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	$109.9 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 (%)

Meta Platforms, Inc.	6.6
MercadoLibre, Inc.	5.6
Amazon.com, Inc.	5.2
Alphabet Inc.	4.5
Oracle Corporation	4.0
Novartis AG	4.0
Boeing Company	3.9
Microsoft Corporation	3.8
Tesla, Inc.	3.8
Adyen N.V.	3.6
Total	45.2

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 positive returns of 8.15% vs. 6.18% for the MSCI ACWI Net Index, outperforming the benchmark by 1.97% net during the quarter. Meta Platforms, Amazon, and Shopify were the three largest contributors to performance during the quarter. MercadoLibre, Tencent, and Alibaba were the three lowest contributors to performance.
- Stock selection in the communication services, healthcare, information technology, consumer staples, and financials sectors, as well as our allocations to the consumer discretionary, consumer staples, financials, and communication services sectors, contributed positively to relative performance. Stock selection in the consumer discretionary and industrials sectors, as well as our allocations to the information technology and healthcare sectors, detracted from relative performance.
- The fund is actively managed 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).

Class Y Performance as of June 30, 2023 (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	SINCE INCEPTION
FUND	8.15	26.85	29.54	7.64	9.95	12.16
BENCHMARK	6.18	13.93	16.53	10.99	8.10	9.73
EXCESS RETURN	+1.97	+12.92	+13.01	-3.35	+1.85	+2.43

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 1.10% (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 3/31/2024. 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 Block and Doximity as near-term price weakness created attractive reward-to-risk opportunities.

Contributors

Meta Platforms, Amazon, and Shopify were the three largest contributors to fund performance.

- **Meta Platforms** operates online social networking platforms that allow people to connect, share, and interact with friends and communities. The company's Facebook platform allows message exchange, photo and video sharing, and common-interest user groups, and Meta's family of apps also includes leading global social and messaging applications Instagram, Messenger, and WhatsApp.

  A fund holding since inception, Meta reported quarterly financial results that reflected ongoing macroeconomic pressure on advertising spending but were above expectations for revenue, operating income, earnings per share, and free cash flow. The company also provided guidance for the current quarter that was higher than consensus expectations and lowered its total expense outlook for the year. In May, the company reported an anticipated fine by the Irish Data Protection Commission of €1.2 billion regarding its transfer of user data between the EU and the US. The company is seeking a stay as it appeals the decision, and highlighted a political agreement in place but not yet implemented between the Presidents of the US and the European Commission that would solve the issue by allowing the free flow of transatlantic data. Over the past year, Meta's growth has faced headwinds from privacy restrictions implemented by Apple in 2021, a transition to a new product format that lowered monetization as it cannibalized older, higher monetizing products, and more recently macro weakness that impacted advertising demand among clients in certain industries. Apple's changes and macroeconomic weakness impact not just Facebook, but the broader mobile advertising ecosystem. As a function of its competitive advantages, we believe the company remains well positioned relative to its peers, and there are no changes to our assessment of Meta's quality or secular growth opportunities.

  Meta also remains in an elevated investment cycle focused on building new data centers to support next-generation AI hardware that will support its core Feed, Reels, and advertising platforms, as well as business messaging and its metaverse products. The company is also transitioning to a new product format – short term video – where monetization is currently lower. During our ownership of Meta, Facebook has successfully navigated several product transitions. Each such transition first requires capital expenditures followed by a gradual revenue ramp-up, creating pressures on topline, margins, and earnings. Over time, the required investment decreases and revenues increase. We believe this is a necessary cycle for maintaining sustainable competitive advantages and long-term growth. The company believes it will begin to break even on the new product format towards the end of 2023 or early 2024. Finally, the company continues to invest significantly in its early-stage Reality Labs segment, which includes augmented- and virtual-reality products that the company views as building its long-term vision for the metaverse. While the company incurred operating expenses of almost $16 billion in the Reality Labs segment in 2022, the investment represented just over 35% of the operating profit generated by the company's highly profitable core business. Mark Zuckerberg has always managed the company with a long-term focus and strong strategic vision. Over the past ten years, Meta has spent

