

Global Growth Fund

FUND FACTS

OBJECTIVE

Seeks to produce long-term growth of capital

Share class	Y
Inception	3/31/2016
Ticker	LSGX
CUSIP	63872T224

Portfolio Review

- The fund outperformed its benchmark, the MSCI ACWI Net Index, largely due to stock selection in the consumer discretionary, healthcare, communication services, energy and financials sectors as well as our allocation to the financials, consumer discretionary, healthcare and information technology sectors. Stock selection in the industrials and consumer staples sectors as well as our allocation to the consumer staples and energy sectors detracted from relative performance.
- The fund is an actively managed strategy with a long-term, private equity approach to investing. Through our proprietary bottom-up research framework, we look to invest in those few high-quality businesses with sustainable competitive advantages and profitable growth when they trade at a significant discount to intrinsic value (our estimate of the true worth of a business, which we define as the present value of all expected future net cash flows to the company).
- All aspects of our quality-growth-valuation investment thesis must be present for us to make an investment. Often our research is completed well in advance of the opportunity to invest. We are patient investors and maintain coverage of high-quality businesses in order to take advantage of meaningful price dislocations if and when they occur. During the period, there was no investment activity.

CLASS Y PERFORMANCE AS OF MARCH 31, 2019 (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	SINCE INCEPTION
FUND	17.84	17.84	9.69	15.47	--	15.47
BENCHMARK	12.18	12.18	2.60	10.67	--	10.67

Performance data shown represents past performance and is no guarantee of, and not necessarily indicative of, future results. Investment 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 www.loomissayles.com.

Additional share classes may be available for eligible investors. Performance will vary based on the share class. 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.

Gross expense ratio 1.32% (Class Y). Net expense ratio 1.05%. As of the most recent prospectus, the investment advisor has contractually agreed to waive fees and/or reimburse expenses once the expense cap of the fund has been exceeded. This arrangement is set to expire on 3/31/2020. When an expense cap has not been exceeded, the fund may have similar expense ratios.

The Class Y inception date is 3/31/2016. Class Y shares are sold to eligible investors without a sales charge; other Classes are available for purchase.

TOP TEN EQUITY HOLDINGS (%)

Amazon.com Inc	6.2
MercadoLibre, Inc.	5.8
Alibaba Group Holding Ltd.	5.6
Oracle Corporation	4.7
Facebook, Inc.	4.6
Visa Inc.	4.5
Alphabet Inc.	4.3
Roche Holding AG	4.2
Yum China Holdings, Inc.	4.1
Deere & Company	3.7
Total	47.7

Data is based on total gross assets before any fees are paid; any cash held is included. The portfolio is actively managed and holdings are subject to change. References to specific securities or industries should not be considered a recommendation. Holdings may combine more than one security from the same issuer and related depository receipts. Portfolio weight calculations include accrued interest. For current holdings, please visit our website.

Contributors

- The largest online commerce platform in Latin America and a fund holding since inception, **MercadoLibre** was among the largest contributors to performance during the quarter. The company reported above-expectations quarterly results that demonstrated strong revenue growth and accelerating market share gains. While negative operating margins continue to be impacted by elevated investments and a 2018 change in revenue recognition standards related to the company's free shipping initiative, the investments in logistics are yielding substantial benefits in delivery time, and the company reported positive EBITDA (earnings before interest, taxes, depreciation and amortization).

MercadoLibre's competitive advantages include its network and ecosystem, brand, and understanding of local markets. The company operates in 18 countries representing over 95% of Latin American GDP, and its 267 million registered buyers as of December 31, 2018 represented approximately two-thirds of the region's 400 million internet users. The company's brand and understanding of local-market challenges have contributed to its leadership position in each market it serves. With continued growth in internet access, increasing availability of credit, and the company's continuing investments to improve the ease and convenience of transacting online, we believe MercadoLibre is well positioned for sustained growth over the next decade, driven by the secular growth of e-commerce in Latin America.

