



Growth Fund



Growth Fund earns gold from Morningstar as of 1/9/2023*

Fund Facts

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

Strategy AUM ¹	\$74.8 billion
Fund AUM	\$14.3 billion
Share Class	Y
Inception	5/16/1991
Ticker	LSGRX
Benchmark	Russell 1000® Growth
CUSIP	543487110
Portfolio Manager	Aziz Hamzaogullari
Manager Since	June 2010

¹Strategy assets are comprised of Loomis Sayles Large Cap Growth style accounts.

Top Ten Holdings (%)

NVIDIA Corporation	9.8
Meta Platforms, Inc.	7.2
Alphabet Inc.	6.8
Amazon.com, Inc.	5.9
Tesla, Inc.	5.8
Netflix, Inc.	5.2
Microsoft Corporation	5.1
Boeing Company	4.8
Visa Inc.	4.7
Oracle Corporation	4.7
Total	59.9

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

Portfolio Review

- The fund posted positive returns of 4.14% vs. 8.33% for the Russell 1000® Growth Index, underperforming the benchmark by 4.19% net during the quarter. Nvidia, Alphabet, and Tesla were the three largest contributors to performance during the quarter. Walt Disney, Salesforce, and Monster Beverage were the three lowest contributors to performance.
- Stock selection in the consumer discretionary, healthcare, and industrials sectors, as well as our allocations to the communication services and consumer staples sectors, contributed positively to relative performance. Stock selection in the communication services, information technology, financials, and consumer staples sectors, as well as our allocations to the information technology, financials, industrials, and healthcare sectors, detracted from relative performance.
- The fund is actively managed with a long-term, private equity approach to investing. Through our proprietary bottom-up research framework, we look to invest in those few high-quality businesses with sustainable competitive advantages and profitable growth when they trade at a significant discount to intrinsic value (our estimate of the true worth of a business, which we define as the present value of all expected future net cash flows to the company).

Class Y Performance as of June 30, 2024 (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
FUND	4.14	17.05	28.58	10.23	16.71	15.53
BENCHMARK	8.33	20.70	33.48	11.28	19.34	16.33
EXCESS RETURN	-4.19	-3.65	-4.90	-1.05	-2.63	-0.80

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Performance data shown represents past performance and is no guarantee of, and not necessarily indicative of, future results. Investment return and value will vary and you may have a gain or loss when shares are sold. Current performance may be lower or higher than quoted. For most recent month-end performance, visit www.loomissayles.com.

Performance for periods less than one year is cumulative, not annualized. Returns reflect changes in share price and reinvestment of dividends and capital gains, if any. You may not invest directly in an index.

Additional share classes may be available for eligible investors. Performance will vary based on the share class.

Gross expense ratio 0.67% (Class Y). Net expense ratio 0.67%. As of the most recent prospectus, the investment advisor has contractually agreed to waive fees and/or reimburse expenses once the expense cap of the fund has been exceeded. This arrangement is set to expire on 1/31/2025. When an expense cap has not been exceeded, the fund may have similar expense ratios.

The Class Y inception date is 5/16/1991. Institutional Class shares (Class Y) are available to eligible investors with a minimum initial investment of \$100,000 and without a sales charge.



New Purchase Highlights

There were no new purchases during the period.

Portfolio Activity

- All aspects of our quality-growth-valuation investment thesis must be present for us to make an investment. Often our research is completed well in advance of the opportunity to invest. We are patient investors and maintain coverage of high-quality businesses in order to take advantage of meaningful price dislocations if and when they occur. During the quarter, we added to our existing positions in Boeing, Shopify, Starbucks, Tesla, and Thermo Fisher Scientific as near-term price weaknesses created attractive reward-to-risk opportunities. We trimmed our positions in Meta Platforms and Nvidia as they reached our historic maximum allowable position size of 8% due to market appreciation.

Contributors

Nvidia, Alphabet, and Tesla were the three largest contributors to fund performance.