over $125 billion on research and development and $110 billion on capital expenditures, including over $100 billion and over $90 billion, respectively, in just the last five years. This represents a level of investment that few firms can match and creates high barriers to entry for competitors that are further compounded by Meta's growth of cumulative knowledge over time. The successful development of a metaverse is not an explicit part of our investment thesis for Meta. However, given the potential size of the opportunity, which we estimate could impact over $1 trillion of spending over the long term, and Meta's positioning with billions of users and hundreds of millions of businesses, we believe Meta's current balanced approach to its forward looking investments make sense. Despite the near-term pressure on financial results that it experienced recently, Meta continues to have significant advantages arising from its network of 3 billion daily users of its family of apps, over 200 million businesses that use its platforms and tools every month, and approximately 10 million advertisers who have consistently paid more per user for access to its rare network. We expect that businesses and decision makers in all sectors will continue to allocate an increasing proportion of their advertising spending online, and Meta remains one of very few platforms where advertisers can reach consumers at such scale in such a targeted and effective fashion.

For the quarter, revenue from Meta's family of apps, which is primarily advertising revenue, accounted for 99% of the company's $32 billion in total revenue and accelerated to 7% year-over-year growth in constant currency. User data, coupled with the scale and frequency of engagement, allows Meta an unprecedented ability to specifically target direct marketing. The ability of advertisers to deliver relevant content, in turn, increases user engagement, and contributes to growth in the overall ecosystem. Year over year the number of Facebook users rose 2% to 2.99 billion global users, with daily active users growing 4% to 2 billion. As a result, engagement, as measured by the percentage of daily active users, increased approximately 140 basis points year over year to 68%. Across its family of apps – Facebook, Messenger, WhatsApp, and Instagram – Meta now reaches 3.8 billion consumers monthly, approximately 3 billion of which, or approximately 79%, are daily users. Users outside of North America account for 2.7 billion or 91% of Facebook's global user base, while the US and Canada accounted for 9%, or 269 million users. As users grow, more advertisers come to the platform. Meta now has over 200 million businesses that use its platforms or tools every month, and the company recently reported the number of advertisers grew to over 10 million, up from over 8 million at the end of 2019 and over 7 million at the end of 2018. Total average revenue per user (ARPU) for the quarter of $9.62 rose 1% year over year. Quarterly ARPU ranged from $49 per user in North America to approximately $3.4 per user in the rest-of-world category. Since 2012, annual monetization per user has increased globally from $5 per user to approximately $40 in 2022, a compounded annual growth rate of 23%, which we believe is a secular trend that reflects Facebook's strong pricing power and ability to monetize its global user base. The company's reality labs segment, which includes augmented- and virtual-reality consumer hardware, software, and content, accounted for 1% of total revenues and decreased 51% year over year, impacted by lower sales of Quest 2.

Despite the impact of elevated investment spending, we believe Meta continues to have an attractive financial profile. Quarterly earnings before interest and taxes (EBIT) of $7.2 billion declined 15% year over year on adjusted margins of 29% that contracted 100 basis points. The company's family of apps generated $11.2 billion of EBIT on operating margins of 40%. Meta continues to invest heavily in new growth drivers, such as Reality Labs, which is the division that focuses on virtual reality and augmented reality hardware and software. Reality Labs revenue increased from around $500 million in 2019 to $2.2 billion in 2022. During the quarter, the Reality Labs segment generated an operating loss of $4 billion, which increased from a loss of $3 billion in the prior-year period. Total free cash flow of $6.9 billion declined 19% due to capital expenditures of $7.1 billion that remained elevated at 25% of revenue and which rose 28% year over year. During the quarter, Meta repurchased $9.2 billion of its shares, reducing outstanding share count by 4%. We believe

Meta remains 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 Meta benefits from the competitive advantages of its network, scale, strong brands, platform strategy, and a targeting advantage. With 3.8 billion monthly users and over 200 million businesses worldwide using its family of apps, the scale and reach of Meta's network is unrivaled. When excluding China, where Meta is not currently operating, we estimate the company's Facebook and Messenger application ecosystem represents approximately 75% of the world's internet population. 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 in such a targeted and effective fashion. We believe Facebook's brand, network, and targeting advantage position the company to take increasing share of the industry's profit pool and grow the company's market share from approximately 6% currently to approximately 10% of the estimated over $1.8 trillion total global advertising market over our investment time horizon. We also believe that the expectations embedded in Meta's current share price show a lack of appreciation for the company's growth opportunities and the sustainability of its business model. We believe the consensus expectations and current market price reflect assumptions for free cash flow growth that are well below our long-term expectations of double-digit cash flow growth. As a result, we believe the shares trade at a significant discount to our estimate of intrinsic value, creating a compelling reward-to-risk opportunity. We trimmed our position during the quarter as it approached our maximum allowable position size.

