

Mirova U.S. Sustainable Equity Fund



QUARTERLY PORTFOLIO COMMENTARY

Market environment

After declining for three straight quarters, global equity markets ended the year on a more positive, albeit still volatile, note, performing strongly during the fourth quarter. Equities generally performed positively as inflation moderated, central bankers took on a more dovish tone, pressure was reduced on energy supplies due to Europe's mild start to the winter, investors reacted to the potential easing of Covid restrictions and reopening in China, and global supply chain constraints eased.

From a regional perspective, Asian equities were supported by easing Covid restrictions in China, while developed markets ex-US, particularly European equities, generally outperformed US markets. US equities were held back somewhat by losses in widely held large-cap tech and consumer names, while European names saw some relief as investors reacted to softer inflation data, China optimism and a mild start to the European winter. In terms of sectors, Consumer Discretionary, Communication Services and Information Technology underperformed following weaker-than-expected quarterly results and forward guidance from several large, widely held technology and consumer names such as Meta, Amazon and Alphabet. The traditional Energy sector performed the strongest for the final quarter of the year on the back of record profits for certain companies, followed by the Industrials and Materials (mainly industrial metals and mining) sectors.

Fund performance

The Mirova U.S. Sustainable Equity Fund – Class Y outperformed the US equity market, represented by the S&P 500® Index, during the fourth quarter of 2022. The Fund returned 10.79%, net-of-fees, outperforming the S&P 500® Index, which returned 7.56%.

The main driver of the outperformance in the fourth quarter was stock selection. By GICS sectors, selections within Information Technology and Consumer Discretionary were the largest contributors, while our underweight to the Consumer Discretionary sector was also additive. The main detractors from relative performance were security selection within Financials and Industrials. Not owning traditional Energy was also a detractor from relative results.

GICS Sectors

By GICS sector, the strategy's outperformance was driven by security selection, primarily within Information Technology and Consumer Discretionary. This was driven by outperformance from certain holdings in our strategy as well as not having significant exposure to the widely held large-cap tech and consumer stocks that underperformed during the period after reporting weaker-than-expected quarterly results and forward guidance. The underweight to the Consumer Discretionary sector was also additive.

Within Information Technology, not owning Apple contributed to relative results, while portfolio holdings Mastercard, Roper Technologies and others outperformed the broader sector. Mastercard performed well partly due to the resilience of its business and partly due to the continued recovery of international travel. Roper Technologies performed well following solid third-quarter results and increased full-year guidance driven by continued strong demand for its niche software and product solutions. Within Consumer Discretionary, not owning Tesla and Amazon helped, while strategy holding Aptiv outperformed. Automotive technology supplier Aptiv performed well on easing supply constraints and following strong third-quarter results and full-year guidance being largely reaffirmed, showing resilience in a difficult environment.

Selection within Financials detracted from relative results mainly due to Signature Bank, which was lower on digital asset volatility as a portion of Signature's customer deposits are tied to the digital asset industry. Selection within Industrials also detracted from relative results due mainly to underperformance from Waste Management and Sunrun. Waste Management was slightly lower for the quarter due in part to profit-taking by investors after relatively strong performance. Residential solar company Sunrun underperformed as the stock receded from its year-to-date highs in mid-September, partly due to profit-taking by investors.

Mirova Sectors

By Mirova sector, securities selected within Information & Communication Technology (ICT) and Consumption, as well as our overweight to the Resources sector were the largest contributors to relative performance. Within ICT, not owning Apple contributed to relative results, while portfolio holdings Roper Technologies and NVIDIA outperformed the broader sector. NVIDIA performed strongly as the US government constraints on exports of high-end chips to China were less impactful for the company than expected and the company also expects stabilization in the gaming business. Within Consumption, not owning Amazon was the largest relative contributor, followed by our position in Estee Lauder, which was up on investor optimism around easing of Covid restrictions in China.

The main detractors from relative performance were security selection within our Mirova-defined Energy and Finance sectors. Within Energy, not owning traditional energy companies detracted while Sunrun also detracted from relative results. Within Finance, Signature Bank was the main detractor from relative results.

Position

The three best-performing stocks during the quarter were Intuitive Surgical, Deere, and Xylem. Robotic surgical systems company Intuitive Surgical outperformed during the quarter due in part to a recovery in its revenue growth and on easing capex constraints of hospitals. Deere performed well following solid third-quarter results from key competitor Caterpillar. Water technology company Xylem outperformed on certain broker price target increases and strong third-quarter results and increased full-year guidance as the company has shown resilience in a challenging environment.