Gross revenue of \$536 million grew 60% year over year in constant currency. The services provided by MercadoLibre generally fall into two distinct revenue streams. "Marketplace" includes MercadoLibre's core e-commerce business and accounts for around 60% of gross revenue. "Non-marketplace" accounts for around 40% of gross revenue and includes items such as financing fees, off-platform payment fees, and ad sales. Gross Marketplace revenue of \$333 million rose 20% year over year on a reported basis and by a greater amount in constant currency. Total gross merchandise volume (GMV) of \$3.2 billion rose 18% year over year on a constant currency basis, and 31% after adjusting for the 2018 deconsolidation of the company's Venezuelan operations. Unit volume sales, which remove the impact of currency and inflation, rose 5% year over year, impacted by the imposition of shipping charges in Brazil, the company's largest market which accounted for approximately two-thirds of gross revenue. In response to significantly higher postal costs, the company recently imposed a flat fee of R\$5 on items under R\$120 and restricted the sale of items under R\$6 to improve its unit-level economics in Brazil. Despite a resulting 6% decline in Brazilian units sold, Brazil GMV grew 24% in constant currency, well above the rate of growth in Brazil e-commerce. Firmwide, unique buyers grew by 7.5% in the quarter and live listings increased 60% to 182 million, demonstrating the breadth of offerings available through the company's marketplaces. Non-marketplace revenue of \$203 million grew 74% in constant currency, driven by 56% growth in MercadoPago payment processing, ad sales, and other ancillary offerings. On-platform payment volumes settled through MercadoPago rose 32% year over year and accounted for 91% of platform sales. Off-platform payment volumes rose 172% and accounted for approximately 40% of total payment volumes. Off-platform volumes benefited from 365% growth in mobile point-of-sale (POS) volumes and exceeded on-platform volumes on a monthly basis for the first time in the prior quarter.

MercadoLibre continues to have an attractive financial model which is being impacted by an elevated investment cycle intended to strengthen the company's ecosystem and long-term competitive positioning. Operating margins of -0.2% contracted from 6% in the

prior-year quarter when adjusted for the deconsolidation of the firm's Venezuela operations. Higher warehousing and shipping costs, greater sales of lower-margin point-of-sale devices, and increased public cloud expenses contributed to a 900 basis point decline in gross margins. Margins received a positive benefit from operating leverage as sales and marketing, product development, and general and administrative expenses each grew more slowly than revenues. Management has demonstrated its long-term focus and commitment to investing everywhere needed to add value for users, including greater selection, frictionless payment options, and reduced cost and increased speed of delivery. During the quarter the company reported that average delivery time had improved 30% year over year, and the company could now deliver 50% of its shipments in three days or less. Improving the value proposition and user experience for online shoppers attracts more consumers to the company's marketplaces – and in turn, more sellers - driving revenue growth, engagement of repeat buyers, market share gains, and scale for the company. While the increased investments have pressured near-term profits, management remains focused on balancing the investments needed to further improve user experience and extend the company's leadership in ecommerce and payments with maintaining a sustainable and profitable financial model. We believe the current market price embeds expectations for revenue and cash flow growth that are well below our long-term assumptions. As a result, we believe the shares trade at a significant discount to our estimate of intrinsic value and represent a compelling reward-to-risk opportunity.

- **Alibaba Group**, launched in 1999, is a leading China e-commerce and consumer engagement platform provider. The company operates several increasingly connected businesses across commerce, technology, advertising, digital media and entertainment, logistics, payments, and local services. Collectively these businesses form a powerful ecosystem, providing Alibaba with unique insights that facilitate e-commerce and enable merchants and brands to engage with customers across the entire consumer lifecycle via an unparalleled platform.

A fund holding since inception, Alibaba was among the biggest contributors for the quarter. While mixed from the standpoint of consensus expectations, Alibaba reported fundamentally strong quarterly financial results. Despite a deceleration in the rate of growth, revenue growth of 41% year over year was well above the 8% growth in China consumer spending, indicating the company continued to expand its market share. Operating margins continue to be pressured by ongoing investments in four strategic areas, including local services through recently acquired delivery company Ele.me, globalization, “new retail,” and the consolidation of lower-margin logistics affiliate Cainiao. We believe these investments are consistent with Alibaba's long-term strategy to strengthen and extend its competitive positioning across commerce, advertising, and cloud computing, while expanding its addressable market both internationally and through its “new retail” initiative. Reflecting the magnitude of these opportunities, management indicated in late-2017 that it expects to invest \$30 billion in logistics and research and development over the next five years. In September 2018, the company announced that founder and Chairman Jack Ma intends to retire in September 2019, which will mark Alibaba's twentieth anniversary. Mr. Ma will remain on the Board through 2020 to ensure a successful transition. Replacing Mr. Ma as chairman will be CEO Daniel Zhang, an 11-year veteran of Alibaba who has served as CEO since 2015. Mr. Ma continues to own a significant stake in the business and will remain part of Alibaba's partnership. The partnership consists of 36 members from management or affiliated companies and is focused on promoting Alibaba's

mission, vision, and values, and helps to ensure the company is managed with a long-term focus. In his role as a partner, we believe Mr. Ma will remain engaged with Mr. Zhang and other senior management of Alibaba and its affiliates around issues of leadership and strategic vision.