- 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 and operating profit that were above management guidance and consensus expectations. For the quarter, net sales of $127 billion increased 11% year over year in constant currency. E-commerce and related revenue, which accounted for approximately 80% of revenue, was driven by 20% growth in third-party services, 23% growth in advertising, and 17% growth in retail subscription services such as Prime membership and digital media subscriptions. Comprising 17% of total net sales at $21.4 billion, AWS revenue grew 16% in constant currency compared with the year-ago quarter, but growth decelerated by about 400 basis points from the previous quarter. 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. The slowdown in cloud services revenue reflects businesses continuing to optimize their cloud spending following a period of economic weakness. Amazon is actively working with clients to optimize spending and foster long-term relationships, and the deceleration in growth is also apparent at both Microsoft and Alphabet, which have been growing faster due to their smaller relative scale. 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. The company's near-term expense challenges do not impact our long-term view of Amazon's quality, growth, or the attractiveness of its reward-to-risk proposition.

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 rose approximately 400 basis points year over year to 47%. Overall, Amazon reported adjusted operating income of $9.5 billion, up 38% compared with the year-ago quarter. Excluding one-time charges related to the elimination of 9,000 positions across several areas of the business, overall operating margins expanded approximately 200 basis points from the year-ago quarter to 8%. Over the past few years, Amazon has made substantial investments to ensure that its fulfillment and transportation network remained unconstrained during the pandemic. As a result, the company has doubled its fulfillment footprint – which took 25 years to build – and built out a transportation network to support last-mile delivery. Given the company's long-tailed secular growth opportunities, over time we believe it will realize greater productivity and fixed cost leverage from these investments in labor, fulfillment, and distribution, and the company showed efficiency gains in the most recent quarter. However, expense pressures are expected to persist as the company progresses towards full utilization of its new investments. AWS operating income declined by 21% to $5.1 billion, with operating margins of 24% that declined 1,100 basis points versus the year-ago quarter. The decline in margins was due to increased spending on payroll and technology infrastructure that we believe will support the company's long-term growth. Over the trailing twelve months, the company generated positive operating cash flow of $54 billion that rose 38% year over year, but recorded a free cash outflow of $3.3 billion due largely to 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 $22 trillion of global retail sales outside of China, where Amazon does not have a substantial presence. We estimate that Amazon generated approximately $600 billion in gross merchandise volume (GMV) in 2022, 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-double-digit 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.

- **Shopify** is a leading global provider of mission-critical commerce infrastructure that enables companies to start, grow, market, and manage a retail business of any size. Shopify's cloud-based platform offers merchants an end-to-end solution that was previously only available to significantly larger businesses. From a single global storefront, the company offers merchants a multi-channel solution through which they can display, manage, market, and sell products across all sales channels, including web and mobile storefronts, physical retail locations, social media, marketplaces, and other retail formats. The platform enables

merchants to sell anywhere and in any language, facilitating cross-border commerce for end customers who can shop using their local currencies, languages, domains, and payment methods. Shopify also provides a single, integrated back-end platform through which merchants can manage and source inventory, process orders and payments, fulfill and ship orders, build customer relationships, leverage reporting and analytic tools, and access financing. With a mission to improve commerce and empower merchants to realize their potential by making a complex process simple, the company has effectively created a retail operating system used by over two million merchants in over 175 countries. The company generates approximately 70% of revenues in North America, with Europe, the Middle East and Africa accounting for 16% and Asia-Pacific contributing approximately 10%.

A fund holding since the first quarter of 2022, Shopify reported strong quarterly results that were above consensus expectations for all key metrics, including gross merchandise volume (GMV), revenue, adjusted operating profit, and free cash flow. The company provided guidance for the coming quarter that was also better than expectations for both revenue growth and operating expenses. Shopify also announced it would be selling its logistics assets to Flexport, a technology-driven global logistics platform that will become the company's official logistics partner. Shopify will control a high-teens ownership interest in Flexport and receive a revenue sharing agreement and representation on the company's board of directors. The company also announced that it would reduce headcount by approximately 20%, both of which contributed to strong price performance during the quarter.

