Natixis/Vaughan Nelson Mid Cap Strategy

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QUARTERLY STRATEGY COMMENTARY

US equity markets posted strong results during the quarter. Investors were rewarded with improving inflation data resulting in the Federal Reserve skipping a rate hike during their June meeting. The annual US inflation rate was down marginally in June, but remained stubbornly high, at 4.0%, compared with the Fed's 2% target. To tame inflation, the Fed signaled that a Q3 rate hike might be necessary. US economic growth moderated, with GDP increasing at an annual rate of 2.0% in the first quarter of 2023, down from 2.6% in the fourth quarter of 2022. US unemployment ticked up slightly to 3.6% in June, but employment resilience and the resolution of the debt ceiling uncertainty spurred markets higher. Financials rebounded in the wake of the March banking crisis, albeit not at the exuberant pace of many artificial intelligence and semiconductor related equities that led US equity markets during the quarter. Geopolitical uncertainties, including the Russia-Ukraine conflict, continued to weigh on investor sentiment, but strong employment data and economic resilience helped bolster investor optimism and ease fears of a hard landing. The S&P 500® Index rose 8.7% for the quarter, with significant dispersion between sectors. Information technology (+17.2%), consumer discretionary (+14.6%), communication services (+13.1%), and industrials (+6.5%) were the most notable positive performing sectors in the index. Utilities (-2.5%) and energy (-0.9%) were the only negative performing sectors in the index. Growth and Large Cap outpaced Value and Small Cap on a relative basis. The Russell 1000® Value Index rose by +4.1% compared to an increase of +12.8% in the Russell 1000® Growth Index, and the Russell 1000® Index rose by +8.6% compared to an increase of +5.2% in the Russell 2000® Index.

The Natixis/Vaughan Nelson Mid Cap Strategy rose in value and outperformed the Russell Midcap® Value Index gross of fees (lagged net of fees). During the quarter, relative outperformance was driven by security selection, while sector allocation was a drag on returns. Securities selected in healthcare, materials, information technology and consumer staples were the largest contributors. They were partially offset by underperforming selections in industrials and financials. From a sector selection perspective, an overweight to utilities, an underweight to consumer discretionary and an allocation to cash were the largest detractors, while an overweight to industrials was additive.

QTD Top/Bottom contributors to relative performance:

- The most significant relative contributors were AmerisourceBergen, Vulcan Materials, Republic Services, Tyler Technologies, and CACI International
- The most significant relative detractors were Nasdaq, WEC Energy Group, WillScot Mobile Mini, Nexstar Media Group, and BrightSphere Investment Group.

Trades & Positioning:

- At the end of the quarter, the largest overweight sector was utilities, while the largest underweight sectors were real estate, and consumer discretionary.
- There were five new purchases during the trailing three months ended May 2023: Crane Company, Monolithic Power Systems, MSCI, Ulta Beauty, and WEC Energy Group. During these months, there were also eight full sell outs: Analog Devices, Crane NXT, Elanco Animal Health, First Republic Bank, Huntington BancShares, PacWest Bancorp, and Southwestern Energy Company.

Year-to-date, the strategy rose in value and outperformed the benchmark gross of fees (lagged net of fees). Stock selection drove relative outperformance. Investments in healthcare, materials, consumer staples, and information technology contributed to relative return, offset partially by names held in communication services and consumer discretionary. Sector allocation weighed down relative performance primarily due to an underweight to consumer discretionary, an overweight to utilities and, an allocation to cash. An overweight to industrials and a lack of exposure to real estate were the most notable contributors.

YTD Top/Bottom contributors to relative performance:

- The most significant relative contributors were Tyler Technologies, Republic Services, AmerisourceBergen, Vulcan Materials, and Church & Dwight.
- The most significant relative detractors were First Republic Bank, Nasdaq, Allstate, WEC Energy Group, and Nexstar Media Group.

Monetary policy and the trajectory of the economy remain top of mind for investors. Inflation, growth expectations, the lengthy Russia-Ukraine war, and recessionary risks continue to remain key uncertainties for investors, as economists evaluate expectations of economic growth and recessionary risks in their forecasts. While volatility has subsided, uncertainties persist, and investors should remain mindful of the breadth of scenarios facing them. Active fundamental research, combined with investment discipline, may be the best approach in the months to come.

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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 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. 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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