Growth Fund

FUND FACTS

OBJECTIVE

Seeks to produce long-term growth of capital

Share class	Y
Inception	5/16/1991
Ticker	LSGRX
CUSIP	543487110

Portfolio Review

- The fund underperformed its benchmark, the Russell 1000® Growth Index, largely due to stock selection in the information technology, consumer staples, healthcare, financials, consumer discretionary, industrials and energy sectors as well as our allocation to the energy, information technology, industrials and consumer discretionary sectors. Stock selection in the communication services sector as well as our allocation to the consumer staples sector contributed to 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. Quarter to date as of August 31, 2019, we added to our existing position in Monster Beverage as near-term price weakness created an attractive reward-to-risk opportunity. We trimmed our position in Varian Medical Systems.[1]

Contributors

CLASS Y PERFORMANCE AS OF SEPTEMBER 30, 2019 (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
FUND	-1.55	20.07	6.09	14.06	13.75	15.19
BENCHMARK	1.49	23.30	3.71	16.89	13.39	14.94

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 0.65% (Class Y). Net expense ratio 0.65%. 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 1/31/2020. When an expense cap has not been exceeded, the fund may have similar expense ratios.

The Class Y inception date is 5/16/1991. Class Y shares are sold to eligible investors without a sales charge; other Classes are available for purchase.

[1]Quarter-to-date transactions as of August 31, 2019. Please refer to our disclosure policy at the end of this document.

TOP TEN EQUITY HOLDINGS (%)

Visa Inc.	6.8
Amazon.com, Inc.	6.2
Alphabet Inc.	5.4
Facebook, Inc.	5.4
Oracle Corporation	5.0
Alibaba Group Holding Ltd.	4.9
Microsoft Corporation	4.0
Autodesk, Inc.	3.9
Procter & Gamble Company	3.5
Monster Beverage Corporation	3.4
Total	48.6

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 our website.

- **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 online cloud solutions to businesses and consumers globally, with a goal of organizing the world's information and making it universally accessible and useful. Non-Google businesses comprise approximately 1% of Alphabet revenues and are held in the company's Other Bets segment.

  A long-term fund holding, Alphabet was among the top contributors for the quarter. The company reported strong quarterly results that were above consensus expectations. Total revenue of $38.9 billion represented a 22% increase year over year in constant currency and accelerated across all regions after having decelerated in the prior quarter. Alphabet's Google subsidiary represented 99% of total Alphabet revenue, while the company's Other Bets segment accounted for 1%. Advertising revenue accounted for 84% of Google revenue and grew 16% 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. Google sites accounted for 70% of total Google revenue and grew 18% compared with the year-ago quarter, reflecting strong growth in mobile search, followed by YouTube and desktop search. YouTube has over 1.8 billion users on a monthly basis, with localized versions in 90 different countries and 80 different languages, and the YouTube Go app has been expanded to over 130 countries. Network advertising revenue, driven by Google's programmatic offering, accounted for 14% of total Google revenue and grew 9% year over year. Other revenue accounted for 16% of Google revenue and grew 40% year over year, driven primarily by Google's cloud business, but also Google Play. Google's cloud business includes Google Cloud Platform (GCP), the company's Infrastructure- and Platform-as-a-Service offerings, and G Suite, the company's software-as-a-service offerings such as Gmail, Docs, Drive, and Calendar. The company recently announced that Google Drive now has one billion users, making it the ninth Google product to exceed that mark, along with Android, Chrome, Gmail, Google Maps, Google Search, Google Play Store, Google Photos and YouTube. Google's key revenue drivers of mobile search, YouTube, programmatic advertising, and an emerging cloud business that is growing three-to-four times faster than the core search 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's Other Bets segment reported revenue growth of 12% in the quarter. Many of these businesses are still early stage and results likely will be volatile on a quarterly basis. Revenue in this segment is currently driven by Fiber and Verily.

