CFRA

# Funds in Focus

*Thematic fund research based on proprietary analytics from CFRA*

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# Under the Radar, But Strong Performing Active ETF

## Key Takeaways

| Positive (+) or Negative (-) Implications |
|---|
| (+) Apple (AAPL) |
| (+) Amazon.com (AMZN) |
| (+) Natixis Vaughan Nelson Select ETF (VNSE) |
| (+) Vertex Pharmaceuticals (VRTX) |

- Natixis Vaughan Nelson Select ETF (VNSE) is one of many ETFs that launched in the last three years that already have earned a CFRA five-star rating based on its record and what is inside.
- The actively managed U.S. equity ETF rose 40% in 2021, beating the S&P 500 by more than 1,000 basis points. VNSE has a strong combination of reward potential and risk mitigation attributes looking forward, according to CFRA.
- The ETF holds fewer than 30 stocks, but many are viewed favorably to CFRA's fundamental research team including Apple (AAPL), Amazon.com (AMZN), and Vertex Pharmaceuticals (VRTX).

## Fundamental Context

**Though actively managed equity ETFs represent just 2% of the broader category's assets, many asset managers have launched such funds in the past three years, seeing an opportunity to meet investors where they are.** The asset gathering success of ARK Innovation ETF (ARKK) in 2020 coupled with the conversion of mutual funds into ETFs by Dimensional Funds for products like Dimensional US Core Equity 2 ETF (DFAC) in 2021 has helped make actively managed equity ETFs more compelling. Asset managers such as Natixis have recently brought established active strategies into the ETF world, leveraging the same managers and investment approach.

VNSE, which launched in September 2020, is run by Scott Weber and Chris Wallis using the same bottom-up, concentrated style used for Natixis Vaughan Nelson Select Fund (VNSYX), which will turn 10 years old this June. VNSYX rose 20.1% on an annualized basis in the five-year period ended 2021, outpacing the S&P 500 Index's 18.5% gain while incurring a three-year beta of 1.01.

**VNSE has also already generated strong performance.** In the ETF's first full calendar year, VNSE rose 40%, ahead of the 29% return for the S&P 500 Index. While the fund has a multi-cap approach, the year-end median market capitalization of its 28 holdings was $43 billion, with management seeking predictable returns over a three-year period rather than focusing on quarterly results. The ETF owns companies where management believes the future redeployment of capital is not reflected in the current valuation; or where the stock is priced at a discount to asset value with an identifiable catalyst to close the valuation gap; or that sport a high, stable dividend yield and seeks to incur minimal downside risk. CFRA finds the fund's top-10 holdings, recently equal to 49% of assets, to have high quality attributes and in many cases to be attractively valued.

While the fund owns mega-cap companies like APPL, AMZN, Alphabet (GOOGL) and Microsoft (MSFT), more moderately sized companies like Clorox (CLX), Danaher (DHR), and VRTX provide diversification. In early 2022, CLX shares sold off as the company anticipated stronger cost headwinds negatively impacting profitability. However, consistent with the ETF's long-term approach, Weber explained to CFRA that he had confidence in company management to reduce costs and is encouraged by the core demand for its household products. He believes CLX has undervalued earnings growth potential and a strong balance sheet to support its dividend.

Meanwhile, Weber described VRTX as offering the leading drug used by cystic fibrosis patients but noted that the stock was trading at a discounted valuation on investor concerns about potential competition. He believes the biotechnology company is well positioned to withstand the pressure and will be able to redeploy capital to support a strong drug pipeline. CFRA has a Buy recommendation on VRTX shares, believing it has ample room for revenue and earnings growth over the next three years.

**Low turnover does not mean no turnover.** While management takes a three-year approach with its stock picks, sometimes the time frame is sped up. For example, VNSE bought biotechnology company Moderna (MRNA) in April 2021 on high confidence about the potential for usage of its Covid-19 vaccine, but the fund sold its last stake in October 2021 with profits after the risks were higher following a competing drug maker's pill to fight Covid.

## Conclusion

CFRA has five-star ratings on more than 350 U.S. listed equity ETFs, 30% of which have less than a three-year track record and many that have less than $50 million in assets. We believe that's what's inside an ETF is just as important as its record. VNSE is a strong example of an equity ETF that is under the radar but warrants consideration by those that prefer an active, yet low turnover approach.

