

# Large Cap Growth Managed Account

MARKETING COMMUNICATION

## Strategy Facts

The strategy seeks to produce long-term, excess returns vs. the Russell 1000® Growth Index on a risk-adjusted basis over a full market cycle (at least 5 years) through bottom-up stock selection.

Strategy AUM	\$89.7 billion
Inception	7/1/2006*
Benchmark	Russell 1000® Growth
Portfolio Manager	Aziz Hamzaogullari
Manager Since	Inception

*The portfolio manager for the Large Cap Growth Managed Account Composite joined Loomis Sayles on May 19, 2010, and performance prior to that date was achieved at his prior firm.*

## Quarterly Portfolio Review

- The strategy posted positive returns of 0.40% (pure gross) and -0.34% (net total wrap fee) vs. 1.12% for the Russell 1000® Growth Index, underperforming the benchmark by -1.46% (net total wrap fee) during the quarter. Alphabet, Regeneron Pharmaceuticals, and Vertex Pharmaceuticals were the three largest contributors to performance during the quarter. Oracle, Netflix, and Meta Platforms were the three lowest contributors to performance.
- Stock selection in the industrials, consumer staples, healthcare, and consumer discretionary sectors, as well as our allocations to the healthcare, communication services, and information technology sectors, contributed positively to relative performance. Stock selection in the information technology, communication services, and financials sectors, detracted from relative performance.
- The strategy is managed with a highly selective, 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).

## Top Ten Holdings (%)

	Rep. Account
NVIDIA Corporation	11.2
Alphabet Inc.	8.9
Tesla, Inc.	8.6
Meta Platforms, Inc.	7.2
Amazon.com, Inc.	5.8
Netflix, Inc.	5.3
Visa Inc.	4.8
Oracle Corporation	4.7
Boeing Company	4.6
Microsoft Corporation	4.2
Total	65.2

*Top 10 holdings may not be representative of current or future holdings and will evolve over time. 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.*

## Large Cap Growth Managed Account Composite Performance as of December 31, 2025 (%)

	CUMULATIVE TOTAL RETURN		ANNUALIZED TOTAL RETURN				
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR	SINCE INCEPTION*
<b>PURE GROSS</b>	0.40	15.77	15.77	33.68	15.83	17.81	15.04
<b>NET TOTAL WRAP FEE</b>	-0.34	12.43	12.43	29.87	12.49	14.42	11.72
<b>NET MGMT FEE - INSTL</b>	0.26	15.12	15.12	32.94	15.19	17.24	14.50
<b>BENCHMARK</b>	1.12	18.56	18.56	31.15	15.32	18.13	13.64

\*Composite inception 7/1/2006

**Performance data shown represents past performance and is no guarantee of future results. Current performance may be lower or higher than quoted.**

*Pure Gross of fee account returns are time-weighted rates of return that do not reflect the deduction of any trading costs, fees, commissions or expenses, and are shown as supplemental information. Net of total wrap fee returns reflect the deduction of an annual fee of 3.00%, the highest fee a managed account sponsor would have charged. Net of Management (Institutional) fee returns are the gross returns less the effective management fees and are only applicable to institutional portfolios. Additional information about fees can be found in Loomis Sayles' Form ADV, which is available upon request. Indices are unmanaged and do not incur fees. It is not possible to invest directly in an index.*

**There is no guarantee that the investment objective will be realized or that the strategy will generate positive or excess return.**



## Contributors

Alphabet, Regeneron Pharmaceuticals, and Vertex Pharmaceuticals were the three largest contributors to performance.

- **Alphabet** is a holding company that 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 traditional 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, we believe 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, research and development (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 strategy holding since inception, Alphabet reported quarterly financial results that were fundamentally strong and above consensus expectations for revenue, operating income, and earnings per share. The company also announced that it expects to spend \$92 billion on capex in 2025, up 8% from its prior estimate and reflective of the opportunities it sees to leverage AI across all of its businesses. Alphabet is seeing the positive benefits of its AI investments in all the core areas of its business, including accelerating search volumes, strong user engagement and streamlined content creation on YouTube as well as the broader advertising business, and faster growth in the company's cloud business. Total revenue of \$102 billion represented a 16% increase year over year in constant currency, while reported earnings per share rose 35%. Alphabet reports results in three segments: Google Services, Google Cloud, and Other Bets. Google Services reported quarterly revenue of \$87 billion, which increased 14% year over year and represented approximately 85% of total revenue. Advertising revenue accounted for 85% of Google Services revenue and increased by 13% compared with the year-ago quarter. Advertising revenue was driven by the search business, which grew 15% year over year. The company is benefiting from its recent rollout of AI overviews, which are now available in 40 languages and 200 countries and currently have over 2 billion monthly average users. Google also recently launched AI Mode, the company's native AI-search powered by its Gemini models, into 200 countries where it now has 75 million daily active users. Alphabet's core AI products, including AI overview and AI mode, are resulting in faster query growth, and newer AI-based ad models are contributing to improved monetization. As an example, Alphabet's recently launched AI Max in search is contributing to improvements in estimating consumer intent, while other AI-based models are contributing to improved ad creation and measurement. Alphabet's AI investments have already contributed to higher returns on ad spending for its advertising customers, and the company's search business benefited from high-single-digit pricing growth as a result of resulting performance improvements. Outside of search, the company reported 15% growth in YouTube, which benefited from improvement in direct response ads and brand advertising, while the network advertising businesses continued to show weakness, declining 3% year over year. Non-advertising revenue, which includes Google Play, hardware, and YouTube non-advertising revenues such as subscriptions, represented 15% of Google Services revenues and increased 21% year over year. The company experienced strong growth in YouTube subscriptions, as well as Google One, which offers subscription-based access to enhanced storage and AI functionality.