  During the second quarter, several media sources suggested that the Department of Justice (DOJ) plans to investigate Alphabet along with other technology leaders regarding its compliance with antitrust laws, and the company has since confirmed that it has been requested to provide the DOJ with information regarding previous antitrust investigations. We believe the regulatory history of Microsoft, a company we have owned since inception of our strategy, provides insights and perspective into the potential for a heightened regulatory environment for technology companies. Over the past three decades, Microsoft has faced antitrust lawsuits and regulation from the Federal Trade Commission, the DOJ, 20 different US states, the European Commission, and other countries regarding its business practices. Ultimately, after nearly a decade following the start of the investigative process, Microsoft settled and adjusted some of its business practices. While this did create

short term challenges for the business and stock price, Microsoft continued to create long-term business and shareholder value, driven by its competitive advantages and long-term approach in managing the business. Microsoft did not change its strategy of focusing on innovation and investing to drive long-term growth, despite these business changes. In similar fashion, we believe Alphabet continues to be managed by visionary founders who invest to drive long-term innovation and growth, as evidenced by the more than $20 billion of R&D spending and $25 billion in capital expenditures in 2018 alone. We believe this approach should enable Alphabet to continue to create long term shareholder value. These types of regulatory inquiries are backward looking by their nature, and the period under analysis may no longer reflect the current, dynamic environment. Consider that in 2007, Facebook commanded less than 1% market share in online advertising, but as of 2018 now captures 22%, second only to Google. Amazon is also an emerging player in online advertising by charging companies to promote their products on Amazon properties. In the coming years, this could again reshape the competitive landscape in online advertising.

These investigations can take on a life of their own and may take several years before any findings are published. And then there can be an appeals process. Recall in July 2018, the European Commission (EC) announced the findings of its three-year investigation into Google's practices in licensing its Android operating system. Echoing a preliminary view issued in April 2016, the EC concluded that certain contractual provisions between Google and its Android partners infringed on European competition law, and levied a $5.1 billion fine against the company. This action does not currently impact our view on Alphabet's quality or growth outlook, and the company has previously indicated it will appeal the ruling. The fine represents approximately one quarter of free cash flow for the company and a small percentage of the company's $86 billion of cash and investments.

Of course, such announcements alone can weigh on stock prices over the short term. And while there are historical cases where we do see that investigations can result in changes to business practice, business models, or regulatory environments, we have found that the outcomes tend to create higher barriers to entry for an industry, thereby benefitting the largest players. As we did with the earlier EC action versus Alphabet, we will continue to monitor and assess any potential structural impact on our investment thesis for Alphabet and on the company's market share or growth. We believe Alphabet remains well positioned to benefit from the secular shift of the approximately $1 trillion in global annual advertising and marketing expenditures to online and mobile advertising from traditional advertising media.

Alphabet continues to have a high quality financial profile and strong financial position. The company reported a 190 basis point year-over-year contraction in gross margins to 55.6%. The contraction was the result of higher other costs of goods sold, which primarily reflected increased costs for data centers, YouTube content, and hardware costs associated with the launch of its new mid-tier Pixel smartphone, which were partially offset by lower traffic acquisition costs. Adjusted operating margins of 23.6% declined 55 basis points compared with the year-ago quarter, reflecting higher cost of goods sold and offset in part by operating leverage in sales and marketing and general and administrative expenses. At a segment level, Google's operating margins declined 100 basis points year over year to 33.5%. Alphabet's Other Bets segment posted an operating loss of $829 million, up from a loss of $605 million in the year-ago quarter, as most opportunities are still early stage. Adjusted EPS of $14.21 rose 21% year over year and exceeded consensus estimates by 5%.

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 $60 billion in R&D, an amount very few could replicate. In the quarter, Alphabet generated $12.6 billion in free cash flow, up 25% year over year. Capital expenditures increased by 12% year over year to $6 billion and represented 15% of gross revenue. The company's capital expenditures continue to focus on infrastructure spending required to support growth, including office facilities and data centers, followed by servers. The company's investments are reflective of the company's overall growth opportunities, particularly in the core advertising business, additional computing power to support YouTube users globally, rapid growth of GCP, and increasing computing power required to support the intensity of machine learning across all of Google's products. We believe Alphabet remains well positioned to benefit from the secular shift of the $1 trillion in global annual advertising and marketing expenditures to online and mobile advertising from traditional advertising media. We believe market expectations underestimate its 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.