Revenue of $1.5 billion rose 27% year over year, accelerating from 22% growth in the prior-year period, and was 5% above consensus expectations. The company generated $50 billion of GMV on its platform during the quarter, which represents an increase of 18% that is above our estimates for both e-commerce and overall retail sales growth, indicating that the company grew its market share during the quarter despite broad-based pressure in consumer discretionary spending. Subscription revenue represented 25% of revenue and grew 11% year over year, driven by merchant additions and increased sales of its Shopify plus premium subscriptions and point-of-sale solutions. The company also announced pricing increases which will begin to benefit revenues in the second half of 2023. Merchant solutions represented 75% of revenue and grew 33% year over year, benefiting from strong growth in GMV and greater usage of the company's value-added services. Adjusted operating income of -$31 million was down from $32 million in the prior-year period as a result of elevated investments, but was well above consensus expectations for an operating loss of $77 million. Positive free cash flow of $86 million was also well above consensus expectations and substantially above an outflow of $70 million in the prior-year quarter.

We believe Shopify's strong and sustainable competitive advantages include its network and ecosystem, scale, brand, and an installed base of clients for whom its mission-critical platform serves as a retail operating system. Shopify's network includes software developers that have built over 10,000 applications that extend the functionality of the company's core commerce solutions, as well as over 40,000 partners such as design and marketing agencies, photographers, and other digital and service professionals and experts that add further solutions and services to merchants. Because merchants wish to partner with a leading platform that offers numerous tools and solutions by partners that are in turn attracted to the platform by the merchants' growth and success, a difficult-to-replicate network effect is created which ultimately increases the value to all participants. With over two million merchants and almost $200 billion of GMV in 2022, Shopify is the second largest merchant platform in the US behind Amazon. As a function of its scale, the company can provide merchant services including software, payments, capital, shipping, and fulfillment at a cost that only a large merchant could achieve, enabling Shopify's small and mid-sized business (SMB) clients to better compete against larger merchants. The company's scale also allows it to reinvest substantially in the business, all of which is focused on growing its platform and driving success for its merchants. As a result of its embedded nature and

centrality to merchants' daily operations and success, switching costs are high, which contributes to high client retention, and merchants tend to expand their relationship with the company over time. Individually and collectively, we believe Shopify's strong and sustainable competitive advantages would be difficult for a competitor to replicate and can become stronger still over time as growth in its ecosystem continues to add value for all participants.

We believe Shopify will benefit from several secular growth drivers, all focused on driving merchant and commerce growth. While most of Shopify's revenue and GMV is linked to e-commerce, we expect omnichannel commerce will also become a growth driver for Shopify. We believe merchants will look to have an integrated software solution for all of their commerce needs, which we expect will benefit Shopify by expanding its addressable market to all retail commerce while simultaneously increasing client stickiness. As a function of strong secular growth drivers and numerous competitive advantages, we believe Shopify can sustain total revenue growth of almost 20% over our long-term investment horizon. While we expect investments to remain elevated in the near-term, over time we believe Shopify will benefit from increased operating expense leverage in all expense categories, including product and development, general and administrative, and sales and marketing. As a result, we expect operating profits and free cash flow to grow faster than revenues over our forecast period, in excess of 20% compounded annually. We believe current market expectations are substantially underestimating the company's multiple long-term secular growth drivers and the strength of the company's business model and competitive positioning. As a result we believe the shares trade at a substantial discount to our estimate of intrinsic value and offer a compelling reward-to-risk opportunity.

Detractors

MercadoLibre, Tencent, and Alibaba were the largest detractors to performance during the quarter.

- **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 55% of net revenue, while payments and fintech solutions accounted for approximately 45%. The company operates in 18 countries representing the vast majority of Latin American GDP, and its 148 million active users in 2022 represented over 30% of the region's estimated 480 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 were above consensus expectations and 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 showed strong improvements in operating profits that were materially above consensus expectations, as well strong free cash flow generation. Since 2019, the company's GMV has increased by approximately 2.5 times, reflecting the high value proposition to consumers, and the company continues to invest in providing better selection, price, and service.