- **Nvidia Corporation** is the world leader in artificial intelligence (AI) computing, which enables computers to mimic human-like intelligence for problem solving and decision making capabilities. Founded in 1993 to develop faster and more-realistic graphics for PC-based video games, Nvidia created the first graphics processing unit (GPU), a dedicated semiconductor that employs a proprietary parallel processing architecture to perform superior graphics rendering outside of a computer's standard central processing unit (CPU). The parallel processing capability of Nvidia's GPUs, which contrasts with the linear processing requirement of CPUs, can accelerate computing functions performed by standard CPUs by greater than ten times. As a result, Nvidia has extended its visual computing expertise beyond its legacy gaming market into innovative new and larger markets, including data centers, autos, and professional visualization. The parallel processing capability facilitates pattern recognition and machine learning functions that have enabled Nvidia to be at the forefront of growth in artificial intelligence applications. As a result, the data center business, which first surpassed the gaming business to become Nvidia's largest revenue and profit generator in its 2023 fiscal year, grew to represent over 75% of revenue in the company's most recent fiscal year. The company is also focused on building out its GPU-computing-based ecosystem and is enabling breakthroughs in autonomous driving, and virtual reality. Today, Nvidia is the market leader in GPUs where it forms a duopoly with competitor Advanced Micro Devices (AMD).

A fund holding since the first quarter of 2019, Nvidia reported another quarter of exceptional financial results that were well above consensus expectations, despite the U.S. Government's September 2023 restriction on the sale of its most advanced chips to China. While China historically accounted for 20% to 25% of data center revenue, it is down significantly due to the Government's export restrictions. However, given that strong demand for GPUs, mostly from hyperscale customers such as Alphabet, Amazon, Meta, and Microsoft, exceeded the company's current production capacity, the near-term impact on revenue has been minimal, and the company expects to start selling to China again later this year. In addition the company is slowly diversifying the data center business with increasing non-hyperscale customers as AI becomes more broadly prevalent on a global basis. As always, we will continue to monitor the situation for any structural changes to our long-term investment thesis and leverage our knowledge of Nvidia's largest customers through our deep understanding of these businesses such as Alphabet, Amazon, Meta, Microsoft, and Oracle, all of which have also been long-term holdings across our strategies. However, we don't see any change to Nvidia's dominance and leadership arising from these developments.

For the quarter, total revenue of \$26 billion rose 262% year over year. Record data center revenues of \$22.6 billion rose 427% year over year and 23% quarter over quarter to represent 87% of quarterly revenues. The company dominated data center spending on AI computing, with quarterly data center revenue that was approximately four-times that of competitors Intel and AMD, combined. In particular, Nvidia benefited from elevated activity among hyperscale cloud service providers that are building out their infrastructure of accelerated servers to monetize strong demand for GPUs by companies looking to leverage AI capabilities and drive competitive differentiation. Hyperscale customers accounted for over 50% of data center spending during the quarter. While we anticipate



there could be a pause following the initial buildout period as hyperscalers digest their substantial new purchases of GPUs, many of these customers have already announced increased capex plans with a greater share going to AI architecture as they view this as a major driver to sustain their competitive positioning and create new revenue and profit generating activities. We believe this dynamic should continue to benefit Nvidia in its 2025 fiscal year and beyond. We believe Nvidia's decades of focused investment, cumulative know-how, and robust software platform and architecture that has attracted millions of developers, position the company to benefit from several secular long-term growth drivers, including accelerated adoption and continued growth in applications and use cases for artificial intelligence. Over the long-term, we believe virtually all servers will be accelerated, primarily using GPU technology, up from a low-double-digit percentage today.

Gaming revenues of \$2.6 billion rose 18% year over year and represented the fourth consecutive quarter of growth after slowing over the prior four quarters. We believe prior weakness in gaming reflected global demand for PCs returning to pre-pandemic levels after a period of excess, along with the impact of macroeconomic weakness and Covid restrictions on China consumer spending. Gaming results benefited from strong uptake of the company's newest 40-series graphics cards, as well as the actions Nvidia previously took to clear existing inventory in its retail channels. We believe the gaming business can sustain secular growth in the mid-to-high teens, driven by both unit sales and pricing increases.

Nvidia maintains a high-quality financial model in which operating margins have expanded significantly over the past two decades and strong cash flow returns on invested capital have consistently exceeded the cost of capital by a significant margin. Over our long-term investment horizon, we believe double-digit growth in gaming revenues and faster growth in its data center markets will enable Nvidia to sustain total annualized revenue growth in excess of 20%. With low capital intensity and high cash flow returns on invested capital, we believe the company can generate faster growth in free cash flow. We believe Nvidia's free cash flow growth prospects are not currently reflected in its share price. As a result, we believe the company's shares trade at a significant discount to our estimate of intrinsic value and offer a compelling long-term reward-to-risk opportunity.