The three worst-performing stocks were SVB Financial, Signature Bank and Sunrun. SVB was lower due to deposit base pressure as its customers experienced reduced investment flow in a difficult market environment. We believe that SVB's synergistic banking franchise in the innovation tech and healthcare sectors has strengthened in this challenging environment, and that its competitive advantages including deep sector expertise, unique relationship networks, and experience managing through volatile tech cycles position it well for renewed growth. Signature Bank continued to underperform given the macro backdrop and digital asset volatility, as a portion of its customers' deposits are tied to the digital asset industry. Sunrun, which had performed strongly following the announcement of a larger than expected climate bill in the US as part of the Inflation Reduction Act, fell from its year-to-date highs in mid-September partly due to profit-taking by investors.

Positioning

The portfolio invests in companies offering solutions to and/or expected to benefit from the demographic, technological, environmental and governance-related transitions that are expected to transform the world's economies and societies during the next decade.

As trends like the digitalization of our economy, which saw strong growth as a result of Covid-19, are expected to continue to grow strongly, and support for the health care sector is expected to show solid growth as a reaction to Covid-19 in the short term and as a result of an aging population and continued focus on health and well-being in the longer term, the portfolio remains overweight Technology and Health Care. The portfolio is underweight the GICS Financial sector, with no exposure to big banks, although the underweight is somewhat offset by exposure to names within the Technology sector that are connected to the digitalization of payments trend. With many governments still committed to keeping global warming limited to a 2-degree Celsius scenario, we expect climate change to remain a driver of political debate and the portfolio will continue to shy away from fossil fuel extraction in favor of renewables and companies focused on energy efficiency. As such, the portfolio has no exposure to the traditional Energy sector. The portfolio's overweight to the Utilities sector is driven partly by the conviction in the transition away from fossil fuels. Our conviction in the transition away from fossil fuels, if anything, was strengthened as a result of the Russia/Ukraine conflict as the need for Europe to move toward energy independence was reinforced and alternative energy will need to be a part of that. The passing of the IRA in the US, at least in the near term, provides additional visibility on the growth of renewables and energy-efficiency solutions. We continue to prefer companies with strong balance sheets, solid management teams, and positive exposure to long-term secular trends.

During the fourth quarter of 2022, we took the opportunity to trim our position in Eli Lilly, while adding to our position in NVIDIA.

Trimmed

Eli Lilly – We trimmed Eli Lilly following strong outperformance since we introduced it into the portfolio in the first quarter of 2021. We continue to like its unique position on diabetes, obesity, oncology and Alzheimer diseases in the long term. However, its valuation became less attractive, and we reallocated the proceeds into the NVIDIA position.

Additions (new positions)

NVIDIA – We used the proceeds of trimming the Eli Lilly position to add to our position in NVIDIA, which has been under pressure due to challenging macro environment and the restriction on the export of its high-end GPU to China. After an updated analysis, we believe that our long-term thesis on NVIDIA remains intact, with solid fundamentals and promising opportunities on enterprise AI, and autonomous driving. We believe NVIDIA's valuation is very attractive in our base case scenario, with limited further downside from here.

Outlook

Looking ahead to 2023, we expect continued volatility in equity markets, driven by many of the same issues markets faced in 2022. We expect a significant slowdown in economic activity in the first half of the year driven by central banks increasing interest rates to fight inflation. We continue to work under the assumption of higher inflation for longer, which is likely to lead to recession in both Europe and the US. The situation in Asia is a bit different, and the reopening of China's economy may help ease global supply chain constraints and support economic growth, though this is likely to be fragile as reopening is likely to lead to pressure on the health care system. We think that many central banks will continue to raise interest rates to fight inflation at least in the beginning of the year, impacting short-term interest rates. The good news is we believe we may have already seen inflation peak in the US at the end of 2022 and may be nearing the peak in Europe and other regions, meaning the probability of higher long-term interest rates is quite low. That said, we believe that inflation will be higher than it has been historically and for longer, buoyed in part by shifting supply chain practices where companies and industries as a whole are rethinking global supply chains, as companies and regions seek to reduce dependence on countries with autocratic regimes as well as those with restrictive Covid policies. After decades of globalization and outsourcing production to low-cost countries and, less visibly, social and environmental problems, bringing this closer to home will be a costly and lengthy process. Shifting global supply chains will be an in-focus theme for us in 2023, leading to more opportunities related to industrial automation and optimization of industrial processes across industries.

Energy and energy security will continue to be a big theme in 2023. In the near term, the biggest risks to the downside, in our view, include an escalation in the Russia/Ukraine conflict and the potential for Russia to leverage its oil and gas supplies to apply political pressure as the impact on the European economy would be immense. While short-term solutions such as importing liquid natural gas from other countries will be used, renewable energy is the only solution for Europe's energy security in the long term and can make the region truly energy independent. This should have a positive effect on wind, solar, and large-scale energy storage solutions such as hydrogen. It could take a few years, however, before this translates into higher earnings, but we will see much more research and development in the space. High energy prices are also expected to have a positive impact on energy-efficient solutions for both the private and the corporate market. The passing of the IRA in the US to some extent reinforces our conviction in the environmental transition, as the path ahead for the US seems clearer for the time being. Our portfolios are already well positioned within this context.