- **Procter & Gamble (P&G)** is the world's leading consumer household and personal products company. Founded in 1837 as a soap and candle manufacturer in Cincinnati, Ohio, P&G today offers 65 of the world's best-known consumer brands in 10 product categories which it sells in over 180 countries. Sales outside of North America account for approximately 55% of total revenue, including approximately 35% from emerging markets. In recent years the company shed over 100 brands to focus on daily-use categories where its products solve problems and where performance drives purchases. The company's reporting segments and respective revenue contributions are: Fabric and Home Care (~30% of revenue); Baby, Feminine & Family Care (~30%); Beauty (~20%) Health Care (~10%); and Grooming (~10%).

  A long-term fund holding, P&G reported quarterly results that were better than consensus expectations across many business segments and represented the company's strongest performance in a decade. Organic revenue grew 7% year over year, with sales rising in all 15 of the top 15 geographic markets for the second consecutive quarter, and all 10 of the company's 10 product categories (versus 8 last quarter). P&G had previously communicated to retailers that it would raise prices to offset rising commodity inflation, and pricing rose 3% versus the prior-year quarter. However, results might experience near-term volatility depending on the timing of price increases by competitors. The main driver for improved performance was the growing benefit of the company's increased focus on a smaller number of product categories in which the company's competitive advantages enable it to deliver clearly differentiated products, in particular on the basis of their superior efficacy, packaging, and brands. While we believe the company should routinely succeed on this basis, years of expansion by category and geography had resulted in insufficient attention to the company's core businesses. Under CEO David Taylor, the company implemented an improved strategy by refocusing on 65 brands in 10 core categories, and has disposed of over 100 non-core brands since late 2015. Correcting its missteps has taken time and required investment in the company's US supply chain and global manufacturing capabilities to enable the company to deliver superiority on all measures. The company continues to face some uncertainty in its grooming and baby care businesses, both of which had positive growth and improved performance during the quarter. Overall, we believe the

company's recent results have begun to reflect P&G's improved focus and execution and should enable the company to sustainably return to above-market growth over our long-term investment horizon.

On a global basis, the branded consumer goods products categories in which P&G competes represent an approximately $450 billion addressable market. We believe the long-term secular cash flow growth driver is increased per capita spending, especially in developing consumer markets, and we expect the company to benefit from market share gains, pricing growth, positive product mix, and margin expansion. We believe P&G's streamlined portfolio of brands, ongoing cost-saving strategies, and increasing manufacturing and marketing productivity will enable the company to invest in product innovation and marketing to spur organic sales growth while also realizing growing operating profits due to scale advantages. We believe the current market expectations underestimate the long-term structural growth drivers and the company's superior positioning. With its share price selling at a significant discount to our estimate of intrinsic value, we believe the company offers 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 approximately 31% of revenues and 23% of profits. The Europe, Middle East and Africa segment accounts for approximately 19% of revenues and 33% of profits. Asia Pacific and Latin America account for approximately 13% and 10% of revenue, respectively, and each account for approximately 20% of profits. The company's Bottling Investment Group accounts for approximately 20% of revenues and 2% of profits, and Global Ventures unit accounts for 6% of revenue and 3% of profits.

  A long-term fund holding, Coca-Cola was among the largest contributors to performance during the quarter. The company reported another strong quarter of 6% year-over-year organic sales growth, at the high end of its 4% - 6% long-term guidance. Revenue benefited from 4% growth in volume and 2% growth from pricing gains and favorable product sales mix. Volume growth was driven by emerging markets, with the fastest growth coming from Asia Pacific where southeast Asia and India were both up strongly. Volume growth was also strong in China, where the company should see further benefits of its refranchising activity in which bottling activity was consolidated among two large bottlers. Pricing gains were driven by developed markets, including 4% growth in North America and the company's first price increase in Japan in twenty-five years. Growth also included a 1% benefit from advanced purchases in Europe in anticipation of Brexit-related supply disruptions. We believe Coca-Cola is executing well, and its 5% adjusted organic growth is in line with our long-term forecast and impressive relative to food and beverage peers. The company increased its full year guidance from 4% organic sales growth to 5% growth.

