LOOMIS | SAYLES

MUTUAL FUND COMMENTARY

JUNE 30 2022

Global Growth Fund

FUND FACTS

The fund seeks to invest in companies with sustainable competitive advantages, long-term structural growth drivers, attractive cash flow returns on invested capital, and management teams focused on creating long-term value for shareholders. The fund's portfolio manager also aims to invest in companies when they trade at a significant discount to the estimate of intrinsic value.

Strategy AUM[1]	$2.1 billion
Fund AUM	$107.1 million
Share Class	Y
Inception	3/31/2016
Ticker	LSGGX
Benchmark	MSCI ACWI Net
CUSIP	63872T224
Portfolio Manager	Aziz Hamzaogullari
Manager Since	Inception

[1]Strategy assets are comprised of Loomis Sayles Global Growth style accounts.

TOP TEN HOLDINGS (%)

Alphabet Inc.	5.9
Novartis AG	5.7
Amazon.com, Inc.	5.5
Visa Inc.	4.2
Microsoft Corporation	4.1
Meta Platforms, Inc.	3.7
Boeing Company	3.7
Tencent Holdings Ltd.	3.7
Adyen NV	3.6
MercadoLibre, Inc.	3.5
Total	43.4

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 depositary receipts. Portfolio weight calculations include accrued interest. For current holdings, please visit www.loomissayles.com.

Portfolio Review

- The fund posted negative returns of -19.88% vs. -15.66% for the MSCI ACWI Net Index, underperforming the benchmark by 4.22% net during the second quarter. Trip.com Group Ltd., Baidu, Inc., and Yum China were the three largest contributors to performance during the quarter. Amazon, MercadoLibre, and Alphabet were the three lowest contributors to performance.

- Stock selection in the financials sector, as well as our allocation to the healthcare sector, contributed positively to relative performance. Stock selection in the consumer discretionary, industrials, information technology, communication services, healthcare, and consumer staples sectors, as well as our allocations to the energy, consumer discretionary, information technology, communication services, and consumer staples 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).

PERFORMANCE AS OF JUNE 30, 2022 (%) CLASS Y

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	SINCE INCEPTION
FUND	-19.88	-27.43	-30.24	3.03	7.22	9.60
BENCHMARK	-15.66	-20.18	-15.75	6.21	7.00	8.68
EXCESS RETURN	-4.22	-7.25	-14.49	-3.18	+0.22	+0.92

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 1.04% (Class Y). Net expense ratio 0.95%. 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 3/31/2023. When an expense cap has not been exceeded, the fund may have similar expense ratios.

Institutional Class shares (Class Y) are available to institutional investors only; minimum initial investment of $100,000.

NEW PURCHASE HIGHLIGHTS

There were no new purchases during the period.

Portfolio Activity

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 quarter, we added to our existing positions in Netflix, Boeing, Meta Platforms, Doximity, Under Armour, Shopify, Block and Tesla as near-term price weaknesses created more attractive reward to risk opportunities. We trimmed our existing positions in Deere, Roche, Vertex Pharmaceuticals and Oracle. We sold our position in Core Laboratories.

Contributors

Trip.com Group Ltd., Baidu, Inc., and Yum China were the three largest contributors to fund performance.

- China-based **Trip.com**, formerly known as Ctrip, is the world's largest global travel platform. Founded in 1999, the company offers a comprehensive, integrated platform on which travelers can make arrangements for lodging, transportation, packaged tours and other related services, including online advertising and financial services, as well as providing corporate travel management services. The company provides its services in China through its Ctrip and Qunar platforms and serves non-Chinese customers primarily thorough Trip.com and Skyscanner. China-related travel accounts for over 90% of revenue, but Trip.com is available in 20 languages and 31 local currencies while Skyscanner is available in 52 countries and 30 languages. Trip.com also holds equity interests in other leading travel sites, including Tongcheng-Elong, China's third largest online travel agent (OTA), and MakeMyTrip, the largest OTA in India.

