

Global Growth Managed Account

MARKETING COMMUNICATION

Strategy Facts

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

Strategy AUM	\$2.8 billion
Inception	12/1/2021
Benchmark	MSCI ACWI Index Net
Portfolio Manager	Aziz Hamzaogullari
Manager Since	Inception

Quarterly Portfolio Review

- The strategy posted negative returns of -12.75% (pure gross) and -13.42% (net total wrap fee) vs. -3.20% for the MSCI ACWI Index Net, underperforming the benchmark by -10.22% (net total wrap fee) during the quarter. Arm Holdings, Novartis, and Netflix were the three largest contributors to performance during the quarter. Shopify, Tesla, and Meta Platforms were the three largest detractors to performance.
- Stock selection in the consumer staples sector, as well as our allocations in the information technology, financials, industrials, and healthcare sectors, contributed positively to relative performance. Stock selection in the information technology, financials, consumer discretionary, communication services, industrials, and healthcare sectors, as well as our allocations in the communication services, consumer discretionary, and consumer staples 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
Alphabet Inc.	8.1
Meta Platforms, Inc.	7.2
Tesla, Inc.	6.2
Amazon.com, Inc.	6.2
MercadoLibre, Inc.	5.6
Netflix, Inc.	5.4
Shopify Inc.	4.9
Novartis AG	4.2
Boeing Company	3.7
Oracle Corporation	3.6
Total	55.1

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. For current holdings, please visit www.loomissayles.com.

Global Growth ADR Managed Account Composite as of March 31, 2026 (%)

	CUMULATIVE TOTAL RETURN		ANNUALIZED TOTAL RETURN				
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR	SINCE INCEPTION
PURE GROSS	-12.75	-12.75	7.10	14.53	-	-	7.09
NET TOTAL WRAP FEE	-13.42	-13.42	3.98	11.22	-	-	3.98
NET MGMT FEE - INSTL	-12.92	-12.92	6.30	13.69	-	-	6.30
BENCHMARK	-3.20	-3.20	20.01	16.58	-	-	8.84

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.

The primary benchmark returns only are shown above.

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



Contributors

Arm Holdings, Novartis, and Netflix were the three largest contributors to performance.

- **Arm Holdings** is the world's leading microprocessor intellectual property (IP) supplier. The company develops and licenses its microprocessor IP technology to a network of partners to facilitate the design and manufacture of semiconductor chips used in a wide range of end markets, with a primary focus on mobile, cloud, automotive, and IoT (internet of things). Arm's clients include most of the world's leading semiconductor companies, which pay licensing fees to utilize the company's industry-standard technologies and ongoing royalties for the resulting chips incorporating its technology. While it can take in excess of five years before newly licensed technology is commercialized into new products, the resulting royalty payments to Arm can span decades. We owned Arm in our large cap and all cap growth portfolios from 2012 until it was acquired by SoftBank Group in 2016. Under SoftBank, the company invested substantially in research and development (R&D) and accelerated its pace of innovation. As a result, Arm launched Armv9, its most advanced processor architecture, and its Neoverse microarchitecture that now enables the company to effectively compete in the data center business.

A holding since the company's September 2023 initial public offering (IPO) in which SoftBank spun-off a minority interest in the company, Arm reported quarterly financials that again reflected record results in its 10th quarter as a public company, including record-high royalty revenue and the third highest quarter for licensing revenue. The company is seeing faster-than-expected incorporation of its higher-royalty technology as companies look to monetize AI, and the company offers the only available design tool allowing for customization. The company is also seeing strong traction for its next-generation Armv9 architecture in the mobile market it has long dominated, with smartphone-related revenue up well above the low-to-mid-single-digit growth in unit sales, reflecting the company's ability to grow significantly faster than the market due to adoption of its higher-royalty premium content. Further, with its Neoverse Compute Subsystems (CSS) architecture, which seeks to lessen the design and development time for new complex data center chips, the company is growing share in cloud server compute and also seeing traction in both mobile and automotive end markets. As a result, Armv9 royalty revenue, which had grown to over 30% of royalty revenue when last disclosed and which carries a royalty rate twice as high as Armv8, rose both from the prior-year period and prior quarter. The company will again disclose the penetration of v9 royalty revenue in its fiscal year end report. During the quarter, Arm also announced its first data center chip that customers can incorporate into their servers. The Arm AGI data center CPU chip was co-developed with Meta Platforms over the past few years. Meta saw the need to further lessen the design and development time to more quickly achieve the 2x performance-per-watt benefit of Arm's chip versus Intel's x86. Even though co-developed with Meta, the AGI chip can be sold to other data center customers with the primary pool of future customers being non-hyperscale players. Arm also announced that OpenAI would be an early adopter of the chip. AGI will potentially increase Arm's share of the chip profit pool by ten times versus the incorporation of its CSS architecture alone. Even with the growing penetration of its latest architecture and increasing product offerings, as of the company's most-recent fiscal year, approximately 50% of Arm's royalty revenue came from products launched over a decade ago, which we believe highlights the persistence of revenue from Arm's technology.