- **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 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. We believe 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 long-term fund holding, Alphabet reported quarterly financial results that were strong and above consensus expectations for revenue, operating income, operating margin, and earnings per share. The company also announced an increased capital return program, which included the initiation of an annual quarterly dividend and an incremental \$70 billion in share repurchase authorizations. We believe Google has been operating as an AI-first company for much of the past decade, and the company continues to focus on leveraging its AI-driven innovation internally and to improve performance. Google released its AI "chatbot," Bard, in March 2023, and has since made it available globally in over 40 different languages. Nearly 80% of the company's advertising customers are using at least one AI-powered search product, and the company continues to integrate more generative



AI functionality into search, as well as providing AI services to businesses through its cloud business and rolling out AI features to its entire ad ecosystem, including features designed to support bidding, targeting, and creative measurement.

Total revenue of \$81 billion represented a 16% increase year over year in constant currency that was 2% above consensus expectations. Reported earnings per share rose 62% and were 25% above expectations. Alphabet reports results in three segments: Google Services, Google Cloud, and Other Bets. Google Services reported quarterly revenue of \$70 billion, which increased 14% year over year and represented approximately 87% of total revenue. Advertising revenue accounted for 88% of Google Services revenue and increased by 13% compared with the year-ago quarter. Advertising revenue was driven by the search business, which grew 14% year over year. Outside of search, the company reported 21% growth in YouTube, which benefited from improvement in brand advertising and direct response ads, while the network advertising businesses continued to show weakness, declining 1% year over year. As with other platforms, the company is transitioning to short-form videos, where monetization is currently lower. However, the company recently reported that YouTube Shorts were being watched by over 2 billion logged-in users monthly, and were averaging over 70 billion daily views. Non-advertising revenue, which includes Google Play, hardware, and YouTube non-advertising revenues such as subscriptions, represented 12% of Google Services revenues and increased 18% year over year. The company experienced strong growth in YouTube subscriptions such as Premium Music and YouTube TV, which have over 80 million subscribers.

Google Cloud reported quarterly revenue of \$9.5 billion, on growth that accelerated 200 basis points to 28% year over year, and represented 12% 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. The segment generated an operating profit of \$900 million on EBIT (earnings before interest and taxes) margins of approximately 9%, which improved from 3% in the prior-year quarter. Alphabet's Other Bets segment reported revenue of \$495 million that increased 72% year over year and represented less than 1% 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.

We believe Alphabet continues to have a high-quality financial profile and strong financial position. Overall operating income rose 46% to \$25 billion, benefiting from lower cost of goods sold and operating leverage, and the company reported solid adjusted operating margins of 31.6% that expanded 670 basis points year over year. Google's attractive financial model generates strong free cash flow and earns high returns on invested capital, enabling it to reinvest significantly in its business. Over the past five years, Google has invested over \$170 billion in R&D, an amount very few other companies could replicate. In the quarter, Alphabet generated free cash flow of \$16.8 billion that declined 2% year over year and represented 21% of gross revenue. Free cash flow was impacted by elevated capital expenditures, which rose 91% year over year to \$12 billion.

In June, Alphabet announced that Anat Ashkenazi would be joining the company as CFO, effective July 31, 2024. In 2023, the company previously announced that CFO Ruth Porat was assuming a new role as President and Chief Investment Officer of Alphabet. She will continue to serve as CFO until Anat starts. Anat is currently the CFO of Eli Lilly, where she spent over two decades across a diverse set of strategy and operations roles. We do not expect any changes to the company's current strategy, focus, or capital allocation framework as a function of the change.

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.

- 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 generates approximately 95% of its sales from its automotive segment and 5% from its energy generation and storage segment. From a geographic standpoint, the US and China are the company's two largest markets, accounting for approximately 47% and 23% of sales, respectively, while the rest of the world collectively accounts for approximately 33%.

A fund holding since the first quarter of 2022, Tesla reported quarterly financial results that reflected a quarter-over-quarter decline in unit sales for the first time since the launch of its model Y. Sales were impacted by a number of factors, including ongoing economic weakness in China, a production disruption due to arson at its Berlin Gigafactory, and delivery challenges due to conflict in the Red Sea. The company also provided guidance for even slower-than-expected growth in 2024 due in part to slowing growth in China, where EV penetration has already approached approximately 30% of cars sold. We believe this near-term weakness does not reflect on Tesla's long-term prospects, nor does it change our expectation for long-term secular growth in EV penetration around the world. Given that affordability in the auto industry is being impacted by multi-decade-high interest rates and lingering materials and logistics cost inflation, we believe Tesla has been prudently managing the business, which included record auto production and deliveries in 2023, as well as the company's Model Y becoming the highest selling vehicle on a global basis. Shares may have responded positively to the news that Tesla is expediting plans for a new compact model, which could enter production by the end of 2025. Shares also responded positively to rumors that the company had received tentative approval for FSD (full self driving) in China. This corresponded with Elon's visit to China where he met China Premier Li Qiang. Reports of Tesla working with Baidu for mapping and data collection capabilities to address privacy concerns were later confirmed by Baidu. Over the last six months, Tesla had begun to sharpen its FSD monetization strategy, first in the US and now in China, which is consistent with our long-term thesis. Combined, we estimate these two countries represents 70% of Tesla's installed base of cars.