  A fund holding since the first quarter of 2020, Trip.com reported quarterly financial results that were solid and above consensus expectations for revenues and operating profit, despite experiencing Covid-related travel disruptions in March. Shares responded positively to the results and to news that China would ease quarantine rules for travelers. Total quarterly revenue of renminbi (RMB) 4.1 billion was flat year over year as strength in January and February was offset by weakness in March. While traffic on its global platforms (outside of China) exceeded 2019 levels and included air ticket bookings that rose 270% year to date, both transportation and accommodation revenue within China remained at approximately 50% of 2019 levels. While the company is no longer providing guidance, management commented that it had begun to see some recovery in bookings in June, and we believe that structural growth will resume when the impact of Covid-19 abates.

  The company has continued to focus on improving cost efficiency. Operating expenses, which declined 11% in the quarter, now represent 38% of 2019 levels, and adjusted operating profit of RMB 91 million improved substantially from RMB -216 billion in the prior-year quarter on margins of 2% which expanded by 700 basis points. Despite the substantial impact of Covid-19 on the travel industry, the company continues to have a solid financial position that includes cash and both short and long-term investments of $14.8 billion, which substantially exceed the company's $8 billion of outstanding debt.

  As the leading global travel platform and largest in China, we believe Trip.com is well positioned to benefit from long-term growth in travel expenditures by consumers and business travelers in China. We believe the impact of Covid-19 on travel is temporary, and that the structural drivers of growth remain intact. Apart from the near-term impact of Covid-19, the company has been reinvesting significantly in the business, depressing operating margins relative to history. As these investments moderate, we believe the company can generate structural operating margins in the low-20% range. We believe the company's share price embeds expectations for key revenue and cash flow metrics that are substantially below our long-term assumptions. As a result, we believe the company's shares are trading at a significant discount to our estimate of intrinsic value and offer a compelling reward-to-risk opportunity.

- **Baidu** is the leading online search and advertising provider in China. A holding in the fund since inception, Baidu reported quarterly financial results that were solid and better than consensus expectations for revenue, operating profit, and earnings per share (EPS), but remain impacted by Covid-related restrictions and economic weakness. We believe Baidu is a high quality company whose sustainable competitive advantages include its strong brand recognition, economies of scale, a powerful network and business ecosystem, and strong distribution. Baidu's brand was rated the fifteenth most valuable brand in China in 2021 by MillwardBrown's annual BrandZ study. The Baidu family of apps and products, which includes search & feed, video, tools, knowledge and information-centric products, location-based services, and industry-specific verticals, reaches over 1 billion monthly average devices, hundreds of millions of users, millions of developers, and hundreds of thousands of enterprises, illustrating the scale of the platform. Within this application ecosystem, Baidu has continued to be driven by its core search and feed app where the company has continued to dominate China's internet search market, capturing over 70% share of search revenues. We believe Baidu's family of apps positions the company to benefit from long-term, secular growth in China online advertising, and that the company is poised to return to growth in 2022 and beyond.

  For the quarter, total revenue grew 1% year-over-year to renminbi (RMB) 28 billion. Accounting for 60% of Baidu's total revenue, online marketing services associated with the company's core search business and advertising revenue from iQiyi declined 6% year over year. Overall advertising spending was pressured in sectors such as travel, franchising, real estate, and healthcare, due both to cyclical weakness in advertising as well as a resurgence of Covid during the period. While advertising demand and revenue was pressured during the quarter, user growth on the Baidu app was solid. Monthly average users on the Baidu app, which is the company's focus for search and personalized news feed services, reached 632 million during the quarter, a 13% year-over-year increase, of which 83% logged in on a daily basis.

  Other revenue, predominantly subscription revenue from iQiyi, Baidu's majority-owned online video site, as well as cloud services revenue and other AI businesses, accounted for 40% of total revenue and grew 14% year over year. Growth was driven by Baidu's cloud business, which grew 45% and benefited from continued secular growth in the public cloud and particular strength among clients in the utilities, energy, transportation and internet businesses. The company's cloud business also continued to benefit from its smart transportation services, which had been adopted by 35 cities at year end, up from 14 a year prior. iQiyi grew its subscription revenue by 4%, benefiting from improved monetization, and ended the quarter with 101 million total subscribers. Baidu's other AI businesses and growth initiatives also generated strong double-digit growth during the quarter.