Arm participates in end markets that we estimate represent approximately \$300 billion of addressable annual expenditures that we expect to collectively grow at a mid-single-digit compounded annual rate. Prior to its acquisition by Softbank, the mobile market accounted for two-thirds of Arm's revenues. As a result of its investments in next generation architecture, continued expansion into diversified end markets, and share gains across all of its newer markets, markets outside of mobile grew to represent approximately 65% of the company's revenue in its 2023 fiscal year, before declining more recently due to strong growth in up-front licensing revenue. Over time, we expect royalty revenue will grow to comprise about 80% of the business by the end of our forecast period, from around 60% today. We believe Arm's brand, value proposition, and massive ecosystem position the company for healthy growth across all of its current end markets, arising from a combination of underlying market growth, share gains, and pricing power. Collectively we believe the company can generate compounded annual revenue growth in the high-teens. With our expectation for continued growth in the high-margin royalty business, which possesses a greater than 75% operating margin, as well as the benefits of growing scale in



other areas of its business, we believe Arm will grow operating income and free cash flow faster than revenues, in the low-20% and approximately 30% ranges, respectively.

We believe Arm's shares embed expectations that underestimate the company's sustainable growth and margin expansion opportunities. As a result, we believe that the company is trading at a meaningful discount to our intrinsic value and represents an attractive reward-to-risk opportunity.

- **Novartis** is a diversified global healthcare company with market leadership in branded pharmaceuticals across a broad range of treatment areas, including oncology (30% of revenues), immunology (almost 20% of revenues), cardiovascular, renal, and metabolic (almost 20%), and neurology (10%). The company also derives over 20% of revenues from mature branded products in non-core therapy areas. With the October 2023 spinoff of the company's Sandoz generics and biosimilars division, which followed the 2019 spinoff of ophthalmologic equipment maker Alcon and 2018 divestiture of a consumer health joint venture, the company is now 100% focused on innovative medicines, which accounted for about 80% of revenue and 85% of core operating income prior to the Sandoz spinoff. The company generates approximately 50% of revenue from the Americas, 30% from Europe, and 20% from the rest of the world.

A holding in the strategy since inception, Novartis reported quarterly financial results that were fundamentally solid but slightly below consensus expectations for revenue. The company provided guidance for 2026 that included low-single-digit revenue growth, despite the largest patent expiry in the company's history as Entresto, Promacta, and Tasigna all started facing generic competition in 2025. We believe Novartis' narrowed focus on branded innovative medicines, a pipeline increasingly focused on high-value transformative innovations with substantial end markets, and a broad portfolio that continues to have multiple growth drivers, leave the company well-positioned for sustained future growth over our long-term investment horizon. In addition, we believe the company is seeing the fruits of its shift in research and development (R&D) efforts over the last decade begin to materialize in the form of novel drug launches, such as Pluvicto, a first-in-class radioligand therapy used to treat prostate cancer, and Leqvio, a treatment for cardiovascular disease, with many more expected over the coming years.

Novartis reported total revenues of \$13.3 billion declined 1% year over year in constant currency, below consensus expectations for \$13.8 billion. The company experienced faster-than-expected erosion in revenues from Entresto, the small molecule heart failure drug that lost US patent protection in the second half of 2025. Breast cancer therapy Kisqali was also below expectations, but still posted robust growth, growing 44% year over year in constant currency. Of the other key growth products, Cosentyx, Pluvicto and Kesimpta all performed well and above consensus.

Operating income rose 4% in constant currency, benefiting from operating leverage and in line with consensus expectations. Core operating margins of 37% expanded 70 basis points year over year in constant currency. Despite the strong margin expansion that we have seen in recent periods with productivity and portfolio optimization, we believe margins can continue to expand over time from ongoing productivity gains and consistent investment in innovation that we believe will drive new product launches and resulting operating leverage.