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## Disclosure:

*This ETF is different from traditional ETFs. Traditional ETFs tell the public what assets they hold each day. This ETF will not. This may create additional risks for your investment. For example: You may have to pay more money to trade these ETFs' shares. This ETF will provide less information to traders, who tend to charge more for trades when they have less information. The price you pay to buy ETF shares on an exchange may not match the value of the ETF's portfolio. The same is true when you sell shares. These price differences may be greater for this ETF compared to other ETFs because it provides less information to traders. These additional risks may be even greater in bad or uncertain market conditions. This ETF will publish on its website each day a Proxy Portfolio ("Proxy Portfolio") designed to help trading in shares of the ETF. While the Proxy Portfolio includes some of these ETFs' holdings, it is not the ETFs' Actual Portfolio ("Actual Portfolio"). The differences between this ETF and other ETFs may also have advantages. By keeping certain information about the ETF secret, this ETF may face less risk that other traders can predict or copy its investment strategy. This may improve the ETFs' performance. If other traders are able to copy or predict the ETFs' investment strategy, however, this may hurt the ETFs' performance. For additional information regarding the unique attributes and risks of this ETF, see the discussion on the Proxy Portfolio and the "Proxy Portfolio Structure Risk," "Authorized Participant Concentration Risk," "Predatory Trading Practices Risk," "Premium/Discount Risk," and "Trading Issues Risk" within the prospectus*

### Average annualized total returns (%) † for the Natixis Vaughan Nelsons Select ETF (VNSE) as of 3/31/2022:

| | 3 months | YTD | 1 year | 3 years | 5 years | Since Inception (9/16/20) |
|---|---|---|---|---|---|---|
| ETF (NAV) | -2.69 | -2.69 | 24.83 | - | - | 30.15 |
| ETF (Market Price) | -2.68 | -2.68 | 24.76 | - | - | 30.22 |
| S&P 500® Index | -4.60 | -4.60 | 15.65 | - | - | 22.55 |

**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.** An exchange-traded fund's market price is the price at which shares in the ETF can be bought or sold on the exchanges during trading hours, while the net asset value (NAV) represents the value of each share's portion of the fund's underlying assets and cash at the end of the trading day. ETFs calculate the NAV at 4 p.m. ET, after the markets close. †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 1.94%. Net expense ratio 0.80%. 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 4/30/24. When an expense cap has not been exceeded, the gross and net expense ratios may be the same. See prospectus for more details.

### Average annualized total returns (%) † for the Vaughan Nelson Select Fund (VNSYX) as of 3/31/2022:

| | 3 months | YTD | 1 year | 3 years | 5 years | Since Inception (6/29/12) |
|---|---|---|---|---|---|---|
| Class Y (VNSYX) | -2.52 | -2.52 | 24.82 | 22.32 | 17.88 | 16.74 |
| S&P 500® Index | -4.60 | -4.60 | 15.65 | 18.92 | 15.99 | 15.31 |

**Performance data quoted represents past performance and is no guarantee 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 0.88% (Class Y share). Net expense ratio 0.85% (Class Y 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 3/31/23. 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.

## Risks:

**ETF General Risk:** Exchange-Traded Funds (ETFs) trade like stocks, are subject to investment risk, and will fluctuate in market value. Unlike mutual funds, ETF shares are not individually redeemable directly with the Fund, and are bought and sold on the secondary market at market price, which may be higher or lower than the ETF's net asset value (NAV). Transactions in shares of ETFs will result in brokerage commissions, which will reduce returns. **Active ETF:** Unlike typical exchange-traded funds, there are no indexes that the Fund attempts to track or replicate. Thus, the ability of the Fund to achieve its objectives will depend on the effectiveness of the portfolio manager. There is no assurance that the investment process will consistently lead to successful investing. **Equity Securities Risk:** Equity securities are volatile and can decline significantly in response to broad market and economic conditions. **Small and Mid-Cap Stocks Risk:** Investments in small and midsize companies can be more volatile than those of larger companies. **Value Investing Risk:** Value investing carries the risk that a security can continue to be undervalued by the market for long periods of time. **Predatory Trading Practices Risk:** Although the Fund seeks to benefit from keeping its portfolio holdings information secret, market participants may attempt to use the Proxy Portfolio and related Proxy Portfolio Disclosures to identify the Fund's holdings and trading strategy. If successful, this could result in such market participants engaging in predatory trading practices that could harm the Fund and its shareholders. **Proxy Portfolio Structure Risk**: Unlike traditional ETFs that provide daily disclosure of their portfolio holdings, the Fund does not disclose the daily holdings of the Actual Portfolio. Instead, the Fund discloses a Proxy Portfolio that is designed to reflect the economic exposure and risk characteristics of the Fund's Actual Portfolio on any given trading day. Although the Proxy Portfolio and Proxy Portfolio Disclosures are intended to provide Authorized Participants and other market participants with enough information to allow them to engage in effective arbitrage transactions that will keep the market price of the Fund's shares trading at or close to the underlying NAV per share of the Fund, while at the same time enabling them to establish cost-effective hedging strategies to reduce risk, there is a risk that market prices will vary significantly from the underlying NAV of the Fund. **Authorized Participant Concentration Risk:** Only an authorized participant ("Authorized Participant") may engage in creation or redemption transactions directly with the Fund. The Fund has a limited number of institutions that act as Authorized Participants, none of which are or will be obligated to engage in creation or redemption transactions. To the extent that these institutions exit the business or are unable to proceed with creation and/or redemption orders with respect to the Fund and no other Authorized Participant is able to step forward to create or redeem Creation Units, Fund shares may trade at a discount to NAV and possibly face trading halts and/or delisting. The Fund's novel structure may affect the number of entities willing to act as Authorized Participants, and this risk may be exacerbated during times of market stress. **Trading Issues Risk:** Trading in Fund shares on the NYSE Arca may be halted in certain circumstances. If 10% or more of the Fund's Actual Portfolio does not have readily available market quotations, the Fund will promptly request that the NYSE Arca halt trading in the Fund's shares. Such trading halts may have a greater impact on the Fund compared to other ETFs due to its lack of transparency. **Premium/Discount Risk:** The market value of the Fund's shares will fluctuate, in some cases materially, in response to changes in the Fund's NAV, the intraday value of the Fund's holdings, and the relative supply and demand for the Fund's shares on the exchange. There is a risk (which may increase during periods of market disruption or volatility) that market prices for Fund shares will vary significantly from the Fund's NAV. This risk may be greater for the Fund than for traditional ETFs that disclose their full portfolio holdings on a daily basis because the publication of the Proxy Portfolio does not provide the same level of transparency as the publication of the full portfolio by a fully transparent active ETF. Fund is new with a limited operating history.