  Baidu's adjusted EBIT (earnings before interest and taxes) declined 8% year over year to RMB 4 billion. EBIT margins of 14% contracted from 16% margins in the prior-year quarter predominantly due to the revenue slowdown and increased investments in Baidu core. Baidu core margins of 17% declined 8 percentage points over the prior-year quarter, due in part to investments in growth initiatives including AI cloud, intelligent driving, and smart assistants. The company's iQiyi platform recorded a profit of RMB 327 million on EBIT margins of 4% that were well above -8% margins in the prior-year quarter, driven by management's focus on efficiency improvements. Free cash flow of RMB -107 million was down from RMB 2.6 billion in the prior-year quarter on lower net income and an increase in capital expenditures. The company maintains a strong balance sheet with net cash of approximately $21 billion. We continue to believe Baidu is a high quality company with sustainable competitive advantages that is poised to benefit from secular growth in China online advertising. We believe the assumptions embedded in Baidu's share price show a lack of appreciation for the company's significant long-term growth opportunities and the sustainability of its business model. The shares sell at a significant discount to our estimate of intrinsic value and offer a compelling reward-to-risk opportunity.

- **Yum China** is the largest restaurant company in China, operating over 11,000 restaurants primarily under the KFC and Pizza Hut brands. A fund holding since the fourth quarter of 2016 when it was spun off from existing portfolio holding Yum! Brands, Yum China reported quarterly financial results that remained significantly impacted by Covid restrictions that impacted hundreds of millions of Chinese citizens and resulted in 85% to 90% of stores being closed in certain cities in March and April. While same-store sales declined by 20% year over year in April, the company was able to increase new unit openings and continues to evolve its business to be more digital and delivery-centric, reflecting the resiliency of its business and sustainability of its operations through a major downturn. Shares may also have responded positively to a nationwide decline in Covid cases and a loosening of travel restrictions by the Chinese government. While operations remain significantly impacted by China's "zero-Covid" policy, we believe the company is operating as efficiently as possible, implementing creative strategies, and executing well. We believe the impacts remain temporary, and that Yum China remains well positioned to benefit from long-term secular growth in consumer purchasing power. We can see many continued positives for the company, including continued expansion of delivery, digital payments, remodeling of stores, the leveraging of AI to drive greater efficiency across the business, and the potential exit of less financially stable competitors. We further believe the resulting long-term benefits for system sales and improved profitability is not reflected in the company's share price. With its iconic brands, large and complex supply chain infrastructure, and real estate procurement expertise, we believe Yum China remains well positioned to benefit from the secular growth of consumer spending on restaurants in China.

  Total sales of $1.8 billion reflected system sales that declined 4% in constant currency versus the prior-year quarter. At the company's larger, more-profitable KFC segment, system sales also declined 4%. KFC same-store sales were down by 9% but benefited from higher average tickets for digital and delivery orders, both of which increased as a percentage of sales. Digital orders represented 88% of sales during the quarter, while delivery grew to 36%, from 30% in the prior year quarter. The company also continued to open new units, with 273 new KFC units in the quarter, most of which are in lower-tier cities with attractive cash payback periods of approximately two years. As of December 31, 2021, KFC operated in over 1,600 cities and is targeting a further 1,200 lower-tier cities, consistent with our long-term investment thesis.

  The ongoing turnaround at Pizza Hut continues to show positive signs, with system sales, same-store sales, new store openings, and margins all trending in a positive direction as a result of strong execution on steps to revitalize the brand. Despite the near-term impact from Covid on in-restaurant dining, Pizza Hut's economics have improved, and the payback period for its redesigned new units is an attractive three years. During the quarter, system sales declined 1%, and same-store sales, which had been recovering last year, declined 5%. Management, which we believe has proven adept at identifying business weaknesses and devising and executing credible strategies for improvement, is sticking to its strategy of offering amazing food and amazing value to consumers. With the improvement in the store investment payback period, the company accelerated its pace of new unit openings. The 89 new stores opened during the quarter represented a substantial increase over recent quarters, and the company also accelerated the pace of remodeling its older units. These new stores are smaller and more closely located to existing locations as the company evolves its store format to be smaller and improve its logistic infrastructure to address the increasing consumer needs for at home consumption through food delivery.