For the quarter, net revenue of $3 billion grew by 58% 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 55% of revenue. "Fintech" accounted for 45% 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 $1.7 billion rose 54% year over year in constant currency. GMV of approximately $9.4 billion rose approximately 43% year over year on a constant currency basis, driven by strong growth in Argentina, Mexico, and Brazil, where GMV growth was 107%, 29%, and 28%, respectively. This solid growth follows GMV growth of 32% in the 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 and the lower penetration rate of e-commerce in Latin America versus other geographies. 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 40% to 460 million in the quarter, while the number of active users increased 25% year over year. Fintech revenue of $1.4 billion grew 64% in constant currency, driven primarily by payment processing and fintech solutions as well as credit revenue. Total platform payment volumes settled through Mercado Pago were $37 billion and rose 96% 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 73% of total payment volumes and grew 121% year over year, benefiting from mobile POS, QR payments, and the company's digital accounts business. The company also reported that its emerging asset management business now has $1.9 billion in assets under management, which grew 58% year over year, and the company has originated $2.8 billion through its growing array of credit offerings, which rose 68% year over year.

We believe MercadoLibre continues to have an attractive financial model which continues to be impacted by an elevated investment cycle intended to strengthen the company's ecosystem and long-term competitive positioning. Operating margins during the period of 11.2% expanded from 6.2% in the prior-year period and were well above expectations. We believe 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.

- **Tencent Holdings** is one of the largest internet services companies in China and globally, offering a wide array of value-added services that span social networking and communication, gaming, media and entertainment, and e-commerce and local services. The company also offers online advertising, cloud services, fintech solutions that include payment and wealth management offerings, and has investments in other related businesses. Founded in 1998, the company's mission is to improve the quality of human life through internet services, and through its platform and ecosystem the company has become a leader in most segments of the internet industry in China.

  A holding since the fourth quarter of 2018, Tencent reported quarterly financial results that were fundamentally strong in several areas of the business and exceeded consensus expectations for revenue, operating profit, and free cash flow. During the month, shares

traded down in line with other China internet companies. Following a period during which a combination of ongoing regulation, weakness in Chinese consumer spending, and the resurgence of Covid impacted a number of the company's key businesses, the company returned to double-digit revenue growth for the quarter, with faster growth in the company's advertising, international gaming, and fintech businesses. While the company is operating in a challenging near-term environment, we believe Tencent's leading digital enterprise and consumer platforms remain structurally well positioned for long term growth and benefit from strong and sustainable competitive advantages that stem from Tencent's network, distribution, brand, and scale.

For the quarter, total revenue of renminbi (RMB) 150 billion rose 10% year over year. Tencent reports in four segments; value added services (VAS) (53% of quarterly revenue), fintech and business services (32% of revenue), online advertising (14% of quarterly revenue), and other revenue (1% of quarterly revenue). VAS includes the company's gaming and social networking businesses, which accounted for 60% and 40% of VAS revenues, respectively. VAS total revenues of RMB 79 billion rose 9% year over year, with 11% growth in gaming revenue and 6% growth in social network revenue. Growth in gaming was driven by the company's international segment, which represents approximately 25% of gaming revenue and grew 25% year over year, benefiting from new games as well as strong growth in the company's Valorant franchise. The company's domestic gaming business saw growth improve to 6% benefiting from established titles. In the past few years, the Chinese government enacted regulations which limit the amount of time spent by minors on gaming. Tencent had already proactively introduced tools and restrictions intended to enable parents to monitor and manage minors' time and spending levels, which it estimated represented less than 1% of total time spent on domestic gaming and 1.5% of domestic game sales. Tencent has embraced the regulatory changes, and we don't believe any of the regulations materially impact the company's strong and sustainable competitive advantages. Social network revenue growth of 6%, benefited from in-game item sales, as well as growth in music subscriptions. The company now has 226 million fee-based subscribers to its video and music services, which is down 5% year over year. The company's Weixin/WeChat platform ended the quarter with 1.32 billion monthly active users, up 2% year over year.

Revenue from fintech and business services, which consists primarily of payments and cloud services, rose 14% year over year to RMB 49 billion. Growth benefited from a recovery of payment activities that had previously been depressed due to a resurgence of Covid, in particular offline commercial payment growth, as well a growth in both wealth management and consumer loans. Growth in the company's business services segment also turned positive following a period of restructuring. Online advertising revenues of RMB 21 billion grew 17% year over year, driven by the addition of video accounts as a new revenue stream, growth within its mini-program products, and recovery of its mobile advertising network. Improvement was seen across most industry verticals as consumer consumption rebounded in China.