With GMV (gross merchandise volume) of \$768 billion on its China retail marketplaces in its latest fiscal year, Alibaba is the world's largest retail platform. The company continues to be driven by its core commerce segment, which accounted for 88% of Alibaba's \$17.1 billion of total quarterly revenue and grew 40% year over year. China commerce retail accounted for 79% of core commerce revenues and grew 35% year over year. Mobile monthly active users grew 21% to 699 million, aided by additional investment in content and technology to drive strong user engagement. Data gathered from strong consumer engagement on Alibaba's e-commerce and digital media sites provide powerful insights into consumer behavior. Alibaba is thereby able to deliver more personalized content, which enables merchants to better target and engage customers throughout the consumer lifecycle and drives improved e-commerce monetization. A growing initiative within the China commerce retail segment is Alibaba's "new retail" strategy, in which it seeks to leverage its data, scale, technology, and network ecosystem to digitize the entire retail value chain and create a seamless consumer experience between online and offline retail. The initiative, which includes the company's acquisition of China department store Intime and Hema grocery stores, accounts for approximately 10% of core commerce revenue and is growing at a multiple of the overall core commerce business, growing 122% year over year in the most recent quarter. Core commerce revenues also benefited from the company's substantial focus on international commerce, including global e-commerce marketplaces Lazada Group and AliExpress, recently consolidated Turkish e-commerce platform Trendyol, and cross-border trade, where Tmall Global provides 18,000 brands from 74 countries with a platform on which to build awareness and access the Chinese market without making substantial in-country investments. In total, the core commerce segment grew adjusted operating profits by 20% year over year. Adjusted operating margins of 45% represented a 400 basis point improvement over the prior quarter, but declined 800 basis points year over year due to ongoing strategic investments. Absent elevated investments in the four strategic areas, adjusted operating profit would have grown 31% year over year.

Well positioned for the secular migration to cloud computing, Alibaba's cloud-computing revenue rose 84% year over year, well above the single-digit growth in China IT spending, and accounted for 6% of total revenue. Growth was driven by an increase in the number of customers and greater penetration of higher-value-added products and services. The cloud-computing business is in investment mode, focusing on geographic and product expansion, and generated operating margins of -4%, in line with the -5% margins in the year-ago quarter. Comprising approximately 6% of total revenue, digital media and entertainment revenue grew 20% compared with the year-ago quarter, due to an increase in subscription revenue from Youku Tudou, a leading online video platform in China, and mobile value-added services such as mobile search from UC Web and game publishing. Media offerings boost the length of user sessions and user stickiness, expand the ecosystem for customer acquisition and brand building, and improve Alibaba's overall consumer value proposition. The segment remained in investment mode, focused on increasing original content and securing licensing rights, and reported a decline in operating margins to -93% from -41% in the prior-year quarter. Innovation initiatives and others accounted for 1% of revenue and rose 73% year over year. This segment includes early-stage businesses for mobile device

operating systems, cars, Internet of Things (IoT), AutoNavi, enterprise messaging and others. Adjusted operating margins of -120% improved from margins of -130% in the year-ago quarter.

Alibaba's adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) rose 13% over the prior-year quarter, and EBITDA margins of 31% declined 1,000 basis points due to strategic investments. For the quarter, strong free cash flow of \$7.5 billion rose 5% year over year, despite a 50% increase in capital expenditures, and represented 44% of quarterly revenue. Alibaba continues to execute well on its business model, allowing it to expand its already dominant market position and invest to strengthen its competitive advantages. The company benefits from secular growth in China e-commerce, as well as advertising growth, digitizing offline retail, cloud computing, and international expansion. We believe the current market price embeds expectations for key revenue and cash flow growth drivers for Alibaba that are well below our long-term assumptions. With its shares trading at a significant discount to our estimate of intrinsic value, we believe Alibaba offers a compelling reward-to-risk opportunity.

- **Facebook** is an online social networking platform that allows people to connect, share, and interact with friends and communities. The Facebook platform allows message exchange, photo and video sharing, and common-interest user groups, and the company also owns leading global social and messaging applications Instagram, Messenger, and WhatsApp.