Yum China continues to have success with its loyalty programs and its delivery initiatives, with delivery growing as a percentage of sales for both brands. The company's loyalty programs grew to over 370 million members from approximately 315 million one year ago. In comparison, Starbucks, considered one of the pioneers in loyalty programs, has approximately 27 million members in North America. Members of Yum China loyalty programs tend to visit more frequently, have larger average ticket sizes, and provide ongoing customer feedback. Yum China estimated that its KFC loyalty members, which total over 345 million, accounted for 62% of segment sales in the quarter and had an average ticket size that was two times as much as non-loyalty members. Pizza Hut's greater than 110 million loyalty members accounted for 60% of segment sales, up five percentage points from the prior-year period. The company is targeting this population with unique promotions and activities to enhance the benefits of membership, including now allowing loyalty points to be used across both Pizza Hut and KFC, and to ultimately sustain and extend sales from these high-value consumers.

While overall restaurant margins declined substantially to 13.8% from 18.7% in the prior-year quarter, both KFC and Pizza Hut remained profitable and the company reported a first quarter operating profit due in part to rent mitigation and government support that are not expected to continue in the current quarter. Management maintains its long-term target for 17% restaurant margins, which is consistent with our long-term forecast. Overall, we believe the long-term secular growth driver remains intact as food options such as Pizza Hut and KFC become increasingly affordable to an emerging middle class with rising levels of disposable income. We expect this demand, in turn, to drive unit growth in China for both restaurant brands where the per capita penetration is much lower than in developed countries. Beyond its core brands, the company remains focused on addressing new meal occasions and testing new restaurant concepts, including Coffii & Joy and Lavazza, both of which are focused on premium coffee, and hotpot chains Little Sheep and Huang Ji Huang, which collectively have over 900 locations. The company also targets having 100 Taco Bells open by year end, up from 27 in the first quarter. While Covid-19 could have an ongoing impact on the business and industry in 2022, we believe current market expectations do not reflect the company's long-term opportunity for increased sales due to unit growth and consumer recovery, as well as the resulting improvement in margins and free cash flow. As a result, we believe the company is selling at a significant discount to our estimate of intrinsic value and offers a compelling reward-to-risk opportunity.

Detractors

Amazon, MercadoLibre, and Alphabet were the largest detractors to performance during the quarter.

- Online retailer **Amazon** offers millions of products – sold by Amazon or by third parties – with the value proposition to consumers of selection, price, and convenience. Amazon's enterprise IT business, Amazon Web Services (AWS), offers a suite of secure, on-demand, cloud-computing services, with a value proposition to clients of speed, agility, and savings. In both of its core markets, Amazon possesses strong and sustainable competitive advantages that would be difficult for competitors to replicate. In e-commerce, these include its brand, scale, technology platform, network advantage, and logistics and distribution systems. AWS benefits from its brand, technology platform, and massive scale which allows it to pass along cost savings while continuing to innovate. Growing well in excess of their underlying markets, both of Amazon's businesses are gaining market share. Led by visionary founder and Executive Chairman Jeff Bezos, Amazon invests aggressively to expand and leverage its customer base, brand, and infrastructure, targeting businesses with strong financial returns that are anticipated to offer large and enduring growth opportunities.

  A fund holding since inception, Amazon reported quarterly financial results that were fundamentally solid and included revenue that was above management guidance, while operating profit was at the low-end of guidance and below consensus expectations. The company also provided guidance for the second quarter that was below expectations. Amazon is facing short-term cost inflation that contributed to an incremental $6 billion in expense during the most recent quarter. While a portion of the additional expense is outside of Amazon's direct control, including higher shipping, fuel, and labor costs, approximately two-thirds stems from Amazon's strategic decision to invest in labor to make up for Covid-related employee absences, as well as investments undertaken to ensure that its fulfillment and transportation network remain unconstrained during the pandemic. While expense pressures are expected to persist for the foreseeable future, Amazon expects them to decline to approximately $4 billion in the coming quarter. Over time, we believe that Amazon will take steps to mitigate external cost inflation and that it will realize greater productivity and fixed cost leverage from its investments in labor, fulfillment, and distribution. We believe Amazon is one of the best-positioned companies in e-commerce and enterprise IT – in each case addressing large, underpenetrated markets that benefit from secular growth that is still in its early stages. In both of its core markets, we believe Amazon possesses strong and sustainable competitive advantages that would be difficult for competitors to replicate. Despite a deceleration of revenue growth to 9% from 44% in the pandemic-enhanced, prior-year quarter, Amazon has delivered annualized growth of approximately 25% over the past two years – above its pre-pandemic growth in the low-20% range in the fourth quarter of 2019. Further, the company has added over 50 million prime members over the past two years and is seeing strong growth in other businesses including AWS and advertising. Earlier this year, the company announced it was increasing the price of Prime membership for the first time since 2018, which we believe reflects its pricing power and ability to offset cost inflation. These near-term challenges do not impact our long-term view of Amazon's quality, growth, or the attractiveness of its reward-to-risk proposition.

