dollar funding liquidity.

Portfolio Positioning

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

We continue to position the portfolio into companies that have lower earnings variability and higher profitability than the broader investment universe, and where we can get these characteristics at similar valuation levels to the benchmark index. We still do not favor any single industry or sector and continue to look for the characteristics noted above across all industries.

Contributors to Performance

During the quarter, the portfolio experienced positive absolute performance and outperformed the benchmark. The relative performance was driven by stock selection. Stock selection within Technology, Consumer Discretionary, Materials, Utilities, Consumer Discretionary, and Health Care contributed the most to relative performance. Stock selection within the Financials, Industrials, and Energy sectors detracted from relative performance. The portfolio was also underweight REITs, which performed well during the quarter.

Definitions

1 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 9/30/19)

Company	% of Portfolio
Nexstar Media Group, Inc. Class A	3.24
Vistra Energy Corp.	2.63
CACI International, Inc. Class A	2.55
Fiserv, Inc.	2.53
Fidelity National Information Services, Inc.	2.49
Evergy, Inc.	2.47
Constellation Brands, Inc. Class A	2.32
Allstate Corp. (The)	2.17
Ameren Corp.	2.14
SolarWinds Corp.	2.13

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