

Natixis/Vaughan Nelson Small Cap Value Equity Strategy



QUARTERLY PORTFOLIO COMMENTARY

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 (bps) 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 Small Cap Value strategy rose in value but underperformed the Russell 2000® Value Index gross of fees and net of fees. Security selection drove relative underperformance during the quarter, while sector allocation detracted as well. Investments in information technology, industrials, healthcare, materials, and energy were the largest detractors, while those in financials and consumer discretionary outperformed. From a sector attribution perspective, the largest detractors were a lack of exposure to communication services, an underweight to financials, and an overweight to industrials. This was partially offset by an underweight to energy that contributed to results.

QTD top/bottom contributors to relative performance:

- The most significant relative contributors were Western Alliance Bancorp, Champion Homes, Cushman & Wakefield, First American Financial, and AAON Inc.
- The most significant relative detractors were Rambus Inc, Janus International, Saia Inc, Lumen Technologies, and AMN Healthcare Services.

Trades and Positioning:

- At the end of the quarter, the largest overweight sector was industrials, while the largest underweight sector was real estate.
- There were five new purchases and nine full sellouts during the trailing three months ended August 2024. The new purchases were Portland General Electric, Stride Inc., Celestica Inc., FirstCash Holdings, and MaxLinear Group. The full sales were Advanced Drainage Systems, ASGN Inc., Ultra Clean Holdings, Mativ Holdings, Atkore, Academy Sports and Outdoors, Chord Energy, Saia Inc., and Core & Main Inc.

Year-to-date, the strategy rose in value but underperformed the benchmark gross and net of fees. Sector allocation was the primary driver of underperformance, while security selection contributed. The largest detractors were a lack of exposure to communication services, as well as underweights to financials, real estate, and utilities. This was partially offset by underweights to energy and healthcare, and an overweight to industrials that positively contributed to results. Investments in consumer discretionary, financials, and consumer staples were the largest contributors from a stock selection perspective. They were partially offset by underperforming selections in materials and energy.

YTD top/bottom contributors to relative performance:

- The most significant relative contributors were Kirby Corp., Installed Building Products, Core & Main, Coca-Cola, and Western Alliance Bancorp.
- The most significant relative detractors were Rambus Inc., Chemours Co., Janus International, AMN Healthcare Services, and McGrath RentCorp.

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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Definitions

The **S&P 500® Index** is an unmanaged index of US common stocks frequently used as a measure of stock market performance. **Russell 1000® Growth Index** is an unmanaged index consisting of those companies in the Russell 1000® Index with higher than average price-to-book ratios and forecasted growth. The **Russell 1000® Value Index** is an unmanaged index consisting of those companies in the Russell 1000® Index with lower than average price-to-book ratios and forecasted growth. The **Russell 1000® Index** measures the performance of the 1,000 largest companies in the Russell 3000® Index. The **Russell 2000® Index** measures the performance of the small-cap segment of the US equity universe. The Russell 2000® is a subset of the Russell 3000® Index and includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The **Russell 2500™ Index** measures the performance of the 2,500 smallest companies in the Russell 3000® Index. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Russell Investment Group. You may not invest directly in an index. These indexes are referred to for comparative purposes only and are not necessarily intended to parallel the risk or investment approach of the accounts included in the composites or the accounts managed by Natixis Advisors. Indexes are unmanaged and not available for direct investment.

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