  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 reported gross margins of 60.7% declined by 130 basis points due to adoption of new revenue recognition accounting standards, acquisition activity, and currency impacts, the underlying gross margin expanded by 20 basis points year over year. Adjusted operating margins of 30.3% were similarly impacted and declined 30 basis points year over year, but strong productivity savings contributed to 160 basis points of expansion in underlying operating margins. 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 it 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. These initiatives are being held in the company's new Global Ventures group, which is helping to globally scale strategic acquisitions and partnerships such as Costa Coffee and Monster Beverage. In the prior quarter the company completed its 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 had a presence in cold ready-to-drink (RTD) 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. Coca-Cola has already launched a new Costa RTD product but will focus in the near term on leveraging its cold beverage distribution footprint to expand the presence of Costa's express vending machines, as well as sales of Costa's coffee beans and machines to Coca-Cola's food service customers. Coca-Cola had also previously announced that it entered into binding arbitration with Monster regarding two energy drink-like products that it was planning to launch under the Coca-Cola brand. We believe this represents an effort by Coca-Cola to sell premium carbonated soft drink products, similar to their flavored products which have driven pricing gains, rather than an attempt to compete against Monster in the energy drink segment where Coca-Cola has highlighted the success of its partnership with Monster. During the quarter, the arbiter ruled in favor of Coca-Cola, but both companies confirmed that there has been no disruption to the relationship, and Monster continues to leverage the global bottling network to enter new markets. Coca-Cola had already launched Coke Energy in a few markets and will continue to roll it out along with Coke Coffee in many new markets, ultimately including the US. We expect the company will continue to successfully evolve to address the changing global landscape through a combination of internal and external solutions.

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.

Detractors

- 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 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 long-term fund holding, Amazon was one of the largest detractors from performance during the quarter. The company reported solid quarterly financial results that exceeded management guidance and consensus expectations for revenue growth. Operating profit was in line with management guidance, but below consensus expectations, and the company provided guidance for lower-than-expected operating profit for the current quarter. Revenue growth benefited from an initial roll out of one-day Prime shipping, which contributed to an acceleration of unit growth to 18% from 10% in the prior quarter. However, higher-than-expected costs associated with the roll out contributed to lower-than-expected operating profits. Amazon has experienced a number of transitions over the past 25 years where changes to its service model, such as the initial launch of Prime two-day delivery or offering fulfillment by Amazon, have temporarily impacted the cost or efficiency of its logistics system. We expect the company's newest initiative will benefit from scale and efficiency over time, and that by again increasing convenience to consumers by expanding the selection of products available for faster delivery it will contribute to future share gains.

  Net sales of $63.4 billion increased 21% year over year in constant currency. 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 80% of total net sales and grew 19% year over year. The company's solid results were above our estimate of both US e-commerce and global retail sales growth, indicating that Amazon continued to gain market share. Revenue from Amazon's physical stores, primarily Whole Foods but also including Amazon book stores and other store-based purchases, was flat year over year at $4.3 billion and accounted for 7% of total net sales. The recategorization of Whole Foods orders made via Prime Now as e-commerce

revenues negatively impacted the year-over-year comparison. North America accounted for approximately 70% of e-commerce and physical store sales, while Amazon's international segment contributed approximately 30%. Comprising 13% of total net sales, AWS revenue increased 37% in constant currency compared with the year-ago quarter, significantly faster than our low-single-digit growth estimate for global enterprise IT spending. With the AWS annual revenue run rate now at $33 billion, Amazon is the world's largest cloud vendor, more than two times the size of next largest competitor, Microsoft, and as large as the next six competitors combined.