A fund holding since inception, Facebook was among the top contributors for the quarter. Facebook reported strong growth that was above consensus expectations for quarterly revenue and earnings per share. Despite negative publicity from the media and concern over potential regulatory actions by governments regarding its privacy and data security policies, the company continues to grow its global user base, and user engagement, measured by daily and monthly average users, has remained fairly stable. In addition, demand from advertisers remains robust and we believe the long-term secular shift from traditional media to online advertising remains intact. Management maintained its guidance for a near-term deceleration in revenue growth, coupled with a multi-year acceleration in investments. Facebook is placing increasing emphasis on Instagram and FB Stories, "experience" products which the company believes will drive improved user engagement but where monetization is currently lower than its newsfeed offerings, contributing to slower revenue growth. The company reported that two million of the company's seven million active advertisers used stories to reach consumers across Facebook's family of apps during the quarter. Facebook's elevated investments are targeting core product development, safety and security, virtual reality, marketing, and content acquisition. Management expects expenses to increase 40% to 50% in 2019, after which they expect expense growth in line with revenue growth. Capital expenditures (capex) have also accelerated meaningfully over the past few years and are expected to reach \$18 to \$20 billion in 2019, up from \$6.7 billion in 2017 and \$13.9 billion in 2018. The company has been making significant investments in its data center capacity. Today the company operates six data centers, up from just one in 2011, and is building eight more to support the growth in the business. As a result, expenses will increase faster than revenue over the near term, pressuring margins.

For the quarter, revenue grew 33% year over year in constant currency to \$16.9 billion, with advertising revenue accounting for 98% of total revenue. User data, coupled with the scale and frequency of engagement, allows Facebook an unprecedented ability to specifically target direct marketing. Advertising revenue per user (ARPU) for the quarter of \$7.37 was

up 19% year over year, reflecting improved monetization per user in all regions. ARPU ranged from \$35 per user in North America to \$2 per user in the company's rest of world (ROW) category, with the US experiencing the greatest year-over-year increase of 30%. This improvement in monetization per user is a continuation of a secular trend where annual monetization improved globally from \$4 per user in 2012 to over \$24 in 2018, a compounded annual growth rate of 35%, reflecting Facebook's strong pricing power. Year over year, the number of Facebook users rose 9% to exceed 2.3 billion global users. Users outside of North America account for 2.1 billion or 90% of Facebook's global user base, while the US and Canada accounted for about 10%, or 242 million users.

Despite the near-term increase in investments, Facebook continues to have an attractive financial profile. Earnings before interest and taxes (EBIT) grew 6% year over year to \$7.8 billion, despite an 1,100 basis point compression of margins to 46%. Capex of \$4.4 billion grew 93% and remained elevated at 26% of revenue, up from 17% in the prior-year quarter. Capex was driven by investments in servers and data centers that should support future growth for the company, as well as office facilities and network infrastructure. Free cash flow during the quarter of \$3.3 billion was down 39% year over year due to elevated capex, and represented 20% of revenue. During the quarter Facebook repurchased \$3.5 billion of its shares and reduced its outstanding share count by 2.3% year over year. The company's balance sheet is robust, with net cash of \$41 billion, or \$14 per share.

We believe Facebook is a unique, high-quality company, benefiting from the secular shift from traditional advertising to online advertising and positioned for strong and sustainable growth over our investment time horizon. We believe management's decisions and actions illustrate their commitment to preserve platform integrity and to sustain its leadership and long-term growth. With 2.7 billion people worldwide using its apps – Facebook, Messenger, WhatsApp, and Instagram – and more than 90 million global businesses with Facebook pages, the scale and reach of Facebook's network is unrivaled. When excluding China, where Facebook is not yet operating, the Facebook application ecosystem represents approximately 75% of the world's internet population, with over two billion users who engage daily. Further, a virtuous cycle between Facebook users, advertisers, and partners strengthens the network advantage. We expect that corporations will continue to allocate an increasing proportion of their advertising spending online, and Facebook remains one of very few platforms where advertisers can reach consumers at such scale. We also believe it is a natural part of the life cycle of companies such as Facebook to undergo investment cycles that focus on the long-term opportunity rather than timing investments based on near-term results in any given quarter.

Although the increased investment cycle over the next several years resulted in a slight decline in our estimate of intrinsic value, it does not change our view of the attractiveness of Facebook's long-term reward-to-risk opportunity given our belief in the company's significant upside potential. We believe Facebook's unique attributes such as its brand, network, and targeting advantage position the company to take increasing share of the industry's profit pool and grow its market share to approximately 10% of the total global advertising market over our investment time horizon. We believe shares of Facebook continue to be priced at a significant discount to our estimate of intrinsic value, offering a compelling long-term reward-to-risk opportunity.

Detractors

- **Prada** is an iconic, world-renowned Italian fashion company that designs, manufactures, and sells luxury goods, primarily high-end leather goods, as well as upscale apparel and footwear. The company generates approximately 80% of total sales through a network of over 650 directly owned retail stores, predominantly under the flagship Prada or Miu Miu brands, while select wholesale partners account for about 20% of total sales.