  For the quarter, net sales of $116 billion increased 9% year over year in constant currency, in line with consensus expectations. E-commerce and related revenue, including third-party services, advertising, and retail subscription services such as Prime membership and digital media subscriptions, accounted for approximately 81% of total net sales and grew by a mid-single-digit percent in constant currency year over year. The company recently broke out its advertising revenue for the first time, which was almost $8 billion in the quarter and grew 23% year over year, well above the growth in advertising as a whole. North America accounted for approximately 71% of e-commerce and physical store sales, while Amazon's international segment contributed approximately 29%. Comprising 16% of total net sales at $18 billion, AWS revenue grew 37% in constant currency compared with the year-ago quarter, significantly faster than our estimate for global enterprise IT spending. Amazon is the world's largest cloud vendor, almost two times the size of next largest competitor Microsoft, and as large as the next four competitors combined.

While Amazon's sales mix has been shifting over the past few years to higher-margin product categories such as third-party e-commerce sales, AWS, and advertising, gross margins for the quarter were flat at approximately 43%. Overall, Amazon reported adjusted operating income of $7 billion, down 38% compared with the year-ago quarter as the company continues to invest heavily and incurred over $6 billion in additional costs that it attributed to inflation in both wages and fulfillment costs, as well as lost productivity and business disruptions due to Omicron. Overall operating margins declined 230 basis points from the year-ago quarter to 5.2%. From a segment standpoint, North America generated an operating loss of $1.6 billion, and operating margins of -23% were substantially below the prior year of 5.4%. Amazon's international segment generated an operating profit margin of -4.5%, which declined by 50 basis points from the prior-year period. AWS grew operating income by 57% to $6.5 billion, with operating margins of 35% that rose 450 basis points versus the year-ago quarter. Over the trailing twelve months, the company generated positive operating cash flow of $39 billion, but recorded a free cash outflow of $18.6 billion due largely to a substantial increase in capital expenditures, elevated cost pressures, and heavy investment spending. These near-term costs and investments do not impact our long-term view of the quality of Amazon's financial profile.

On a global basis, e-commerce represents approximately 12% of an estimated $20 trillion of global retail sales outside of China, where Amazon does not have a substantial presence. We estimate that Amazon generated approximately $550 billion in gross merchandise volume (GMV) in 2021, which would represent market share of total e-commerce across these markets in the mid-20% range and approximately 3% of total retail sales. We believe a long-term, secular shift from traditional brick-and-mortar retail to e-commerce is still in its early stages and that e-commerce will come to represent a significantly higher portion of the global retail market. We believe Amazon's structural operational advantages, network effect, and relentless focus on customer service position the company to grow faster and more efficiently than its traditional or online retail competitors. We also believe AWS is well positioned in the nascent and underpenetrated cloud-computing services market. We estimate the segment can realize mid-teens compounded annual revenue growth with operating margins improving to the mid-30% range. As a result, we believe the long-term operating profit potential of AWS can approach 50% or more of the company's core retail opportunity. Over our investment time horizon, we believe Amazon can sustain low-teens revenue growth and faster growth in operating profits and free cash flow that is not currently reflected in the share price. As a result, we believe the company is selling at a significant discount to our estimate of intrinsic value and offers a compelling reward-to-risk opportunity.

- **MercadoLibre** is the largest online commerce platform in Latin America. The company offers its users an ecosystem of six integrated e-commerce services that include its marketplace, payment and fintech solutions, shipping and logistics, advertising, classified listings, and merchant web services. In its most recent fiscal year, commerce and related services accounted for approximately 65% of net revenue, while payments and fintech solutions accounted for approximately 35%. The company operates in 18 countries representing the vast majority of Latin American GDP, and its 140 million active users in 2021 represented over 30% of the region's estimated 450 million total internet users. We believe MercadoLibre benefits from strong and sustainable competitive advantages that include its network and ecosystem, brand, and understanding of local markets that collectively contribute 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 remains well positioned for sustained growth over the next decade, driven by the secular growth of e-commerce across Latin America.