We believe Novartis remains a differentiated business that we expect will benefit from accelerating growth, continued solid execution, a structurally improving business, and a strong management team that has made sound strategic decisions to enable greater focus on the company's long-term competitive advantages of brand, scale, technology, and innovation. We believe the company is focused on and executing in the right areas of growth to create long-term shareholder value. We believe the current stock price embeds future growth expectations that are well below our forecasts. As a result, we believe the shares are selling at a discount to our estimate of intrinsic value and offer an attractive 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 \$130 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's most-recently reported financial results were fundamentally solid and above consensus expectations for revenue, operating income and margins, and earnings per share. Shares responded positively following news that the company was dropping its bid for Warner Bros after Paramount made a competing offer worth almost \$30 billion more than Netflix's initial bid. As we have written previously, our investment thesis for Netflix was not predicated on a successful acquisition of Warner Bros, and there is no change to our long-term structural investment thesis following the news.

For the quarter, revenue of \$12.1 billion rose 18%, driven by higher subscriptions, higher subscription pricing, and increased ad revenue. The company highlighted its advertising business, which expanded by over 2.5 times to exceed \$1.5 billion, and is expected to double again in 2026. 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 \$3.0 billion rose 30% year over year on margins of 24.5%. Free cash flow of \$1.9 billion rose 35% from the prior-year quarter and represented 16% of total revenue. The company's balance sheet continues to improve, with long-term debt to equity of 58% 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.

Detractors

Shopify, Tesla, and Meta Platforms were the three largest detractors to performance.



- **Shopify** is a leading global provider of mission-critical commerce infrastructure that enables retail 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 merchants 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 millions of merchants in over 175 countries. The company generates approximately 68% of revenues in North America, with Europe, the Middle East and Africa accounting for 21%, and Asia-Pacific contributing 10%.

A strategy holding since the first quarter of 2022, Shopify reported strong quarterly results that were above both consensus expectations and management's guidance for most key metrics, including gross merchandise volume (GMV), revenue, adjusted operating profit, and free cash flow. The company also provided revenue guidance for the current quarter that was well above expectations for revenue, but lower than expected for free cash flow due to a higher expected tax rate in the quarter. Despite the positive results, which included continued market share gains, shares traded down likely due to the mixed guidance and a prevailing market narrative that AI poses an existential threat to enterprise software companies. Regarding that narrative, we believe the view is flawed. Companies such as Shopify (along with other portfolio holdings including Autodesk, Oracle, Salesforce, and Workday, for instance) provide mission-critical services to their clients who face high switching costs in moving to other providers. We believe this dynamic is reflected in both their pricing power and the high degree of client retention for these businesses. While AI may prove additive to the core functions these companies provide, AI in and of itself does not negate the core competitive advantages these companies enjoy, which include sticky client relationships, distribution reach, proprietary data, a reputation for reliability and security, integration for mission-critical corporate functions, and domain expertise. As we do with any material corporate or industry developments, we will continue to monitor and assess any potential structural impact on our long-term investment thesis for each of these companies and on their market share or growth. However, we believe AI is more likely to expand their total addressable markets than it is to threaten their core businesses. Unless these companies cease to continue to innovate and don't themselves employ AI to further differentiate their products and services, we don't believe AI represents an inherent threat to their core businesses.

For the quarter, revenue of \$3.7 billion rose 31% year over year, benefiting from strong growth among existing clients, continued penetration of its merchant solutions, and new client acquisition across all regions. The company rolled out its payments solutions to 60 new countries and expanded Shopify capital to 8 countries as it continues to expand its merchant solutions outside of North America. The company also recently introduced its universal commerce protocol (UCP) in collaboration with Google. UCP is an open-source standard for integrating commerce with agents that should enable Shopify's merchants to benefit from the release and adoption of agentic commerce. The company also reported that its AI assistant, Sidekick, continues to show increased engagement by merchants, where it leverages two decades of platform data to improve merchants' revenue generation and efficiency.

The company reported generating approximately \$94 billion of GMV on its platform during the quarter, which increased by 31% and was well above our estimates of the growth in both e-commerce and overall retail sales, indicating that the company grew its market share during the quarter. Subscription revenue represented 21% of revenue and grew 17% year over year, driven by merchant additions and a greater contribution from higher-priced plans. Merchant solutions represented 79% of revenue and grew 35% year over year, benefiting from strong growth in GMV and greater usage of the company's value-added services. Adjusted operating income of \$760 million rose from \$585 million in the prior-year period on adjusted operating margins of 21% that were flat year over year. Positive free cash flow of \$715 million rose 31% year over year and was above consensus expectations. The company has seen its free cash flow margins increase from -3% in 2022 following a period of elevated investments to 13% in 2023 and 19% of revenue in the most-recent 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 21,000 applications that extend the functionality of the company's core commerce solutions, as well as over 100,000 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 we believe should ultimately increase the value to all participants. With millions of merchants and \$378 billion of GMV in 2025, 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 mid-to-high-teens total revenue growth 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 significant discount to our estimate of intrinsic value and offer a compelling reward-to-risk opportunity.