## Definitions:

The **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. You may not invest directly in an index. You may not invest directly in an index. **Basis points**, otherwise known as "bps" are a unit of measure often used to describe the percentage change in the value of an investment. One basis point is the equivalent to 0.01% or 0.0001 in decimal form. **Beta** measures the volatility of a security or a portfolio in comparison to the market as a whole. **Discount to asset value** is a pricing situation that occurs when the market trading price for a security is lower than its net asset value ("NAV"). The NAV is the value of the security's total assets at market close, minus the security's liabilities, divided by the total number of shares outstanding in the security. The **dividend yield**, expressed as a percentage, is a financial ratio (dividend/price) that shows how much a security pays out in dividends each year relative to its stock price.

### CFRA Rating Methodology:

The ETF overall rating provides quantitative and holistic assessment of the relative costs, rewards and risks of a given ETF compared with all ETFs in its Category. CFRA's approach incorporates a combination of holdings-analysis, total cost of ownership and certain relative performance metrics focused on consistency and limiting downside during times of market stress. ETFs receive ratings ranging from 5 STARS (highest) to 1 STAR (lowest), using machine-learning techniques, in an effort to identify which funds have the highest and lowest probability of outperformance of a broad category over the next nine months. For equity funds, the approach blends CFRA's proprietary forensic and fundamental approaches, including quantitative earnings quality scores and STARS (Stock Appreciation Ranking System), which offer a proven approach to equities analysis. Separately, CFRA rates fixed income ETFs utilizing the portfolio's yield and duration attributes. Additional key cost factors and performance metrics further support the ratings for all ETFs.

The Overall Ratings breakdown is as follows:

| | |
|---|---|
| **5-STARS** | Total return is expected to outperform the total return of a relevant benchmark over the coming 9 months. |
| **4-STARS** | Total return is expected to slightly outperform the total return of a relevant benchmark over the coming 9 months. |
| **3-STARS** | Total return is expected to closely approximate the total return of a relevant benchmark over the coming 9 months. |
| **2-STARS** | Total return is expected to slightly underperform the total return of a relevant benchmark over the coming 9 months. |
| **1-STARS** | Total return is expected to underperform the total return of a relevant benchmark over the coming 9 months. |

All of the views expressed in this research report accurately reflect CFRA's quantitative research models regarding any and all of the subject securities or issuers. No part of CFRA's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report. An ETF may receive an overall ETF rating even when the ETF does not have a rating for each of the input factors.

## Top 10 Holdings for VNSE

(as of 3/31/2022 and subject to change)

| Security Description | % of Portfolio |
|---|---|
| Berkshire Hathaway, Inc. Class B | 5.51 |
| Microsoft Corp. | 5.19 |
| Union Pacific Corp. | 5.14 |
| Danaher Corp. | 5.05 |
| Vertex Pharmaceuticals, Inc. | 4.91 |
| Motorola Solutions, Inc. | 4.74 |
| NextEra Energy, Inc. | 4.62 |
| Johnson & Johnson | 4.59 |
| Wheaton Precious Metals Corp. | 4.51 |
| Intercontinental Exchange, Inc. | 4.49 |

## Top 10 Holdings for VNSYX

(as of 3/31/2022 and subject to change)

| Security Description | % of Portfolio |
|---|---|
| Berkshire Hathaway, Inc. Class B | 5.35 |
| Microsoft Corp. | 5.05 |
| Union Pacific Corp. | 5.01 |
| Danaher Corp. | 4.91 |
| Vertex Pharmaceuticals, Inc. | 4.75 |
| Motorola Solutions, Inc. | 4.58 |
| NextEra Energy, Inc. | 4.50 |
| Johnson & Johnson | 4.45 |
| Wheaton Precious Metals Corp. | 4.40 |
| Intercontinental Exchange, Inc. | 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, and the holdings identified do not represent all of the securities purchased, sold or recommended. 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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