Revenue of \$21.3 billion declined 9% year over year. Despite working to lower the price of its vehicles to increase affordability, higher interest rates have impacted the core mass market customer Tesla ultimately seeks to win over. Tesla has a pricing strategy where they price their vehicles to maximize overall profit dollars. Historically the company had reduced price annually as it leveraged its growing scale to lower the total cost of ownership for potential buyers and drive EV adoption. The company is focused on penetrating mass-market buyers, where pricing sensitivity is a greater factor, and rising rates effectively increased the price of Tesla's cars by 10% over the past two years. We believe this is the correct strategy as long as Tesla continues to protect its brand equity, which is one of the company's most important intangible assets. Given that Tesla manufacturing factories have high fixed costs that benefit from scale, increasing EV sales from current levels would improve production utilization and generate higher profit per vehicle. We believe that increased volumes will offset near-term margin pressure over time. Further, 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 benefits from its data leadership in autonomous driving. In the last nine months, the company captured more data than in the prior two years combined, and Tesla is rolling out version 12 of its FSD (full self driving) beta software. Despite a substantial year-over-year decline in operating margins due to lower average selling prices, new factories that are not yet operating at full efficiency, higher raw materials and logistics costs, and strong investments in research and development to support the Cybertruck and its AI robot, we believe these impacts are temporary and that over the long term, Tesla can generate operating margins in the mid-20% range. Despite an automotive industry slowdown, Tesla has continued to show market share gains as a percentage of total light duty vehicles. 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 2023, 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 the global leader in battery EV sales, with over 20% unit share, around 25% revenue share, and a much higher share of industry profitability. While we expect competition to increase substantially, we believe Tesla's superior brand, focus, technology leadership, and strong ongoing consumer demand will help enable the company to maintain a leading global market position.

In 2022, Tesla launched an enhanced autopilot feature for customers who only want self-driving functionality on highways. While we believe most consumers will ultimately adopt FSD functionality over the long term, at 50% of the cost of FSD, we believe the enhanced autopilot option will accelerate uptake of its software offerings. Over the past few months, the company has begun to further sharpen its FSD strategy. First, the company rolled out a free trial to all US car owners with hardware 3 and higher, which represented 1.8 million cars, for which the company saw 50% usage. The company also created a lower pricing tier for "supervised" FSD, which provides access to a scaled-down version of FSD that is allowed by current regulations, but at half the price of FSD. 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 0% 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. We took advantage of near-term price weakness to add to our position early in the quarter.

Detractors

Walt Disney, Salesforce, and Monster Beverage were the three lowest contributors to performance.

- Founded 100 years ago, **The Walt Disney Company ("Disney")** is one of the largest and most renowned vertically integrated media companies in the world, with iconic entertainment brands and decades of film and TV content that it leverages across its media networks, theme parks, motion picture studios, and direct-to-consumer businesses. The company operates through three segments: Entertainment (approximately 45% of revenue), Experiences (approximately 35% of revenue), and Sports (approximately 20% of revenue). The Entertainment segment includes three sub-segments: linear networks (domestic and international), content sales/licensing and other, and direct-to-consumer (DTC). Linear networks includes the company's non-sports cable channels such as Disney and National Geographic, as well as broadcast network ABC and local ABC TV affiliates. Linear networks accounted for 13% of revenues and 32% of profits as of fiscal year (FY) 2023. Content sales/licensing and other includes theatrical, 3rd party TV and Video on Demand (VOD) services, and home entertainment distribution, each of which monetize content produced by studios such as Walt Disney Pictures, Twentieth Century Studios, Marvel, Lucasfilm, Pixar and others. Content sales/licensing and other accounted for 10% of revenues and -1% of profits in FY2023. Losses in content sales/licensing were primarily due to lower TV and VOD results attributed to the company's decision to de-emphasize high-margin third-party content distribution in order to differentiate its DTC platforms and build the subscriber base. DTC includes Disney's streaming services Disney+ and Hulu. DTC accounted for 22% of revenues and -19% of profits in FY2023 as the DTC segment remains in investment mode, albeit with losses narrowing year over year as the business continues to scale. Experiences includes the company's theme parks, resort hotels, cruise lines, vacation clubs as well as its consumer products business. Experiences accounted for 37% of sales and 70% of profit in FY2023. Sports includes ESPN, including



sports programmed on ABC network by ESPN and ESPN+, as well as Star branded sports channels in India. Star is ultimately expected to be deconsolidated from the Sports segment as a result of the recently announced joint venture (37% owned by DIS) with Reliance Industries, which will form one of the largest TV and digital streaming platforms for entertainment and sports in India. Sports accounted for 19% of revenues and 19% of profits in FY2023.

