

# Natixis/Vaughan Nelson Small Cap Value Equity Strategy



## QUARTERLY PORTFOLIO 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<sup>®</sup> 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<sup>®</sup> Growth Index (+14.5%) outperformed the Russell 1000<sup>®</sup> Value Index (+9.5%), and the Russell 2000<sup>®</sup> Index (+14.0%) outperformed the Russell 1000<sup>®</sup> Index (+12.0%).

The Natixis/Vaughan Nelson Small Cap Value strategy rose in value and outperformed the Russell 2000<sup>®</sup> Value Index gross of fees (lagged net of fees). Security selection drove relative outperformance during the quarter, while sector allocation detracted from results. Securities selection was broadly positive, and selections in materials, consumer staples, financials and information technology were the largest contributors. Health care was the only sector with significant negative security selection during the quarter. From a sector attribution perspective, the largest detractors were an underweight to financials, an allocation to cash, and an overweight to information technology. This was partially offset by underweights to energy and consumer staples that contributed to results.

### QTD Top/Bottom contributors to relative performance:

- The most significant relative contributors were Installed Building Products, Western Alliance Bancorp, Core & Main, Comerica and Signet Jewelers.
- The most significant relative detractors were Kirby, International Game Technology, Patterson-UTI Energy, Selective Insurance Group and Permian Resources.

### Trades & Positioning:

- At the end of the quarter, the largest overweight sector was industrials, while the largest underweight sectors were financials and health care.
- During the trailing three months ending November 2023 there were fifteen new purchases and fourteen full sellouts. The most significant new buys were Prosperity Bancshares, Matador Resources, Signet Jewelers, Coca-Cola Consolidated and Red Rock Resorts. The most significant full sellouts were Tenet Healthcare, MKS Instruments, Everi Holdings, Ichor Holdings and Coherent.

Year to date, the strategy rose in value and significantly outperformed the benchmark gross and net of fees. Both security selection and sector allocation were strong and contributed to outperformance. Investments in financials, industrials, information technology, consumer staples and health care were the largest contributors. They were partially offset by underperforming selections in energy, consumer discretionary and communication services. Sector allocation was broadly positive and the largest contributors were an overweight to industrials, an underweight to financials, an overweight to information technology, and underweights to health care and utilities. An underweight to energy detracted from results year to date.

YTD Top/Bottom contributors to relative performance:

- The most significant relative contributors were Insight Enterprises, Installed Building Products, Rambus, Core & Main and Fabrinet.
- The most significant relative detractors were Patterson-UTI Energy, Wolverine World Wide, Mativ Holdings, Bally's and Spire.

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.

**Performance data shown represents past performance and is no guarantee of, and not necessarily indicative of, future results.** The commentary reflects the opinions of the commentators as of the date indicated. This commentary is a service provided to customers of Natixis Advisors, LLC (Natixis Advisors) for informational purposes. We believe the information contained in this commentary is reliable, but do not guarantee its accuracy. This economic overview is provided for informational purposes only and is not meant as investment advice. Reference to specific securities or industries should not be considered recommendations or advice for individual investors. The reader should not assume that an investment in these

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securities was or will be profitable. A complete list of all past recommendations made within the immediately preceding 12-month period is available upon request. There is no assurance that any predictions or projections will occur. This material is dated as indicated, and opinions and viewpoints may change as economic conditions change.

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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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