NATIXIS INVESTMENT MANAGERS

SOLUTIONS

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Natixis/Vaughan Nelson Select Strategy

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QUARTERLY STRATEGY COMMENTARY

US equity markets soared in the fourth quarter, as the Fed confirmed a pause in rate rises, inflation continued to moderate, and the US economy hit its longest streak of unemployment below 4% since the Vietnam war. As a potential soft landing came into focus, investor optimism buoyed risk assets across equity and fixed income. Annual US inflation declined to 3.1% in November from 3.7% in August. Unemployment remained steady at 3.7% in December, up slightly from September levels. United States GDP rose by an annual rate of 4.9% in the third quarter of 2023, up significantly from 2.1% in the second quarter of 2023. The S&P 500® Index rose +11.7% for the quarter, with broadly positive results. Real Estate (+18.8%), Information Technology (+17.2%), Financials (+14.0%) and Industrials (+12.4%) were the top performers during the quarter. Energy (-6.9%) was the only negative returner during the quarter, though consumer staples (+5.5%) and Health Care (+6.4%) failed to keep up with an exuberant market. Growth and small-cap were the top performers during the quarter. The Russell 1000® Growth Index (+14.5%) outperformed the Russell 1000® Value Index (+9.5%), and the Russell 2000® Index (+14.0%) outperformed the Russell 1000® Index (+12.0%).

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 also negative. Securities selected in financials, consumer staples, communication services, energy and industrials were the largest detractors, partially offset by outperforming selections in health care, materials, information technology and real estate. From a sector allocation perspective, an overweight to energy and an allocation to cash were the largest detractors. An underweight to consumer staples contributed to relative returns.

QTD Top/Bottom contributors to relative performance:

- The most significant contributors were Monolithic Power Systems, Salesforce, DexCom, Crown Castle and Sherwin-Williams.
- The most significant relative detractors were Kosmos Energy, Aon, McCormick & Company, Hess and Verisign.

Trades & Positioning:

- At the end of the quarter, the largest overweight sector was materials, while the largest underweight sector was consumer staples.
- There were four new buys during the trailing three months ended November 2023: Accenture, DexCom, Estee Lauder and JPMorgan Chase. There were four full sellouts during this period: Clorox, Dollar General, Entegris and McCormick & Company.

Year-to-date, the strategy rose in value and underperformed the benchmark gross and net of fees. Sector allocation drove relative underperformance, partially offset by positive stock selection. The largest detractors were an overweight to consumer staples, an allocation to cash, an overweight to materials and an underweight to consumer discretionary. Underweights to financials, health care and energy had a positive contribution to return. Security selection was strong year to date, and investments in materials, industrials, consumer discretionary, health care and information technology were the largest contributors. Investments in consumer staples, utilities, communication services and financials detracted from returns.

YTD Top/Bottom contributors to relative performance:

- The most significant relative contributors were Salesforce, Saia, Nvidia, Monolithic Power Systems and Amazon.com.

- The most significant relative detractors were Dollar General, NextEra Energy, McCormick & Company, Danaher and not owning Apple.

Investors remain focused on monetary policy and the trajectory of economic growth. While economic data and investor sentiment has improved significantly, recessionary risks remain. Geopolitical and macroeconomic risks may continue to drive market volatility and dispersion as multiple active wars, election years, and other potential conflicts play out over 2024. We continue to believe that active fundamental research combined with investment discipline provides an attractive way to navigate an uncertain and reactionary market environment.

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