Google Cloud reported quarterly revenue of \$15 billion on growth that accelerated 200 basis points to 34% year over year and represented 15% 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. Revenue in Alphabet's Other Bets segment declined 11% year over year and represented 0.3% of total revenues. Many of these businesses are still early stage and results are volatile on a quarterly basis. 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. Overall operating income rose 22% to \$35 billion, excluding a \$3.5 billion EC fine, benefiting from operating leverage and operating efficiency initiatives in the cloud business, and the company reported solid adjusted operating margins of 34% that expanded 200 basis points year over year. Google's attractive financial model continues to generate strong free cash flow and earns high returns on invested capital, enabling it to reinvest significantly in its business. In the quarter, free cash flow of \$24.5 billion rose 37% year over year and represented 24% of gross revenue. Free cash flow was impacted by elevated capital expenditures, which rose 83% year over year to \$24 billion, reflecting the substantial opportunities the company has identified to leverage AI functionality across all of its businesses.

We believe market expectations underestimate Alphabet's long-term sustainable growth rate. 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.

- **Regeneron Pharmaceuticals** is a fully integrated biopharmaceutical company that discovers, develops, manufactures, and commercializes medicines for the treatment of serious medical conditions. The company was established in 1988 with the vision of empowering scientists to shape the path of the business by advancing long-term scientific outcomes over short-term results. Regeneron-invented technologies include VelocImmune, a patented technology for creating fully human monoclonal antibodies, enabling rapid discovery and development of viable candidates for clinical trials. With this accelerated process, the time and capital required for pre-clinical research is reduced, which we believe allows Regeneron to significantly outpace its competition in bringing new therapies to trial, and ultimately to market. As a result, while many biotechnology companies have the ability to pursue only one or two drugs, Regeneron has over 40 fully human antibodies in clinical development, including nine currently marketed therapies for which it is investigating additional indications. Early in its clinical lifecycle, Regeneron's technology enabled it to negotiate risk-mitigating and platform-validating collaborations with larger biopharmaceutical company partners which fund early-stage research and development (R&D) in exchange for a share of potential profits and research cost reimbursement, and through which Regeneron accesses scale and distribution strength. Today, Regeneron stands on its own as one of the leading innovators and commercial powerhouses in biopharma; the company markets therapies for eye diseases, atopic dermatitis, asthma, oncology, high LDL cholesterol, and a rare inflammatory condition. The company has also developed a robust pipeline of candidates in areas of high unmet medical need including oncology, allergic disease, central nervous system (CNS) diseases, hematology, and infectious diseases. We believe that Regeneron's science-driven culture, unique technology, and long-term focus on delivering innovative medical solutions will result in substantial value creation over our investment horizon.

Purchased in the third quarter of 2016, Regeneron reported quarterly financial results that were above expectations for both revenues and profitability, and reflected a smaller-than-expected decline in revenues from 2mg Eylea. Shares further responded positively following news that the FDA approved Eylea HD for treatment of RVO, a particular type of macular edema following retinal vein occlusion, as well as for more frequent 4-week interval dosage in those rare instances when required for certain patients. The approvals put Eylea HD's indications on par with Roche's Vabysmo as well as the original 2mg Eylea. And while the impact of each of these attributes is relatively small compared to the overall potential of the market, it is clear that a portion of the market was sensitive to those temporary label disadvantages as suggested by share losses to Roche's Vabysmo in recent periods.