A fund holding since inception, MercadoLibre reported quarterly financial results that reflected strong growth in revenues, gross merchandise volume (GMV), and payments volume, and the company gained market share in both e-commerce and payments. Despite remaining in a period of elevated investment spending, the company also generated operating margins and earnings per share that were that were above consensus expectations. Growth was notable because it follows strong pandemic-fueled growth in the prior year period and reflects the high value proposition to consumers. Despite strong fundamental performance, the company's shares were among the largest detractors as a result of the weak market backdrop during the period.

For the quarter, net revenue of $2.2 billion grew by 67% year over year in constant currency. The services provided by MercadoLibre generally fall into two distinct revenue streams. "Commerce" includes MercadoLibre's core e-commerce marketplace and related services and solutions, and accounted for 57% of revenue. "Fintech" accounted for 43% of revenue and includes items such as off-platform payment fees generated through the company's Mercado Pago payments platform, financing fees, and revenues from the sale of mobile point-of-sale (POS) products. Commerce revenue of $1.3 billion rose 43% year over year in constant currency. Performance was strong across all key countries which contributed to total GMV of approximately $8 billion that rose 32% year over year on a constant currency basis. This strong growth follows GMV growth of 114% in the pandemic-enhanced prior-year quarter, which suggests to us that the accelerated shift to e-commerce is persisting due to the high value proposition to consumers and merchants. The company continues to focus on expanding its product categories and deepening its selection. Live listings, one of the company's key performance indicators which demonstrates the broad and growing number of products available through the company's marketplaces, grew 10% to 329 million in the quarter, while the number of active users increased 16% year over year. Fintech revenue of $971 million grew 113% in constant currency, driven primarily by payment processing and fintech solutions. Total platform payment volumes settled through Mercado Pago were $17.4 billion and rose 52% year over year in constant currency. Off-platform payment volumes, which represent processed transactions that occur outside of the company's Marketplace platform, accounted for 68% of total payment volumes, benefiting from online payments and mobile POS, which grew 54% and 72%, respectively. The company also reported that its emerging asset management business has over $920 million in assets under management and 23 million users, and the company has originated $2.4 billion through its growing array of credit offerings, which rose 41% quarter over quarter.

We believe 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 during the period of 6.2% declined from 6.6% in the prior-year period as increased product development and sales and marketing expenses more than offset an almost 500 basis point expansion in gross margins as the company benefited from its growing scale. 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. While its elevated investments over the past few years 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 e-commerce 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.

- **Alphabet** is a holding company which owns a collection of businesses, the largest and most important of which by far is Google. Google is the global leader in online search and advertising and also offers cloud solutions to businesses and consumers globally, with a goal of organizing the world's information and making it universally accessible and useful. Google dominates the US and global search market with a greater than 80% share of search volumes. As a function of seeing more searches, Google is able to provide better search results, resulting in a higher customer conversion rate for advertisers and enabling Google to capture a leading share of search revenue. Google's large network of consumers, advertisers, and publishers is a powerful business ecosystem as third-party participants such as marketing affiliates and independent software vendors add value to the user experience. As a result, consumers get their best and most relevant search results and advertisers get the best returns on their advertising dollars. Such a robust ecosystem attracts increasing numbers of participants and thereby creates a virtuous cycle for a sustainable business model and long-term growth. In its emerging cloud business, we estimate that Google captures less than 10% market share of the global market for public cloud services. We believe Google remains one of the few global companies that has the scale, R&D, and technical talent to effectively compete in this market over the long term. Non-Google businesses comprise less than 1% of Alphabet revenues and are held in the company's Other Bets segment.