Adjusted operating profit of RMB 48 billion rose 32% year over year on margins that expanded 500 basis points to 32%, due primarily to an expansion in gross margins as well as lower sales, marketing and general and administrative expenses. Management has responded to the challenging operating environment by increasing its cost focus and rationalizing non-core businesses. In recent quarters, Tencent exited non-core businesses related to online education, e-commerce, and live-streaming gaming, rationalized underperforming businesses including loss-making digital content services and subscale social media products, substantially lowered selling and marketing expenditures on low-return investments, and reduced headcount by almost 5%. The company's actions contributed to improved free cash flow of RMB 52 billion (approximately $8 billion), which rose 240% year over year and represented 35% of revenue.

We believe Tencent is one of the best-positioned companies in the China internet services

industry. We believe the near-term uncertainty regarding the regulatory and economic environment does not change the long-term fundamentals; as a leading consumer platform provider, we believe the structural expansion of internet users in China will position Tencent to benefit from multiple secular growth drivers, including gaming, media, advertising, payments, and cloud-computing growth. We believe Tencent's strong growth prospects are not currently reflected in its share price. As a result, we believe the company's shares are trading at a significant discount to our estimate of intrinsic value, offering a compelling reward-to-risk opportunity.

- **Alibaba Group** is a leading China e-commerce and consumer-engagement platform provider, operating several businesses across commerce, technology, advertising, digital media and entertainment, logistics, payments, and local services. With over 50% of China's e-commerce transactions estimated to take place through its Taobao and Tmall marketplaces, we believe Alibaba's scale and brand would be difficult to replicate.

  A fund holding since inception, Alibaba reported quarterly financial results that were in line with consensus expectations for revenue and better than expected for profitability, but that continued to be impacted by weak consumer spending in China, ongoing Covid-related disruptions to supply chains and logistics, and heightened competitive intensity. While the company continues to face a weak consumer spending environment, such inevitable periods of macroeconomic weakness do not impact our long-term assessment of a company's quality, growth, or the attractiveness of its reward-to-risk proposition. We believe the company will benefit from improved growth and margins as Covid-related impacts continue to wane. In recent quarters the company has emphasized its focus on pursuing healthy, high-quality revenue growth and optimizing its cost structure to improve and sustain strong operating profit and cash flow. During the quarter the company demonstrated the benefits of its efficiency focus through operating margins that expanded by 400 basis points.

  For the quarter, revenue growth of 2% year over year was driven by the company's international commerce retail business, which represented 7% of revenue and grew 41% year over year, as well as logistics and local services, which collectively represented 13% of revenues and grew in the mid-to-high teens. While gross merchandise volumes experienced a mid-single-digit decline year over year and grew below the overall growth in China e-commerce, the company saw growth resume in March and April in discretionary categories including apparel, cosmetics, and other discretionary goods.

  As currently constructed, Alibaba meets each of our quality, growth, and valuation criteria and trades at a meaningful discount to our estimate of intrinsic value. In March of 2023, the company announced its intention to reorganize the company into six independent business units, each of which would have its own CEO and Board of Directors and could seek to raise outside capital and potentially pursue its own IPO. In May, the company announced that the Board had approved a spin-off of its Cloud Intelligence group, which will seek external strategic investors and is expected to become an independent, publicly listed company over the next 12 months. The company also announced that it was exploring an external capital raise to support development and growth of the Alibaba International Digital Commerce Group, and was exploring an initial public offering for both Cainiao Smart Logistics and Freshippo over the next 6-18 months. While the market responded positively to the initial reorganization announcement in March, we will continue to evaluate whether the current business or any potential spin-offs continue to meet each of our quality, growth, and valuation criteria as more details become available.

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, and healthcare sectors. We were underweight in the financials, information technology, consumer staples, and industrials 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 10.5%. The overall portfolio discount to intrinsic value was approximately 43.3% as of June 30, 2023.

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.

LS Loomis | Sayles is a trademark of Loomis, Sayles & Company, L.P. registered in the US Patent and Trademark Office

LSGG03-0623
Exp. 10/31/23
1531537.31.1