We have long expected Eylea, a treatment for diseases of the back of the eye and historically the company's largest revenue generator, to face heightened competition, most immediately from the 2022 approval of Roche's Vabysmo, as well as the eventual introduction of biosimilar competition for 2mg Eylea. However, we believe Eylea's efficacy and greater than 10-year safety profile provides a very strong competitive advantage that remains difficult for competitors to overcome. Regeneron responded to the competitive threats with an increased (8mg) dose of Eylea (Eylea HD) that was approved by the FDA in 2023. We believe Eylea HD's potential is clinically superior to any existing or clinical therapy, carries the benefit of less-frequent dosing than 2mg Eylea, earlier-generation competitors, and all current biosimilars, and benefits from Eylea's 10-year safety history, once again illustrating



Regeneron's demonstrated ability to innovate and sustain its market leadership. The company has made good progress in switching patients from the regular dose of Eylea, as well as capturing those that are not well managed on existing alternative therapies, despite competition from Vabysmo. However, near-term affordability issues arising from a funding gap at copay assistance foundations that led cost-sensitive consumers to off-label Avastin, along with what we believed were temporary labeling disadvantages, benefited competitors over the past few quarters.

We believe that Roche's Vabysmo, of which parent company Roche is also a holding in the portfolio, will continue to be a legitimate competitor to Eylea HD. However, we believe that Eylea HD's label parity will remove barriers to some physicians prescribing of Eylea HD, allowing Regeneron to showcase the overall greater efficacy and leverage the long-term safety track record of the underlying aflibercept molecule to compete effectively for share leadership in the market. Further, while Eylea HD is available in a more-convenient pre-filled syringe (PFS) outside the US, temporary issues with a contract manufacturer in the US have delayed the availability of the PFS in the US. The company is waiting on an FDA decision regarding the PFS that if approved would further narrow a temporary competitive gap and help to re-establish the therapy's superior competitive positioning in the market given its unmatched history of safety and efficacy. We believe the Eylea franchise's competitive advantages remain intact. Eylea has established itself as the leading branded therapy in treating a broad and expanding range of diseases of the back of the eye. Its leading efficacy over both the short and long term and attractive safety and side effect profile have made it the market leader and choice of physicians across multiple indications - a position that we believe will be difficult for new competitors to replicate.

Outside of potentially heightened competitive intensity for Eylea in the US, the company continues to perform well. Global sales of Dupixent, part of which are recognized by collaboration partner Sanofi, rose 27% versus the prior-year quarter to \$4.86 billion, benefiting from its differentiated efficacy profile, first-mover advantage, benign side effects, and growing list of indications, while maintaining competitive advantage versus new entrants. Dupixent continued to penetrate patient populations in its atopic dermatitis, allergic asthma, and chronic rhinosinusitis, and Eosinophilic Esophagitis indications, and in September 2024 received FDA approval for patients with chronic obstructive pulmonary disease (COPD), which is independent of the company's more recent trial for COPD in former smokers.

Libtayo, the company's PD-1 therapy for cutaneous squamous cell carcinoma (CSCC), basal cell carcinoma (BCC), and non-small cell lung cancer (NSCLC), grew 23.5% year over year. Although in its nascent stages relative to its potential with \$365 million in quarterly sales, the therapy continued to penetrate global markets. Libtayo has ongoing trials as a backbone for combination therapies with both chemo and other agents in numerous additional indications, and was recently approved by the FDA as the first and only immunotherapy indicated for high-risk adjuvant CSCC. We believe Libtayo's results to date continue to reflect positively on the likelihood that Libtayo will serve as a foundational therapy for Regeneron to successfully compete in other, large immuno-oncology (IO) indications both as monotherapy and in combination with other agents.

We believe Regeneron is among the highest quality businesses in healthcare, with both broad-based established therapies and meaningful pipeline assets that include over 40 product candidates in clinical development that were generated primarily using the company's proprietary VelociSuite of technologies. We believe the share price embeds a lack of appreciation for the company's multiple growth opportunities and the uniqueness of its business model. As a result, the company's shares trade at a significant discount to our estimate of intrinsic value and represent a compelling reward-to-risk opportunity.

- **Vertex Pharmaceuticals**, founded in 1989, is a global biopharmaceutical company with deep expertise in protein and genetic science and a focus on specialty markets. The company is the leader in creating therapies for patients suffering from cystic fibrosis (CF), with five currently approved CF treatments, and the company is building out its capabilities to address related diseases that lever its core expertise in biology and medicinal chemistry.

A strategy holding since June 2021, Vertex reported solid quarterly financial results driven by sustained uptake of its CF treatments, in particular Alyftrek, its newest CF therapy, and early contributions from pain medication Journavx and Casgevy, a one-time gene therapy for blood disorders. Revenue of \$3.1 billion rose 11% year over year as the company continues to penetrate the global CF patient population, both through new patients that did not previously have a therapy available and patients switching from older generations of therapies to the new standard of care. Alyftrek, the next generation of Trikafta, was approved by the FDA in late December 2024. The therapy requires once-a-day dosing