The final big theme for 2023 that we are watching closely is on biodiversity and our food systems. We see the focus on these themes strengthening in 2023 and beyond, driven by the increasing impact of Gen Z and awareness of the impact our food systems and human activities more broadly have on climate and biodiversity. For example, we see more opportunities emerging in companies offering solutions for sustainable land management and food production, ingredients and bioscience, water technology and sustainable packaging.

While volatility may remain high and we may see a recession in Europe and in the US in the first half of the year, valuations have become much more attractive in many parts of the market and are already reflecting much of the near-term risk we see, and we believe we could see a recovery in the second half of the year. We believe the portfolios are well positioned for both a recession and subsequent recovery. Our approach to security selection has led to our portfolios being overweight areas like utilities, health care, and food and beverages, sectors that tend to be more defensive in recessionary environments. We also know that due to trends like population growth and generational shifts, these sectors tend to do well also in a normal economic environment. However, if we do get a recovery, we also believe that renewable energy and the digitalization of our economy will also lead to many investment opportunities, areas that we have strong exposure to in the portfolios.

Equity valuations have been impacted significantly in 2022 by rising interest rates, with that impact the highest on companies, sectors and themes with long-term visibility of cashflow generation. Because we expect that inflation will peak around end-of-2022 levels, we believe that those are the areas that are the most attractive from a valuation perspective now. We're looking at companies within themes such as renewable energy and health care, but also at digitalization of our economy and may find opportunities to add names or add to existing holdings that have been hit hard already, but selectivity will continue to be key. In general, we like high-quality companies and, especially when interest rates are high, know that companies with larger amounts of debt on their balance sheets and those that may need to refinance that debt will find it more difficult to generate strong earnings growth. Therefore, we continue to focus the portfolio as a whole on high-quality companies with strong balance sheets.

Maintaining a long-term perspective and a focus on fundamentals is key in difficult environments. If we look beyond the short term, nothing has changed regarding the long-term demographic, environmental, technological and governance trends shifting the economy we focus on, such as aging population, climate change and digitalization. These trends are secular in nature. We continue to focus on individual company fundamentals to ensure that the fundamentals or the long-term theses on the companies have not changed. Overall, while our portfolios may have to endure a challenging environment in the short term, we believe that the portfolios are well positioned with high-quality companies addressing long-term thematic (secular) growth trends, believe that underlying fundamentals remain strong, and will continue to take advantage of disconnects between current stock prices and long-term value of companies.

Average annualized total returns (%) † as of 12/31/2022

	3 months	YTD	1 year	Life of class (12/15/20)
Class Y	10.79	-23.07	-23.07	1.01
Class A at NAV	10.68	-23.21	-23.21	0.80
Class A with 5.75% maximum sales charge	4.33	-27.64	-27.64	-2.07
S&P 500® Index	7.56	-18.11	-18.11	3.45

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. †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. You may not invest directly in an index. Benchmark since inception performance is calculated from 12/15/20.

Gross expense ratio 8.79% (Class Y share) / 8.99% (Class A share). Net expense ratio 0.80% (Class Y share) / 1.05% (Class A 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 4/30/23. 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

Equity securities are volatile and can decline significantly in response to broad market and economic conditions. **Investments in small and midsize companies** can be more volatile than those of larger companies. **The Fund's Environmental, Social and Governance (ESG) investment approach** could cause the Fund to perform differently compared to funds that do not have such an approach or compared to the market as a whole. The Fund's application of ESG-related considerations may affect the Fund's exposure to certain issuers, industries, sectors, style factors or other characteristics and may impact the relative performance of the Fund – positively or negatively – depending on the relative performance of such investments.

Definitions

MSCI World Index (Net) is an unmanaged index that is designed to measure the equity market performance of developed markets. It is composed of common stocks of companies representative of the market structure of developed market countries in North America, Europe, and the Asia/Pacific Region. The index is calculated without dividends, with net or with gross dividends reinvested, in both US dollars and local currencies. You may not invest directly in an index.

Disclosure

Top 10 Holdings (as of 12/31/2022)

Security Description	% of Portfolio
Microsoft Corp.	7.42
Thermo Fisher Scientific, Inc.	6.64
Mastercard, Inc. Class A	5.76
Roper Technologies, Inc.	4.79
Xylem, Inc.	4.48
NextEra Energy, Inc.	4.42
American Water Works Co., Inc.	4.32
Danaher Corp.	4.26
Waste Management, Inc.	4.18
NVIDIA Corp.	4.01

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