With Amazon's sales mix shifting increasingly to higher-margin product categories such as third-party e-commerce sales, AWS, and advertising, gross margins improved 70 basis points year over year to 43%. Overall, Amazon reported adjusted operating income of $5.1 billion, up 14% compared with the year-ago quarter. Overall operating margins declined 40 basis points from the year-ago quarter to 8%. Higher warehouse transition costs, lower productivity in fulfillment centers and delivery networks, and inventory investments to increase proximity of goods to consumers in support of one-day Prime delivery all contributed to lower margins. The company also incurred higher marketing expenses due to investments in sales and marketing teams for AWS and more advertising as the company rolls out more devices and video content internationally. From a segment standpoint, North America generated operating income of $1.6 billion, down 15% year over year, and operating margins fell to 4% from 5.7% in the year-ago quarter. Amazon's international segment generated an operating loss of $600 million on operating margins of -3.7%, consistent with -3.4% in the prior-year period. AWS grew operating income by 29% to $2.1 billion, with operating margins of 25.3%, down approximately 160 basis points versus the year-ago quarter. Over the trailing twelve months, free cash flow increased 140% compared with the prior-year period to $25 billion.

On a global basis, e-commerce represents approximately 9% of an estimated $12 trillion of global retail sales outside of China, where Amazon does not have a substantial presence. We estimate that Amazon's 2018 gross merchandise volume (GMV) of $277 billion represents approximately 25% of total e-commerce across these markets and approximately 2% of total retail sales. We believe a long-term, secular transition 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. A disruptive force, 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. Also a disruptive force, we believe AWS is well positioned in the nascent and underpenetrated cloud-computing services market. We estimate the segment can realize compounded annual revenue growth of approximately 20%, 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 mid-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.

- **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 its initial public offering (IPO) in the second quarter of 2012, Facebook was among the top detractors for the quarter. Facebook reported strong growth that was above consensus expectations for quarterly revenue and adjusted earnings per share. The company also reported that it had reached a $5 billion settlement with the US Federal Trade Commission (FTC) regarding its privacy practices that would entail further changes in Facebook's business practices. Specifically, the company has changed the way it builds products and is being operated to include more resources, tools, and oversight, including a privacy audit committee and quarterly certification requirements, to ensure the company is meeting its privacy commitments. While the FTC has settled with the company for its platform user data practices, the FTC has also opened an antitrust investigation that we will continue to monitor. Despite months of negative publicity from the media and concern over current and potential regulatory actions by governments, Facebook continues to grow its global user base, and user engagement, measured by daily and monthly active users, has remained solid. In addition, demand from advertisers remains robust and we believe the long-term secular shift from traditional media to online advertising remains intact.

For the quarter, revenue grew 32% 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 $7.05 was up 18% year over year, reflecting improved monetization per user in all regions. ARPU ranged from $33 per user in North America to approximately $2 per user in the company's rest of world (ROW) category, with the US experiencing the greatest year-over-year increase of 28%. 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 (CAGR) of 35%, reflecting Facebook's strong pricing power. Year over year the number of Facebook users rose 8% to 2.4 billion global users. Users outside of North America account for 2.2 billion or 90% of Facebook's global user base, with growth coming from India, Indonesia and the Philippines, while the US and Canada accounted for about 10%, or 244 million users.

During the quarter, Facebook announced that it had accrued a further $2 billion reserve related to its settlement with the FTC. As a result of the accrual, reported EBIT (earnings before interest and taxes) margins were 27%. Excluding the one-time expense, operating margins would have been 39%, above consensus expectations. Despite the accrual and a near-term increase in investments, Facebook continues to have an attractive financial profile. Free cash flow during the quarter of $5.0 billion rose 75% year over year despite elevated capital expenditures (capex), and represented 30% of revenue. Capex of $3.6 billion grew 36% and remained elevated at 22% of revenue, but declined from 26% of revenue in the prior-year quarter. Capex has accelerated meaningfully over the past few years and is now expected to reach $16 to $18 billion in 2019, up from $6.7 billion in 2017 and $13.9 billion in 2018. 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. During the quarter Facebook repurchased $1.1 billion of its shares and its outstanding share count is down approximately 2% year over year. The company's balance sheet is robust, with net cash of $49 billion, or $17 per share.

We believe Facebook is a 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 through ongoing innovation and its focus on the future of social media through secure and private messaging. 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.

We believe Facebook's 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.