versus twice daily for Trikafta, offers improved cell function, and may be better tolerated by the approximately 20% of patients who experienced uncomfortable side effects with earlier generation therapies. By continuing to innovate, the company not only extended patent protection beyond 2040 (versus mid-to-late 2030s for Trikafta), but also again raised the bar for new entrants by producing a clinically superior drug with real benefit to all stakeholders. Casgevy now has more than 75 authorized treatment centers activated globally and 39 patients have now had successful infusions, including 10 during the quarter. While growing slower than expected due to the therapy's complex, multi-month treatment regimen, 110 patients had cells collected during the first nine months of 2025, more than double 2024's full year total, and management indicated it anticipated over \$100 million in revenue for the full year. Journavx, the first and only non-opioid oral pain inhibitor for adults with moderate-to-severe acute pain, is already available in 95% of retail pharmacies after first launching in early March. The therapy's significance was demonstrated by over 300,000 prescriptions filled to date, including 170,000 during the quarter, and the company continues to work to broaden access and insurance coverage.

When we initiated our position in Vertex, the company's then-approved therapies all addressed CF. Given the company's deep understanding of biology, its focus on specialty markets where its core expertise is determinative of success, and its well-defined strategy of iterating through multiple parallel approaches to treat a single target, we believed the company was likely to increase its penetration of the CF market, drive further innovation in its already leading suite of CF therapies, and develop potentially transformative therapies outside of CF as well. Since then, through its partnership with CRISPR, the company received FDA approval in December 2023 for Casgevy, a one-time gene therapy for sickle cell disease and the first approved therapy using CRISPR-Cas9 gene editing technology, which was further approved for the treatment of beta thalassemia, another blood disorder, in January 2024. In January 2025 the company received FDA approval for Journavx, the first new class of pain medicine approved in more than 20 years. The company has also continued to advance pipeline therapies for CF, additional pain indications, kidney disease, and type-1 diabetes, among other initiatives.

We believe Vertex's strong and sustainable competitive advantages include its unparalleled understanding of CF, rooted in its history of investment and innovation for which it is recognized as setting the standard of care, its partnerships with the CF Foundation and other entities that enhance its solutions capabilities, and its broader understanding of biology and serial approach to drug development. Vertex created the only five therapies approved for CF, which currently account for the vast majority of the company's revenues. Over our long-term investment horizon, we believe growing medical access, ongoing market penetration, lower patient mortality, and ongoing innovation will drive mid-single-digit growth in the company's dominant CF franchise. We also believe the company's deep understanding of biology, well-defined and disciplined approach to innovation, and growing pipeline of clinical therapies addressing diseases outside of CF, will collectively enable the company to realize low-double-digit growth in revenues over our forecast period, and similar growth in operating income and free cash flow. We believe expectations embedded in Vertex's share price underestimate the defensibility of its dominant CF franchise, the life-changing benefit of its therapies for its growing base of approximately 70,000 CF patients, and the strength of its science and innovation ability that is contributing to a growing pipeline of potentially transformative therapies. We believe the shares embed expectations for revenue and free cash flow that are below our long-term expectations. As a result, we believe the shares are trading at a significant discount to our estimate of intrinsic value and offer a compelling long-term reward-to-risk opportunity.

## Detractors

Oracle, Netflix, and Meta Platforms were the three lowest contributors to performance.

- **Oracle** is a leader in the enterprise software market with a strong market position in database, infrastructure and application software, and cloud-based software and services. We believe the company's competitive advantages include its large and experienced direct sales force, a founder-driven management team that reinvests relentlessly to maintain a leading intellectual property (IP) portfolio and differentiated product suite, and a large installed base of clients with high switching costs where it consistently achieves renewal and retention rates in the mid-90% range. We believe Oracle is well positioned to benefit from the continuing growth in data storage and enterprise application software, as well as the shift to cloud-based solutions.



A holding since strategy inception, in September, Oracle shares rose by approximately 25% to an all-time high after reporting that remaining performance obligation (RPO) bookings, a forward-looking measure of revenue, grew 359% year over year to \$455 billion, which was almost three-times greater than consensus expectations. In the most recent quarter, the company reported that RPO grew by a further \$68 billion to reach \$523 billion. The shares have since given up all those gains on concerns regarding the company's elevated capital investments to support the conversion of the RPO backlog into revenue and the associated need to fund those investments, as well as the degree of customer concentration in the RPO backlog. Given Oracle's high degree of recurring revenue, attractive operating margins, and high cash flow returns on invested capital, we believe the company can support higher levels of indebtedness, and we expect the backlog to become more diversified over time. There is no change to our structural investment thesis for the company, and shares still returned 18% for the year.

Contracts with companies including OpenAI, xAI, Meta, and Nvidia, along with other enterprises, contributed substantially to growth in RPO. The material increase in RPO provides long-term visibility into Oracle's revenue growth, and Oracle is now targeting over \$100 billion in revenue by the company's 2029 fiscal year in its Oracle Cloud Infrastructure (OCI) segment, up from just over \$10 billion in its 2025 fiscal year, and we expect this business will grow in excess of 30% compounded annually over the next decade.