A fund holding since inception, the company was among the largest detractors from performance during the quarter. Prada reported its full fiscal year 2018 financial results in March. Sales were in line with consensus expectations but operating profits were substantially lower due to currency impacts and investments in support of its digital and omni-channel marketing efforts. Net revenue of €3.1 billion grew 6% year over year in constant currency, with growth across all product categories and geographies. Retail sales grew 7% year over year but decelerated in the second half due to currency headwinds and social unrest in France, which impacted tourism and led the company to limit weekend store hours. Prada's wholesale business rose 1% year over year as the company continued to carefully curate its product offerings and partners to exert greater control over its brand positioning and pricing. Operating profit of €324 million fell 10% year over year and margins of 10.3% declined by approximately 150 basis points. In the absence of currency costs that negatively impacted gross margins, operating margins would have been flat versus the prior-year period. We believe Prada's enduring strengths include its brand and scale, which are among the greatest competitive advantages in the luxury goods business. The company's focus on leather accessories, which have a greater shelf life and are less prone to fashion risk than ready-to-wear apparel, contributes positively to its brand and quality attributes. Prada also benefits from scale, which enables it to afford the high-end real estate key to establishing global presence and brand. Luxury goods companies that achieve scale generate better margins and greater brand awareness, creating a virtuous cycle which contributes positively to their quality attributes. We believe the company is well positioned to benefit from growing consumer spending on luxury goods, especially in China, where per capita luxury consumption as a percentage of disposable income remains lower than developed markets but has been growing consistently over the past decade with growth in disposable income. Over our investment horizon, we believe Prada can grow market share due to its brand, pricing power, and global scale, driving sales growth in the mid-to-high single digits.

In recent years, Prada has lagged peers such as LVMH and Gucci due in part to fewer offerings at the strategic €1,000 - €1,500 price point, its pace of product introduction, and late adoption of a digital marketing strategy. Prada is making progress in correcting these underlying company-specific issues. It has accelerated its innovation and new product introduction, which includes expanding its product offerings at the €1,000 - €1,500 price point and thereby broadening its product portfolio within the aspirational luxury segment. The company has worked to optimize its store network, including both remodeling and relocations aimed at elevating the in-store experience. Prada has also increased its investment in digital marketing, e-commerce, and omni-channel retail efforts, such as its use of pop-up stores which attract customers via digital engagement and drive customers to physical locations. Beginning in 2017, Prada made the strategic decision to prioritize full-price retail sales and de-emphasize discounting and end-of-season sales. The company has succeeded in reducing its percentage of sales derived from discounted items from

mid-teens in 2017 to high-single digits today, and has further announced it would end such discounting in 2019. We believe these collective initiatives are important to adapt to consumer buying behaviors, enhance brand and product awareness, protect brand integrity, and ultimately drive greater sales and improved profitability. In 2017 Prada reported that online sales represented 4-5% of its total sales, and the company targets expanding its online sales to approximately 15% of total sales by 2020. We believe these initiatives and investments support the strength of Prada's economic moat and will enable it to reach the next generation of consumers without diluting its brand. The company's recent results reflect its progress in executing on its initiatives, and the company has again begun to take share of the overall luxury goods industry. We believe Prada is a high-quality business that is well positioned to benefit from growing consumer spending on luxury goods. Selling at a meaningful discount to our estimate of intrinsic value, we believe the shares represent an attractive reward-to-risk opportunity.

- **Qualcomm** designs, manufactures, and markets digital telecommunication integrated circuits (chipsets) and services. The company is the global market share leader in 3G and 4G integrated circuits and the leading contributor to global cellular connectivity standards through its extensive portfolio of intellectual property (IP). The QTL segment (Qualcomm Technology Licensing) collects license fees from manufacturers for the right to use Qualcomm's IP, which is essential to or useful in the manufacturing of cellular wireless devices, as well as follow-on royalty fees on the worldwide sale of mobile devices and other devices that incorporate cellular connectivity. This highly profitable segment historically accounted for approximately 20% of revenues and 80% of operating profits. The QCT segment (Qualcomm CMDA Technologies) is a leading manufacturer and supplier of chipsets enabling cellular communication, particularly in mobile devices. QCT collects revenue from the sale of its chipsets to device manufacturers, historically representing approximately 80% of revenues and 20% of operating profits.