- Founded in 2003, **Tesla** is a global leader in the design, manufacturing, and sales of high-performance fully electric (battery) vehicles (EVs). The company's automotive unit sells its products directly to customers through its website and retail locations and continues to grow its customer-facing infrastructure through a global network of vehicle service centers, mobile service technicians, body shops, Supercharger stations, and Destination Chargers to accelerate widespread adoption of its products. Tesla also designs, manufactures, sells, and installs solar energy generation and energy storage products to residential, commercial, and industrial clients through its energy generation and storage unit. The company generated over 90% of its sales from its automotive segment and under 10% from its energy generation and storage segment in its 2025 fiscal year. From a geographic standpoint, the US and China are the company's two largest markets and accounted for approximately 50% and 22% of 2025 sales, respectively, while the rest of the world collectively accounts for under 30%.

A portfolio holding since the first quarter of 2022, Tesla reported quarterly financial results that were better-than-expected for revenues and operating margins, driven by improving software sales and strong performance in its energy generation and storage system business. Shares may have responded negatively to the company's plans to more than double its capital expenditures as it invests substantially in new factories and AI-computing infrastructure. While vehicle deliveries declined for a second straight year in 2025, Tesla reported record vehicle sales in Asia Pacific and average selling prices increased 4% year over year due to the higher-priced new model Y. We believe the concurrent pullback in EV investments by many traditional auto manufacturers will enable Tesla to extend its product and technology advantages, driving even further differentiation as consumers consider the full suite of Tesla products. The company also highlighted its rapid evolution from a hardware-centric company to one focused on physical AI and enabling autonomy. There is



no change to our long-term structural investment thesis for Tesla, which continues to trade at a significant discount to our estimate of intrinsic value.

Quarterly revenue of \$24.9 billion declined 3% year over year as 27% growth at the small-but-growing energy generation and storage unit was more than offset by an 11% decline in automotive revenues. The company continues to make progress on full self driving (FSD), reporting that subscriptions rose 38% year over year to 1.1 million, representing 12% of the company's fleet of approximately 8.7 million cars. Unlike traditional auto manufacturers, Tesla has the ability to sell software to car owners after the initial sale, providing incentive to grow an installed base that can later be monetized through software sales. The company is making strong progress on its industry-leading software which we believe benefits from its data leadership in autonomous driving. The company continues to gather data from a fleet now averaging over 500 million miles of FSD driving per quarter. The company is also ramping up customer education by demonstrating the technology at every new vehicle pick up, which it will extend to every service appointment as well. In addition to the US, FSD is available in Canada, China, Mexico, Puerto Rico, Australia, and New Zealand. The company is awaiting a decision in Europe.

Despite making continued progress in lowering its cost per car, operating margins of 5.7% declined by approximately 50 basis points during the period, due to increased research and development expenses to support future product launches. We believe these recent margin impacts are temporary and that over the long term, Tesla can generate operating margins in the low-to-mid-20% range, supported in part by a recovery in auto margins and an increasing mix of FSD sales. After posting negative free cash flow in the first quarter of 2024, free cash flow was positive for the seventh quarter in a row, and we believe it will remain positive as profits and capital expenditure efficiencies improve. Despite an automotive industry slowdown, we believe that Tesla is a structural share gainer in the overall auto industry and will continue to gain share and grow faster than the industry as a whole.

We believe the secular growth driver for Tesla is increasing penetration of electric vehicles as a share of global automotive sales. Around the world, EVs accounted for a low-double-digit percentage of new light vehicle sales in 2024, with penetration rates ranging from high-single digits in North America to low double-digits in Western Europe and almost 30% in China. We believe the pace of EV adoption will accelerate, driven by advances in battery technology that will drive cost parity, lower ongoing cost of ownership for consumers, government incentives, and numerous global initiatives to phase out internal combustion engine sales over the next two decades. Tesla is a global leader in battery EV sales. The company recently had low-teens unit share, which is down from high teens in 2024 as a result of the refresh of the Model Y at the start of the year, while the company maintains around 25% revenue share and a much higher share of industry profitability. While we expect competition to increase substantially, we believe Tesla's brand, focus, technology leadership, and strong ongoing consumer demand will enable the company to maintain a leading global market position.