We believe Oracle's strong performance within its OCI business is driven by its modern architecture that was built from the ground up incorporating Oracle intellectual property that results in price, performance, and data governance and security benefits. OCI was built for enterprise and data-intensive and AI workloads by offering features such as high performance networking through its cluster networking and bare metal compute architecture. OCI was built with a security-first design that spans all layers of the infrastructure stack with security that was integrated and automated into the platform. Oracle's IP also extends its ability by providing its OCI technology within a customer's own data center. Examples include OCI dedicated regions or OCI sovereign cloud, where Oracle can offer sovereign AI to customers in regulated industries, entities, or jurisdictions – providing its full suite of software, platform, and infrastructure services with modern cloud-like performance and enhanced control over data residency and compliance.

Oracle is the world leader in its largest business segment, enterprise database software used in customer on-premise IT environments. However, the company continues to focus on transitioning its business from a traditional on-premise, up-front software licensing and maintenance revenue model to a cloud computing subscription-based model where software revenue is recognized over the life of the client's contract. While there has been pressure on year-over-year overall revenue comparisons during this transition, which started over a decade ago as Oracle released cloud versions of its applications and infrastructure software, as up-front license revenue shifts to subscription revenue, we have long expected this to lead to faster growth over time due to a higher customer lifetime value as the transition progresses. The cloud model also allows Oracle to monetize its services and technology more efficiently and yield savings to the customer.

In the company's most-recently reported quarterly financials, Oracle grew its cloud revenues, which now represent 50% of total revenues, by 33% year over year. The company has recently seen total revenue growth inflect upward, consistent with our long-term expectations. Adjusted EBIT (earnings before interest and taxes) of \$6.7 billion rose 8% year over year on margins of 42% that declined 170 basis points year over year. Operating cash flow of \$22.3 billion over the past 12 months rose 10% year over year and represented 37% of revenues, but free cash flow was negative in the quarter due to elevated capital expenditures to support the continued build out of its cloud infrastructure. Over the trailing twelve months, the company invested \$35 billion in capital expenditures, which represented a 230% increase over the prior-year period. There are no changes to our view of Oracle as a structurally attractive business trading substantially below our estimate of intrinsic value.

Oracle has a strong financial model that currently has high financial leverage due to both organic and inorganic investments to support its product and growth roadmap, as well as returning substantial amounts of capital to shareholders over the past decade. We expect Oracle's capital expenditures to continue to increase over the intermediate term as Oracle invests to build out its AI infrastructure and cloud computing business on a global basis as well as to convert its RPO backlog into revenue. Following the transition stage of building out this business we expect Oracle's capital expenditure needs to decrease, resulting in improved profit growth and free cash flow generation. Oracle continues to benefit from the high incremental margins of the software industry and the intellectual property which differentiates its proprietary technology and generates very attractive operating margins in



excess of 40%, which contributes to the company's high operating cash flow conversion.

We believe Oracle's stock price embeds free cash flow growth assumptions that are well below our long-term forecast. As a result, we believe its shares are selling at a significant discount to our estimate of intrinsic value and offer a compelling reward-to-risk opportunity.

- Founded in 1997, **Netflix** is one of the world's leading internet entertainment platforms and a pioneer of subscription video on demand (SVOD), which it first launched in 2007. Today the company is a global leader with over 300 million paid subscribers, out of what we estimate is a total addressable market of one billion households outside of China, who access TV series, movies, mobile games, and other entertainment content across a wide variety of genres, languages, and devices. The company has subscribers in over 190 countries, with an estimated global audience in excess of 700 million, and generates almost 60% of its revenue from outside of North America.

We believe Netflix's strong and sustainable competitive advantages include its focus, scale, brand, and a large installed base of clients that are protected by high barriers to entry. As a pioneer in SVOD, Netflix has amassed a subscriber base that we estimate to represent just under 40% of all SVOD subscribers globally and approximately 50% of the industry revenue share of the leading global providers. The company's strong brand is reflected in both its premium pricing versus peers and mid-single-digit growth in average revenue per user over the past five years. Over the past decade, Netflix has invested over \$120 billion in content and amassed an estimated over 14,000 hours of original content, which is estimated to represent just under two times the next five largest streaming competitors combined. Of course, it is not just the quantity, but quality of the content that matters. Over this same period, Netflix received over 1000 Emmy nominations and had 246 wins. The company has captured the first or second spot in total Emmy Awards in nine out of the last ten years, which we believe reflects the quality of its content. We believe the ability to create and acquire high quality content, based on cumulative knowledge and insights attained from its large installed base of subscribers, contributes to very high barriers to entry.