A fund holding since inception, Qualcomm reported quarterly results that were in line with or better than management guidance, benefiting from strong product innovation in its high-end chipsets, especially in China. However, pending litigation, primarily a two-year-old anti-trust lawsuit filed by the US Federal Trade Commission (FTC) that went to trial in January 2019, as well as an ongoing dispute with Apple, has weighed on investor sentiment and near-term financial performance. The FTC case alleges that Qualcomm used its dominant chipset position to force customers to sign unreasonable license contracts with excessive royalty rates. Should the FTC prevail, Qualcomm could be required to renegotiate its existing contracts and accept lower royalty rates.

Challenges to Qualcomm's business model and royalty rates by regulators and customers are not new, and the company has successfully defended its business model numerous times over the last 10 to 20 years. With respect to its ongoing legal issues, we believe the following. The industry-standard business model for mobile OEMs (original equipment manufacturers) has been in place for decades and withstood much scrutiny and many challenges. The model is that innovators are fairly compensated for their contribution to the evolution of cellular technology via patent royalty rates that are based on the value of the total device, not the value of the communication chipset itself. Qualcomm has demonstrated that a material amount of the perceived value of a mobile device is due to the capability of the cellular connectivity, as distinct from the non-cellular communication features and characteristics. The phone is primarily valuable because of its communication

capability, including movement of data. Demonstrating the value of its contribution, Qualcomm has successfully argued in the past that it must be allowed to recoup its research and development investments in order to fund ongoing innovation. Innovation in high-quality cellular communications benefits all players in the value chain, including phone manufacturers, mobile service providers, and players in emerging business models. We believe that Qualcomm's licensing royalty rate, which is the highest in the industry, is commensurate with its market leading contribution to global cellular technology standards.

In our view, the current challenge to Qualcomm's business model by the FTC is similar to one it recently faced in China. In 2015, Qualcomm prevailed in China, where the NDRC (National Development and Reform Commission) had the opportunity to rewrite local industry rules for IP royalties, but instead validated Qualcomm's business model. The settlement of this and previous cases has not only repeatedly upheld and validated Qualcomm's business model, but established a body of legal precedent in a variety of jurisdictions around the world. Further, in early 2018, Qualcomm announced a revised global licensing structure, similar to the China model, which covers 3G, 4G, and the first release of 5G. Customers have the option of a portfolio-wide patent license at a royalty rate of 5%, similar to the current model, or pay a 3.25% royalty covering only standard essential patents. While the revised global structure is anticipated to lower quarterly royalties by approximately 10%, we believe the benefits will include greater transparency and simplification, and the revised structure is likely to be well received by regulators. Qualcomm has signed over twenty 5G licensees under the new structure, including Meizu, Motorola, and Lenovo, providing further industry acceptance of the handset-level pricing model which should also strengthen its position versus Apple. The signing of new 5G licensees also extends the company's annuity payments over the next decade. In the quarter, Qualcomm also announced that it had reached an interim agreement with Huawei, which along with Apple had stopped making payments to Qualcomm, under which Huawei made a \$150 million payment that followed similar payments last year. While this represents a fraction of our estimate of the total sum owed by Huawei, it suggests Qualcomm's strategy may be yielding positive results.

The dispute with Apple represents a challenge to the validity of the Qualcomm's licensing model by one of its largest customers. It has resulted in a halt to Apple-related royalty payments to Qualcomm and indirectly prompted a global review of Qualcomm's licensing practices. In response, Qualcomm has sued Apple in multiple jurisdictions across the world for violating additional patents. Qualcomm's as-yet mixed legal results have included patent infringement victories in Munich, Germany and China, and the company has multiple additional lawsuits slated for 2019, including in the US. We believe the current challenges to Qualcomm's business model involving Apple are similar to previous challenges, except for Apple's aggressiveness in its pursuit and its significant resources. This is not necessarily indicative that Apple has a strong case. We believe Apple is trying, as others have, to lower its royalty payment to Qualcomm. Because the royalty fees paid by mobile device manufacturers to Qualcomm are not insignificant, it is a rational decision to attempt to try to force the fees lower. Apple has previously taken a similarly aggressive approach with other IP providers. For example, in January 2015, after two years of negotiation with Apple, Ericsson filed a lawsuit against Apple for nonpayment of royalties. In December 2015, Apple settled the suit with Ericsson, which subsequently reported a significant increase in IP revenue, signaling to us that the basis of the agreement remained intact. Qualcomm is still awaiting initial or final rulings on patent infringement actions it has initiated against Apple

in the US, Germany, and China, which could potentially restrict Apple's ability to import products in key markets and force it back to the bargaining table – not dissimilar to prior extended royalty disputes it has faced. We believe the decades-long industry practice that has been repeatedly validated, and is backed by regulations around the world, is not likely to be overturned. We continue to stay informed of the situation.

