Natixis/Vaughan Nelson Select Strategy

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US equity markets continued to move higher in the third quarter with both the S&P 500® and Dow Jones Industrial Average ending September at record highs. Most notably, the Fed embarked on its much-anticipated easing cycle by cutting rates 50 basis points to 4.75%-5.00% at the September FOMC meeting, its first rate cut in four years. With inflation softening and closing in on its long-term target, the Fed's focus has shifted to supporting the labor market as unemployment continued to tick meaningfully higher, albeit from a near-historical low starting point. As Q3 brought more normalized economic data, investors are increasingly expecting a soft landing. Annual US inflation was 2.5% in August, the lowest since February 2021, and unemployment rose to 4.2%. United States GDP rose by an annualized rate of 2.8% in the second quarter of 2024, significantly higher than last quarter's 1.4% increase. The S&P 500® Index rose (+5.9%) for the quarter, with broadly positive results. Utilities (+19.1%), real estate (+16.9%), and industrials (+11.4%) were the top performers during the quarter. Energy, (-2.6%), information technology (+1.6%), and communication services (+1.6%) were the top detracting sectors during the quarter. Value substantially outperformed growth over the quarter, with the Russell 1000® Value Index (+9.4%) vs. the Russell 1000® Growth Index (+3.2%), and the Russell 2000® Index (+9.3%) outperformed the Russell 1000® Index (+6.1%).

The Natixis/Vaughan Nelson Select Strategy rose in value but underperformed the Russell 3000® Index gross and net of fees. During the quarter, security selection drove relative underperformance, and sector allocation was modestly negative. Securities selected in health care, communication services, energy, and industrials were the largest detractors, partially offset by outperforming selections in materials, financials, and information technology. From a sector allocation perspective, a lack of exposure to real estate and utilities were detractors, while overweights to financials and materials contributed to results.

Quarter to date (QTD) top/bottom contributors to relative performance:

- The most significant contributors were Sherwin-Williams, DoorDash, Comfort System USA, Kinsale Capital Group, and Intercontinental Exchange.
- The most significant relative detractors were: DexCom, Kosmos Energy, Alphabet, Saia Inc., and Antero Resources Corp.

Trades & positioning:

- At the end of the quarter, the largest overweight sector was consumer discretionary, while the largest underweight sector was consumer staples.
- There were four new buys during the trailing three months ended August 2024: ServiceNow Inc, Coca-Cola, Comfort Systems USA, and AGNC Investment Corp. There were three full sellouts during this period: Snowflake, DexCom, and Estee Lauder.

Year to date (YTD), the strategy rose in value and underperformed the benchmark gross and net of fees. Security selection was the primary driver of underperformance, though sector allocation was also negative. Securities selected in healthcare, communication services, energy, consumer staples, information technology, and industrials detracted from relative return. Those results were partially offset by outperforming selections in consumer discretionary and financials. From a sector allocation perspective, the largest detractors were an overweight to materials and an underweight to utilities. An overweight to consumer discretionary was the largest contributor to relative return from a sector allocation perspective.

YTD Top/Bottom contributors to relative performance:

- The most significant relative contributors were Monolithic Power Systems, NVIDIA, Comfort Systems USA, DoorDash, and ServiceNow Inc.
- The most significant relative detractors were DexCom, Snowflake, Kosmos Energy, Estee Lauder, and Accenture.

Markets have performed well thus far in 2024, with Q3 being no exception, as expectations of Global Central Bank rate cuts have buoyed risk assets. Traditionally markets have reacted positively in election years, although unemployment and consumer spending remain key concerns for investors. With these uncertainties, ongoing geopolitical tensions and macroeconomic weakness may spur market volatility. The resulting market environment has increasingly proven challenging to navigate. We continue to believe that active fundamental research combined with investment discipline provides an attractive way to navigate market uncertainty.

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