A portfolio holding since the first quarter of 2022, Netflix reported quarterly financial results that were fundamentally solid and approximately in line with consensus expectations for revenue, but below expectations for operating income due to a dispute with Brazilian tax authorities. Absent the tax dispute, which is anticipated to be a one-time impact, operating income and margins would have been above guidance. There are no changes to our structural investment thesis for Netflix, which is operating at or above our long-term expectations for revenue growth and operating margins.

In December, Netflix announced that it had reached a definitive agreement to acquire Warner Bros., which is expected to close after that company completes its previously announced spinoff of Discovery Global, its global networks division. The proposed transaction values Warner Bros. at \$82.7 billion, including the assumption of approximately \$11 billion of debt.

Our investment thesis for Netflix is not predicated on a successful acquisition of Warner Bros. And while we recognize that there will be near-term uncertainty as a function of the proposed acquisition, there is no change to our long-term investment thesis, and we believe the combination would add positively to the company's scale and pricing power over time if consummated.

We believe Netflix's strong and sustainable competitive advantages include its focus, scale, brand, and a large installed base of clients that are protected by high barriers to entry. The first question we ask ourselves is whether the proposed acquisition negatively impacts the structural quality of the business over the long-term. Our assessment is that it does not.

We believe the subscription-video-on-demand industry is structurally attractive to scaled participants, benefiting from high barriers to entry, low power of buyers, secular growth, and attractive economics. The need for sought-after content such as well-established TV and film franchises, large TV and film libraries, and the scale, resources, and expertise to continue to create differentiated, world-class content creates high barriers to entry for competitors. Netflix already spends approximately \$20 billion annually in content creation and acquisition, and has invested about \$120 billion over the last 10 years – a level of investment few companies can match.

At a \$72 billion equity value, the proposed acquisition represents approximately four times what we expect the company to spend on content creation and acquisition in 2025, and would expand the company's lead in content. We currently estimate that Netflix has amassed over 14,000 hours of original content, which is just under two times as much



as the next five streaming competitors combined. While Netflix has done a strong job in developing content, the company has only focused on content development for just over a decade. The current structure of Warner Bros would enable Netflix to acquire a best-in-class film and television studio with over 100 years of intellectual property and strong production assets that does not come with legacy media assets. Warner Brothers owns brands including Harry Potter and Friends, Game of Thrones, The Sopranos, The Wizard of Oz, and the DC Universe (Batman, Superman, Wonder Woman, etc.). As a scale business, we believe the proposed acquisition would continue to position the company attractively against other scaled competitors, including Disney, YouTube, and other forms of consumer entertainment.

We believe Netflix has the potential to derive value from this acquisition in several ways. We expect Netflix to better monetize Warner Bros.' intellectual property by leveraging Netflix's core strengths: a superior product experience, advanced member discovery, and extensive global distribution reach. This enhanced monetization should be reflected through new user growth, higher customer retention, increased engagement with the platform, and stronger pricing power. We would expect to see more unique and differentiated content as Netflix integrates Warner Brothers and HBO's production capabilities within its own. Within the HBO franchise, we see increased opportunity to expand the user base from its approximately 100 million users in 100 markets, which compares to Netflix with over 300 million users in over 190 countries. There is also opportunity to improve monetization through bundling different plans and service options. Another potential revenue opportunity lies in the new forms of entertainment, including live experiences and gaming. From a cost perspective, we expect the combined company will benefit from greater scale and operational efficiencies, particularly in overlapping areas such as technology and development, sales and marketing, and general and administrative expenses.

While we remain optimistic about Netflix's ability to capture value from this acquisition through successful integration, we acknowledge several risks and uncertainties. These include higher financial leverage, management focus, regulatory approval, and the challenge of integrating different businesses and cultures.

The company intends to issue debt to finance the acquisition, which increases financial risk. However, given the company's strong free cash flow generation we believe it has the capacity to service the additional debt. The company's strong cash generation enabled Netflix to significantly improve its balance sheet, from over 200% long-term debt to equity in 2019 to 64% as of September 30, 2025, and 30% net debt to equity after accounting for the company's \$9.3 billion of cash and short-term investments. Post-acquisition, the company intends to prioritize deleveraging while maintaining a strong balance sheet and investment-grade credit rating. Management focus on continuing to execute within its core business remains critical, and we believe the company's dual CEO structure should be a benefit during the integration process. Regulatory approval also remains an uncertainty, and the company would be subject to a \$5.8 billion termination fee if the deal fails to win regulatory approval. While not an ideal situation, that possibility does not materially impact our long-term assessment of Netflix's intrinsic value, even were the company required to pay. It also suggests that the company is confident of a positive regulatory outcome, which management reiterated in a recent conversation.

Finally, integrating two distinct businesses and cultures will require thoughtful execution. We believe the lengthy closing period should allow for careful planning, and Netflix is committed to preserving Warner Bros.' unique culture. After extensive discussions with the executive team, we believe management understands these risks and is well-positioned to manage integration successfully and realize long-term value from the acquisition.