In October, the company debuted FSD version 14 that brings capabilities from the Robotaxi FSD model to its passenger cars and advances the company towards unsupervised FSD. Over the long term, we believe most consumers will ultimately adopt FSD functionality, and the company has eliminated the one-time purchase option in favor of its subscription-based model. Tesla's software offerings carry profit margins that are significantly greater than the current company average and we believe they will drive strong profit growth. Over time, we believe uptake of high-margin software capabilities, which we believe can increase from a negligible percentage of profits today to approximately 25%, will contribute to expanding the company's operating margins. We believe the assumptions embedded in Tesla's share price underestimate the company's significant long-term growth opportunities and the sustainability of its global market share. We believe the company's shares currently sell at a significant discount to our estimate of intrinsic value and thereby 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 inception, Meta reported quarterly financial results that were strong and above management guidance and consensus expectations for revenue, operating income, and earnings per share. In late March, Meta (along with Alphabet) was found liable



in a California social media addiction case. The plaintiff argued that the design features of Instagram and YouTube contributed to mental harm from using the platforms at a young age, and the jury ruled against both companies. In a separate case in March, Meta also received an unfavorable ruling in New Mexico, where it was found liable for misleading the public about platform safety and endangering children, resulting in a \$375 million civil penalty. Over the course of our ownership period, Meta has faced numerous legal and media challenges related to its effects on the mental health of teens, privacy practices, policing of hate speech, and elections integrity. As we have in all prior such instances, we continue to monitor and assess any potential structural impact to our investment thesis for Meta, Alphabet, and all portfolio holdings.

We believe Meta remains a high-quality company, and that management's decisions and actions illustrate its commitment to preserve platform integrity and to sustain the company's leadership and long-term growth. We expect Meta to appeal both rulings, which could take multiple years or longer to move through the appeals process to final resolution. Regardless of the outcome, Meta will need to ensure that it protects the well-being of all constituents on its platforms, and we believe the company will continue to make policy adjustments and investments that ensure a safe and healthy ecosystem. We believe management is focused on the long-term success of the business and does not manage the business for short-term profit at the expense of platform integrity. We believe this view is supported by their significant expenditures on research and development and investments to support growth over the next ten years – at the expense of short-term profitability. Meta requires users to be at least 13 years old to sign up for Facebook or Instagram, and has added a number of teen and parent safeguards over time, including supervision tools, Family Center, Teen Accounts, and tighter defaults around messaging, content, and advertising for younger users. Even should the company be forced to make further changes to business practices as a result of these developments, we believe teens represent a relatively small part of Meta's overall revenue base.

Year over year revenue growth of 26% reflected growth in daily active people and strong user engagement, with both Facebook and WhatsApp reporting over 2 billion daily active users and Instagram just below 2 billion. The company had previously signaled that it expects capex to remain elevated over the next few years as it levers 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. For 2026, the company projected capital expenditures in the range of \$115 billion to \$135 billion, which is higher than consensus expectations for \$111 billion. The increase in expected capital expenditures reflects continued build out of data centers, servers, and network infrastructure to support the company's AI efforts. 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, improved targeting, and higher consumer engagement, yielding better return on advertising spending for customers and strong growth in average revenue per user. 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 where sales tripled in 2025. 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 reported losses of \$6 billion in its Reality Labs segment during the quarter and expects similar losses in 2026, the company also believes this represents the peak and that losses will begin to decline. Meta's core family of apps generated strong operating profit of \$31 billion on 53% 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 \$255 billion on research and development (R&D) and almost \$240 billion on capital expenditures, including almost \$200 billion and over \$180 billion, respectively, in the last five years. We believe 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, the company reported revenue from Meta's family of apps, which is primarily advertising revenue, accounted for 99% of the company's \$59 billion in total revenue and rose 25% 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 7% year over year to 3.58 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 \$16.56 rose 16% year over year. Since 2012, annual monetization per user has increased globally from \$5 per user to \$57 in 2025, a compounded annual growth rate of over 20%, 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 declined 12% year over year due to a challenging comparison with the prior-year when the Quest 3 headset was released.

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 \$25 billion rose 6% year over year on margins of 41% that declined from 48% in the prior-year period due to higher losses in reality labs and general and administrative expenses. The company's family of apps generated \$31 billion of EBIT on operating margins of 53%. 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 \$6 billion, up from \$4.97 billion in the prior-year period. 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 \$14.1 billion rose 7% year over year despite elevated capital expenditures that rose 49%.

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, we believe 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, and healthcare sectors. We were underweight in the financials, information technology, industrials, and consumer staples sectors. We held no positions in the energy, real estate, materials, 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 8.5% since the inception of the strategy. The overall portfolio discount to intrinsic value was approximately 48.0% as of March 31, 2026.

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A list showing the contribution of each holding to the overall performance of the representative account during the measurement period is available upon request.

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