For the quarter, overall revenue fell 20% year over year to \$4.8 billion, at the midpoint of management guidance. Operating income declined 26% over the prior-year quarter as the loss of Apple-related revenue and heightened legal expenses continue to depress profitability. Qualcomm's chip-making business, QCT, reported segment revenue that was down 20% year over year to \$3.7 billion. Shipments declined 22%, at the midpoint of management guidance, reflecting the loss of all business with Apple, weakness in China and a lull in demand in advance of 5G, and a slowdown in low- and mid-tier devices due to emerging market weakness and some market share losses as the company focuses on 5G. Implied average selling prices rose 2% due to the geographic mix, lower Apple sales, and strong uptake for the company's radio frequency components in conjunction with its 5G design wins. Segment margins of 16% were above the midpoint of management guidance and continue to be solid, but recently snapped a string of nine consecutive quarters of year-over-year margin improvement. Despite the solid results, margins remain below our long-term expectations. Royalty revenue in the QTL patent licensing segment also declined 20% year over year to \$1 billion. QTL segment margins of 58% benefited from the \$150 million Huawei payment. Even with the payment, segment margins remain depressed versus our long-term expectations due to the loss of top-line revenue, coupled with heightened legal expenses from Qualcomm's litigation strategy against Apple.

As the pioneer of first 3G and then 4G wireless communications technologies, we believe Qualcomm possesses difficult-to-replicate competitive advantages in the engineering, design, and manufacturing of the basebands and modems used in mobile devices, and the company's extensive portfolio of industry-leading IP has enabled it to operate as a near monopoly. Typical of its long-term approach, the company has been investing in and driving the next generation of cellular technologies, including 5G global standards. While full adoption could be five to ten years away, Qualcomm is working with over 20 OEMs that will launch 5G handsets using Qualcomm chips in 2019, which should drive an accelerated refreshment cycle as 5G products are fully introduced over the next few years. We continue to believe that the body of legal precedent established in multiple jurisdictions worldwide over the past twenty years supports Qualcomm's current royalty business model. Leveraging its pioneering technology, cumulative IP, and engineering skill, we believe Qualcomm remains well positioned to maintain its leadership over the long term and benefit from the long-term secular growth in mobile devices. We believe the shares are currently selling at a significant discount to our estimate of Qualcomm's intrinsic value, offering a compelling reward-to-risk opportunity.

- **The Coca-Cola Company** is the world's leading owner and marketer of non-alcoholic beverage brands and employs an unrivaled global beverage distribution network. The company owns or licenses over 500 brands, primarily sparkling beverages, but also a variety of still beverages such as waters, enhanced waters, juices and juice drinks, ready-to-drink teas and coffees, and energy and sports drinks. Coke has been sold in the US since 1886 and today the company sells its products in more than 200 countries and generates 75% of revenue from products that are top ranked in their category in the countries in which

they are sold. The company generates almost 65% of its revenue outside of North America, including approximately 40% from emerging markets. North America accounts for 37% of revenues and 25% of profits. The Europe, Middle East and Africa segment accounts for approximately 24% of revenues and 34% of profits. Asia Pacific and Latin America account for approximately 15% and 12% of revenue, respectively, and each account for approximately 20% of profits. The company's Bottling Investment Group accounts for approximately 12% of revenues and less than 1% of profits.

A fund holding since inception, Coca-Cola was among the largest detractors from performance during the quarter. The company reported another strong quarter of 5% year-over-year organic sales growth and finished the year at the mid-point of its 4% - 6% long-term guidance. However, the company provided weaker-than-expected guidance for 2019, with organic revenue growth at the low end of its long-term range and EPS (earnings per share) projected to be flat. The company also posted lower-than-expected results in North America, as price increases passed through during the summer impacted volumes. The company remains committed to implementing price increases to offsets costs and is investing in brand equity and product and packing innovations to support its pricing initiatives. We believe Coca-Cola is executing well, and its 5% annual organic growth is in line with our long-term forecast and impressive relative to food and beverage peers.

Coca-Cola is seeing stabilization in developed markets and strong and improving performance in many emerging markets, despite ongoing areas of weakness such as Argentina, Turkey and the Middle East. We believe these results demonstrate the company's renewed focus on innovation and brand building following the nearly completed refranchising of its bottling operations, as well as the strength of the company's brands, marketing, scale, and distribution in the markets it serves. The refranchising culminated a decade-long effort to restructure the company's largest bottling partners to meet best-in-class operational standards and position them for sustainable long-term growth under the management of capable franchisees. That effort was largely completed in 2017 and is being reflected in the company's improved execution and returns. While overall gross margins of 62% declined by 220 basis points due to adoption of new revenue recognition accounting standards, operating margins of 26% increased slightly due to productivity savings and a positive impact from divestitures. We believe the successful restructuring and Coca-Cola's subsequent return to an asset-light business model with lower capital needs and high profitability is very favorable for cash flow generation and long-term shareholder value creation. As the company completes its transition to an asset-light company following the refranchising, we believe margins can expand to the low-40% range over our investment horizon.