As we do with any material corporate developments, we will continue to monitor and assess any potential structural impact on our long-term investment thesis for Netflix and on the company's market share or growth. However, we believe Netflix remains well positioned to benefit from secular growth in global entertainment spending, which we estimate to represent approximately \$1.2 trillion of annual spending outside of China, where Netflix is not operating. While there will be near-term uncertainty arising from the proposed acquisition, we believe the risks appear manageable and that the acquisition would contribute positively to the company's scale and pricing power. We believe current market expectations substantially underestimate the strength of Netflix's business model and its ability to generate sustainable growth in free cash flow over our long-term investment horizon. As a result, we believe the shares trade at a significant discount to our estimate of intrinsic value and offer a compelling reward-to-risk opportunity.

For the quarter, revenue of \$11.5 billion rose 17%, driven by higher subscriptions, higher subscription pricing, and increased ad revenue. The company recently increased prices in



the US, UK, France, and Argentina. The company also highlighted engagement trends in the US and UK, two of its largest market, where its share of TV viewing has grown by 15% and 22%, respectively, since the end of 2022. Netflix also recently completed the rollout of an internal ad tech platform and transitioned off a partner platform in all of its ad markets. The new platform is expected to contribute to better measurement and targeting, as well as enabling new ad formats and expanded programmatic capabilities, and the company is targeting a doubling of advertising revenue in 2025. The company believes that both paid sharing and its ad-supported pricing plan, which was initially rolled out in 12 markets in November 2022, will further broaden its addressable subscriber base and has contributed to accelerating revenue growth and greater monetization per user. The company previously commented that the paid-sharing initiative was resulting in better-than-expected retention and conversion of borrowing households into full-paying members.

We believe Netflix has an attractive and improving financial model. Operating income of \$3.3 billion rose 12% year over year on margins of 28% that would have been over 500 basis points higher if not for the tax dispute. Free cash flow of \$2.7 billion rose 21% from the prior-year quarter and represented 23% of total revenue. The company's balance sheet continues to improve, with long-term debt to equity of 56% declining from over 200% in 2019.

We believe SVOD will continue to benefit from a secular shift from linear television to streaming entertainment due to growing global penetration of broadband internet connections, the proliferation of internet-connected devices, and consumers' desire for on-demand personalized entertainment at prices that are generally significantly below paid TV. As a leading provider of SVOD, we believe Netflix will take its share of global consumer entertainment spending from about 3% today to over 5% over our long-term investment horizon, contributing to low-double-digit growth in revenue. We expect substantial recent investments in content will moderate, and we believe the company will benefit from higher gross margins as its content library is leveraged over a growing global subscriber base. We recently increased our longer-term projected operating margins for Netflix, driven by our expectation of greater scale benefits, and we now expect Netflix to generate longer-term operating margins in the mid-to-high-30% range, up from approximately 30%, previously. As a result, we expect both operating profits and free cash flow will grow faster than revenues, in the mid teens. We believe current market expectations substantially underestimate the strength of Netflix's business model and its ability to generate sustainable growth in free cash flow over our long-term investment horizon. As a result, we believe the shares trade at a significant discount to our estimate of intrinsic value and offer a compelling reward-to-risk opportunity.

- **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 strategy holding since its initial public offering (IPO) in the second quarter of 2012, Meta reported quarterly financial results that were fundamentally strong and above management guidance and consensus expectations for revenue, operating income, and earnings per share. Shares may have responded negatively to guidance that operating and capital expenditures would be above its prior outlook for 2025 and would remain elevated in 2026. The company had previously signaled that it expects capex to remain elevated over the next few years as it leverages its talent, data, and scalable infrastructure to build new solutions for its family of apps and become one of the world's leading AI companies. The increase in expected capital expenditures reflects additional data center investments to support the company's AI efforts, as well as an expected increase in the cost of infrastructure hardware. We believe this is a necessary cycle for maintaining sustainable competitive advantages and long-term growth, and the company's initiatives are already contributing positively to ad creation, targeting, and consumer engagement. Through its AI investments, the company is focusing on further improving its advertising business, creating more engaging consumer experiences, messaging for businesses, making META AI the leading personal AI assistant, and innovating in AI devices, predominantly through glasses. The company continues to invest significantly in its early-stage Reality Labs segment, which includes augmented- and virtual-reality (VR) products that the company views as building its long-term vision for the metaverse. While the company lost \$4.4 billion in its Reality Labs segment during the quarter, Meta's core family of apps generated strong operating profit of \$25 billion on 49% operating margins. As a result, the investment in Reality Labs represented under 20% of the operating profit generated by the company's highly profitable core business. We believe Mark Zuckerberg has always managed the company with a long-term focus and