- **Autodesk** is a global leader in 3D design software and services, providing state-of-the-art solutions to customers in the architecture, engineering, construction, manufacturing, digital media, consumer, and entertainment industries. Autodesk's design software allows clients to design, visualize, and simulate real world performance and document their ideas through the creation of digital prototypes. A fund holding since 2012, Autodesk was among the largest detractors from performance during the quarter. The company reported strong financial results that were above expectations on all key metrics as the company is beginning to show the benefits of its transition to a subscription-based-licensing business model from an up-front licensing-plus-maintenance model. However, shares reacted negatively to a modest decrease in guidance for the second half of its fiscal year as the company anticipates currency headwinds and regional impacts arising from Brexit, slowing German manufacturing, and ongoing trade issues with China. Autodesk has not yet observed any material impact from these regions, and we believe any prospective weakness reflects temporary, cyclical factors. We believe Autodesk is well positioned in the structurally attractive design software industry. Its new cloud-computing and mobile products are expanding its addressable market and improving its competitive advantages. With its new subscription-based business model leading to increased customer lifetime value, we believe margins will improve significantly over our investment time horizon, driving double-digit free cash flow growth.

  Autodesk reported quarterly revenue of $797 million, which grew 30% year over year in constant currency and was above management's guidance and consensus expectations. Revenue generated by the new subscription-based business model increased a robust 59% year over year and represented 86% of total revenue. Partially offsetting this growth was the expected and ongoing decline in maintenance plan subscriptions, which have been discontinued for most products. Annualized recurring revenue (ARR), which provides better visibility of future revenue streams, increased 31% year over year and accounted for 96% of the revenue mix, similar to the year-ago quarter, with new model subscription plans representing 87% of ARR. The company also updated its new revenue retention metric, which measures the year-over-year change in ARR from existing customers. Net revenue retention for the quarter remained in line with management's guidance for 110% - 120%,

indicating strong year-over-year growth in revenue from existing customers. Another transition-related initiative is to increase direct enterprise and e-commerce sales, which rose to 30% of total sales, compared with 28% in the year-ago quarter. We believe this distribution and servicing strategy can improve the company's cost structure and its ability to service clients, and we expect the proportion of direct sales to grow over our investment horizon.

Autodesk's attractive financial model contributes to the quality of the business and we expect it will improve as the company moves closer to a 100% subscription-based business model. During the transition, margins, earnings, and cash flow have been predictably under pressure. Free cash flow for the quarter was $205 million, well above the $23 million total from the prior-year quarter. Adjusted EBIT (earnings before interest and taxes) margins of 23% improved significantly from 9% in the prior-year quarter, benefitting from revenue growth and operating leverage. Adjusted EPS (earnings per share) of $0.65 was above management's guidance and consensus expectations. The company's balance sheet remains strong with positive cash and investments of $991 million and long-term debt of $1.7 billion, after spending $41 million to repurchase outstanding company shares during the period. Following the trough from the effects of the business model change, we believe profitability and cash flow will increasingly improve over our investment time horizon. We believe Autodesk can generate attractive and sustainable revenue growth, operating margin expansion, and free cash flow growth that is not currently reflected in the share price. As a result, Autodesk's shares are selling at a significant discount to our estimate of intrinsic value, creating 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.

- The fund ended the quarter with overweight positions in the consumer staples, consumer discretionary, financials, energy and healthcare sectors and underweight positions in the information technology, industrials and communication services sectors. We did not own positions in the real estate or materials 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. **Investments in small and mid-e 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. **Currency** exchange rates between the US dollar and foreign currencies may cause the value of the fund's investments to decline.

Generally, portfolio transactions occurring in the last month of the quarter will not be made public until after an aging period of at least 30 days after quarter-end.

Russell 1000® Growth Index *measures the performance of the large cap growth segment of the US equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000 Growth Index is constructed to provide a comprehensive and unbiased barometer for the large cap growth segment. Indexes are unmanaged and do not incur fees. It is not possible to invest directly in an 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.*

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 800-225-5478 for a prospectus and a summary prospectus, if available, containing this and other information. Read it carefully.

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