The company's renewed focus is enabling the company to respond more nimbly to rapid changes in consumer preference that have included faster growth in smaller brands and continuing growth in both healthier products and functional products such as energy drinks. While the company is executing well in its core businesses, it is also addressing these trends through partnerships and M&A activity as it did through its strategic investment in Monster Beverage. In the previous quarter, the company announced it had taken an equity stake with a path to ownership in fast-growing, premium sports drink brand Body Armour. Coca-Cola's Powerade brand already competes in the lower-price segment of the sports drink market, where Pepsi is the dominant competitor. The investment is consistent with the company's strategy to become a more diverse beverage company and to profitably expand its presence in hydration, which includes water and

sports drinks. While carbonated soft drinks currently represent 50% - 60% of revenues for the company, over the next decade we expect that percentage will decline to 40% - 45% as the company continues to grow in other beverage segments. Also in the prior quarter, the company announced the acquisition of Costa Coffee, the leading coffee brand and retailer in the UK and across many markets in Europe, which marks the company's entry into the global hot-served coffee market. Coca-Cola has a presence in cold ready-to-drink coffee, but lacked a presence in hot beverages, which is a fast-growing category, and the acquisition fits the company's strategy of becoming a more diverse beverage company. We expect the company will continue to successfully evolve to address the changing global landscape through a combination of internal and external solutions. In the prior quarter, the company also announced management changes that became effective in the first quarter of 2019. Brian Smith, former head of EMEA, became President and Chief Operating Officer, assuming responsibility for daily operations and freeing CEO James Quincey to focus on long-term strategic issues. John Murphy, former head of Asia Pacific, became CFO following the retirement of Kathy Waller, who spent 32 years at the company. And Jennifer Mann, Chief People Officer, has taken an additional role as President of a new Global Ventures group which is helping to globally scale strategic acquisitions and partnerships such as Costa Coffee and Monster Beverage.

Coca-Cola continues to execute well despite broad macroeconomic weakness, and has begun to see improvements in emerging markets. The company is nearing the completion of its transformation to an asset-light model which is enabling it to focus on brand building and innovation. The benefits of this transformation can be seen in the US and Western Europe where Coca-Cola is executing more effectively than peers and the company is growing its overall global value share. We believe the long-term fundamentals remain intact for both developed and developing markets and that the company should be able to realize mid-single-digit organic growth in sales. As it continues to leverage its cost structure and drive premiumization, we believe operating profits will grow faster than sales. We believe the company's shares currently sell at a meaningful discount to our estimate of intrinsic value and offer an attractive reward-to-risk profile.

Outlook

- Our investment process is characterized by bottom-up, fundamental research and a long-term investment time horizon. The nature of the process leads to a lower-turnover portfolio in which sector positioning is the result of stock selection.
- The fund ended the quarter with overweight positions in the consumer discretionary, consumer staples, communication services and information technology sectors and underweight positions in the financials, energy, industrials and healthcare sectors. We did not own positions in the materials, utilities or real estate sectors.

About Risk

Equity securities are volatile and can decline significantly in response to broad market and economic conditions. **Foreign and emerging market securities** may be subject to greater political, economic, environmental, credit, currency and information risks. Foreign securities may be subject to higher volatility than US securities due to varying degrees of regulation and limited liquidity. These risks are magnified in emerging markets. **Currency** exchange rates between the US dollar and foreign currencies may cause the value of the fund's investments to decline. **Investments in small and mid-size companies** can be more volatile than those of larger companies. **Growth stocks** may be more sensitive to market conditions than other equities as their prices strongly reflect future expectations.

MSCI All Country World Index (Net) is a free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed and emerging markets.

Outlook as presented in this material reflects subjective judgments and assumptions of the portfolio team and does not necessarily reflect the views of Loomis, Sayles & Company, L.P. There is no assurance that developments will transpire as stated. Opinions expressed will evolve as future events unfold.

Before investing, consider the fund's investment objectives, risks, charges, and expenses. Please visit www.loomissayles.com or call 800-633-3330 for a prospectus and a summary prospectus, if available, containing this and other information. Read it carefully.

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