strong strategic vision. Over the past ten years, Meta has spent \$240 billion on research and development (R&D) and almost \$220 billion on capital expenditures, including over \$185 billion and over \$165 billion, respectively, in 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. We expect Meta to continue to invest in products around virtual and augmented reality with the long-term vision of creating a metaverse platform. We believe the company's overall AI initiatives and those within its family of apps businesses are complementary to and overlap with its reality labs product-focused areas. For instance, Meta has invested in its Llama large language model, which is a product supporting developers while also training the company's Meta AI assistant that is used in its family of apps business. Today, Meta AI has over 1 billion monthly active users, and the company's goal is for Meta AI to become the most-used AI assistant in the world. Meta AI is also expected to be used in its recently released Orion augmented-reality glasses prototype, as well as other smart glasses products. Orion leverages both Meta AI and its family of apps products to enable calls, videos, and messages. We expect Meta to continue to invest around virtual, augmented, and mixed-reality devices and software and to lever investments in AI and the ecosystem of its family of apps businesses. Given Meta's desire to sustain its leadership position through future computing cycles and the potential size of a more immersive opportunity around AI devices, which we estimate could impact over \$1 trillion of advertising, commerce, and hardware spending over the long term, we believe Meta's current balanced approach to its forward looking investments make sense.

We believe Meta continues to have significant advantages arising from its network of over 3.5 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 \$51.2 billion in total revenue and rose 26% year over year 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. Across its family of apps – Facebook, Messenger, WhatsApp, and Instagram – daily active users grew 8% year over year to 3.54 billion. 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 last reported the number of advertisers grew to over 10 million, up from over 8 million at the end of 2019, over 7 million at the end of 2018, and our estimate of less than 1 million advertisers and 4 million business users at the time of the IPO in 2012. Total average revenue per person (ARPP) for the quarter of \$14.46 rose 18% year over year. Since 2012, annual monetization per user has increased globally from \$5 per user to over \$49 in 2024, a compounded annual growth rate of 21%, 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, which rose 74% year over year driven by sales of Quest headsets in advance of the holiday season.

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 \$20 billion rose 18% year over year on margins of 40% that declined from 43% in the prior-year period due to higher R&D expenses. The company's family of apps generated \$25 billion of EBIT on operating margins of 49%. Meta continues to invest heavily in new growth drivers, such as Reality Labs, which is the division that focuses on VR and augmented-reality hardware and software. Within this segment, Meta has shifted more investment focus to its AI glasses, driven by increased demand, innovation and AI experiences Meta is building for wearable products. The reality labs segment generated a quarterly operating loss of \$4.43 billion. Meta continues to observe strong benefits from leveraging AI throughout its business and is accelerating investment to increase more resources on AI. The company is seeing benefits in several areas of its business which are contributing to improved monetization and revenue growth. One area is in the creation of advertising on its varied platforms. The company's AI tools enable all advertisers, especially small- and medium-sized businesses, the ability to create ads (facilitating the creative process), and contributes to making it easier to use Meta's ad products, in addition to improving both relevance and targeting. AI is contributing to growing engagement across Meta's platforms from all users.



AI contributes to engagement by driving improvements in its content recommendation systems for users. Creators are also benefiting from AI tools which contribute to creations of more personalized content. Meta's total free cash flow of \$10.6 billion declined 32% year over year due to elevated capital expenditures that rose 111%. During the quarter, the company repurchased approximately \$3 billion of shares and paid \$1.3 billion in dividends.

We believe Meta 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 Meta benefits from the competitive advantages of its network, scale, strong brands, platform strategy, and a targeting advantage. With over 3.5 billion daily 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 that the unique users of the company's Family of Apps exceed 80% of the world's internet population. We expect that businesses 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. We believe Meta's brands, 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 7% currently to over 10% of the estimated approximately \$2 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 low-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.

## 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, financials, industrials, and consumer staples sectors. We were underweight in the information technology sector. We held no positions in the real estate, materials, energy, or utilities 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 is approximately 11.3% since the inception of the strategy on July 1, 2006. The overall portfolio discount to intrinsic value was approximately 48.9% as of December 31, 2025.



## Important Disclosure

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*Holdings analysis is shown for a representative account. Due to systems limitations it may be difficult to analyze holdings on a composite basis. This representative account was selected because it closely reflects the Loomis Sayles Large Cap Growth investment strategy. Due to guideline restrictions and other factors, there may be some dispersion between the returns of this account and other accounts managed in the Large Cap Growth investment style.*

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**Market conditions are extremely fluid and change frequently.**

**Diversification does not ensure a profit or guarantee against a loss.**

**Any investment that has the possibility for profits also has the possibility of losses, including the loss of principal.**

**There is no guarantee that the investment objective will be realized or that the strategy will generate positive or excess return. Actual accounts have the potential for loss as well as profit.**

**Past performance is no guarantee of future results.**