  A holding in the fund since inception, Alphabet reported fundamentally strong quarterly financial results that were approximately in line with consensus expectations. Despite strong results, the company's shares were among the largest detractors as a result of the weak market backdrop during the quarter. Total revenue of $68 billion represented a 26% increase year over year in constant currency. Alphabet reports results in three segments: Google Services, Google Cloud, and Other Bets. Google Services reported quarterly revenue of $61.5 billion, which rose 20% year over year and represented 90% of total revenue. Advertising revenue accounted for 89% of Google Services revenue and grew 22% compared with the year-ago quarter, powered by the secular shift of advertising to online and mobile platforms. With growth well above that of traditional advertising, Google continued to take market share. Advertising revenue growth was driven by the search business, which benefited from strong growth in retail and a recovery in travel spending. YouTube growth of 14% benefited from strong demand from brand advertisers due to its reach and engagement with over 2 billion monthly users who recently spent over 1 billion hours daily on the platform, but was partially offset by more modest growth in direct response advertising. Direct response ads have quickly grown to be one of the largest advertising businesses on YouTube after contributing almost nothing a few years earlier. However, direct response growth was muted in the quarter after growing 49%

in the prior-year quarter and seeing headwinds from suspension of its operations in Russia and a related slowdown in spending by European brand advertisers. The company also reported 20% growth in its network advertising revenues, driven by AdSense and AdMob. Non-advertising revenue, which includes Google Play, hardware, and YouTube non-advertising revenues such as subscriptions, represented 11% of Google Services revenues and grew 5% year over year. Growth was driven by YouTube subscription revenue that was partially offset by a decline in Google Play revenues following a 2021 reduction of fees intended to support the growth of its app developers.

Google Cloud reported quarterly revenue of $5.8 billion, which rose 44% year over year and represented 9% of total revenue. Google's cloud business includes Google Cloud Platform (GCP), the company's infrastructure- and platform-as-a-service offerings, and G Suite, which includes the company's software-as-a-service offerings such as Gmail, Docs, Drive, and Calendar. Cloud growth was led by GCP, which grew well above the overall cloud business. The segment generated an operating loss of $900 million on EBIT (earnings before interest and taxes) margins of -16%, which improved from -24% in the prior-year period. The operating loss reflects substantial up-front investments that the company is making to drive long-term growth in advance of revenue. Significant areas of investment include a direct sales force that has tripled over the past few years and substantial expansion of distribution via partners, large investments in its product offerings that are being tailored for six industry verticals, and expansion of network computing capacity to serve customers around the world. Alphabet's Other Bets segment reported revenue of $440 million that increased 122% in the quarter and represented 0.6% of total revenues. Many of these businesses are still early stage and results are volatile on a quarterly basis. Revenue in this segment is currently driven by Fiber and Verily. We believe Google's key revenue drivers of mobile search, YouTube, programmatic advertising, and an emerging cloud business that is Google's fastest growing business, each continue to benefit from secular drivers including increased mobility, video advertising, better use of advertising technology to drive performance, and increased penetration of public cloud services.

Alphabet continues to have a high-quality financial profile and strong financial position. The company reported gross margins of 56.5% and adjusted operating margins of 36%, both of which were flat year over year. Google's attractive financial model generates strong free cash flow and earns high returns on invested capital, enabling it to reinvest significantly in its business. Over the past five years, Google has invested over $120 billion in R&D, an amount very few other companies could replicate. In the quarter, Alphabet generated free cash flow of $15.3 billion that rose 15% and represented 23% of revenue. Capital expenditures increased by 65% year over year to $9.8 billion and represented 14% of gross revenue. The company's capital expenditures continue to focus on technical infrastructure spending required to support growth, including servers and data centers, and also reflects the closing of certain office facilities during the quarter.

We believe market expectations underestimate Alphabet's long-term sustainable growth rate. Therefore, we believe the company is selling at a significant discount to our estimate of intrinsic value and offers a compelling reward-to-risk opportunity.

Outlook

- Our investment process is characterized by bottom-up, fundamental research and a long-term investment time horizon. The nature of the process has led to a lower-turnover portfolio in which sector positioning is the result of stock selection.

- At quarter end, we were overweight in the communication services, consumer discretionary, healthcare, information technology, and industrials sectors. We were underweight in the financials and consumer staples sectors. We held no positions in the energy, materials, utilities, or real estate sectors.

- We remain committed to our long-term investment approach 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. Though we have no stated portfolio turnover target, as a result of our long-term investment horizon, our estimated annualized portfolio turnover since the inception of the fund is approximately 11.1%. The overall portfolio discount to intrinsic value was approximately 42.1% as of June 30, 2022.

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.

Natixis Distribution, LLC (fund distributor, member FINRA|SIPC) and Loomis, Sayles & Company L.P. are affiliated.

LSGG03-0622
Exp. 10/31/22
1531537.27.1