Natixis/Vaughan Nelson Small Cap Strategy

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QUARTERLY PORTFOLIO COMMENTARY

US equity markets rose in the third quarter, with the S&P 500® and Dow Jones Industrial Average gaining 8.1% and 5.7%, respectively. In September, the Federal Reserve voted to cut the federal funds rate by 0.25% to a range of 4.00%–4.25%, its first cut in nine months. Fed chair Jerome Powell cited the rise in downside risks to employment and signaled the possibility of two more cuts before year-end. Annual US inflation continues to remain above the Fed's 2% target, with a reading of 2.9% in August, while the unemployment rate came in at 4.3%. As of the September 2025 final estimate, US GDP grew by an annualized rate of 3.8% in the second quarter, a significant jump from the -0.5% contraction in Q1. Within the S&P 500®, information technology (+13.2%), communication services (+12.0%), and consumer discretionary (+9.5%) were the top-performing sectors while consumer staples (-2.5%), real estate (+2.3%), and materials (+3.0%) were the worst performers. During the quarter, growth (Russell 1000® Growth, +10.5%) sharply outperformed value (Russell 1000® Value, +5.3%), and small-cap stocks (Russell 2000® Index, +12.4%) outpaced large-cap stocks (Russell 1000®, +8.0%).

The Natixis/Vaughan Nelson Small Cap Strategy rose in value but underperformed the Russell 2000® Value Index gross and net of fees. Security selection drove relative underperformance during the quarter, and sector allocation also detracted from results. Investments in materials, healthcare, energy, and industrials were the largest detractors, while those in real estate and information technology were additive. From a sector allocation perspective, the largest detractors were an underweight to healthcare and communication services, respectively. The largest contributors were an overweight to materials and an underweight to real estate.

Quarter to date top/bottom contributors to relative performance:

- The most significant relative contributors were Installed Building Products, Ciena, Cushman & Wakefield, Coherent Corp., and Hawkins.
- The most significant relative detractors were Antero Resources, Bruker, Silgan Holdings, EchoStar, and Kirby Corporation.

Trades and positioning:

- At the end of the quarter, the largest overweight sector was industrials, while the largest underweight sector was healthcare.
- There were 15 new purchases and 11 full sellouts during the trailing three months ended August 2025. The new purchases were Hexcel Corporation, Coca-Cola Consolidated, CCC Intelligent Solutions, Commercial Metals, Mueller Industries, Molina Healthcare, Sanmina Corp., CSW Industrials, Trex Company, Meritage Homes, Taylor Morrison Home, PVH Corp., Nextracker, ADMA Biologics, and Light & Wonder. The full sellouts were AAON, ADMA Biologics, BMX Technologies, Celestica, Champion Homes, Federal Signal Corp., Globus Medical, Kirby, Light & Wonder, NNN REIT, and Onto Innovation.

Year to date (YTD), the strategy rose in value but underperformed the benchmark gross and net of fees. Underperformance was primarily driven by security selection, and sector allocation was also detractive. From a security selection standpoint, stocks selected in materials, healthcare, and industrials detracted from results. Security selection in consumer discretionary, information technology, and real estate was additive. From a sector allocation perspective, an underweight to communication services and utilities and an overweight to consumer discretionary were the largest detractors. An overweight to materials and an underweight to real estate contributed to results.

YTD top/bottom contributors to relative performance:

- The top five relative contributors were: Celestica, Beacon Roofing Supply, Installed Building Products, Ciena, and Coherent Corp.
- The bottom five relative detractors were Bruker, RXO Inc, Globus Medical, Silgan Holdings, and EchoStar.

Global markets faced significant volatility in the third quarter, while economic and geopolitical concerns show no signs of abating. Additional concerns include rising unemployment, tariff uncertainty, and sticky inflation, while global conflict may spur further volatility. The resulting market environment has 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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