A fund holding since the second quarter of 2020, Disney reported quarterly financial results that were in line with consensus expectations for revenues and better than expected for operating income and earnings per share (EPS), leading the company to increase its full-year EPS growth forecast to 25% from “at least 20%,” previously. However, some investors may have been disappointed that the company didn’t raise its free cash flow projection for the full year and with commentary suggesting that operating income in both its DTC and Experiences businesses was likely to be softer in the current quarter due to temporary conditions. Despite continued healthy growth in the Parks business, evidence of travel beginning to moderate from its post-Covid peak may have also contributed to negative sentiment. None of these concerns impact our long-term investment thesis for the company, which also saw the DTC segment achieve profitability for the first time in the quarter and expects all its streaming businesses, inclusive of sports, to reach profitability in the fourth quarter.

For the quarter, Disney reported revenue of \$22.1 billion that rose 1% year over year, and total segment operating profit of \$3.9 billion that rose 17% over the prior-year period. The company’s entertainment segment accounted for almost 45% of revenue but declined 5% year over year, driven by ongoing weakness in linear due to cord cutting and renegotiated carriage agreements, as well as a lack of major theatrical content in content sales/licensing in comparison with the prior-year quarter which included the positive impact of Avatar. Offsetting this weakness was 13% growth in DTC, where subscribers to its Disney+ Core streaming services rose 6% year over year. Following the November 2019 launch of its Disney+ service, the company surpassed its five-year goal of attaining 130 million global subscribers in just 12 months, underscoring the global appeal of its unique content and brands. Operating profit of \$47 million in the company’s DTC segment rose from a loss of over \$600 million in the prior-year quarter, benefiting from price increases across its streaming services and Disney+ Core subscriber growth. Revenue in the company’s Experiences segment rose 10% year over year and represented 38% of total revenue, while operating income grew 12%. The segment continues to perform strongly, driven by its domestic business which has seen strong growth at Walt Disney World and cruises, as well as strength in its international business, in particular Hong Kong Disneyland. The company’s sports segment represented approximately 20% of total revenues which grew 2% year over year, while operating income declined 2% due to higher programming and production costs arising from an additional college football playoff game in the quarter, and lower affiliate revenues where fewer subscribers more than offset rate increases. The underlying ESPN product and programming remains strong, benefitting from higher advertising rates and viewership, with total day viewership reaching its highest level since 2012, Monday Night Football having its most watched season since 2000, and the NFL post season breaking viewership records.

We believe Disney’s strong and sustainable competitive advantages include its iconic brands, content, and intellectual property (IP), its massive scale in the media, entertainment, and leisure industries, and a structural cost advantage that directly benefits its streaming business. We believe the company is pursuing a well-articulated strategy to optimize distribution for its high-quality, best-in-class brands and franchises through a multi-pronged DTC strategy, which we believe will be central to the company’s media strategy over the next decade. Over our long-term investment horizon, we believe the company’s portfolio of iconic brands and IP that reaches a broad swath of demographic groups globally, its massive scale, and nearly impossible-to-replicate guest experiences leave the company well positioned to benefit from secular growth in global entertainment spending. We believe current market expectations substantially underestimate the uniqueness of the company’s IP, the opportunity to monetize that IP across several global business segments, and the company’s 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 substantial discount to our estimate of intrinsic value and offer a compelling reward-to-risk opportunity.



- **Salesforce.com** is the leading provider of cloud-based enterprise software, services, and applications focused on customer relationship management (CRM) for companies of all sizes and industries. The company offers individual cloud applications in multiple CRM market segments but is focused on its Customer 360 platform that unites sales, service, marketing, commerce, and other functions to provide a comprehensive customer view, enable companies to create and share custom applications and analytics, and automate all aspects of customer relationships. Salesforce sells its products globally, primarily through a direct sales force and indirectly through consulting firms, system integrators, and other partners.

A fund holding since the first quarter of 2020, Salesforce reported fundamentally solid quarterly financial results that exceeded consensus expectations for earnings per share (EPS) and free cash flow, but the company's current remaining performance obligations (CRPO) bookings, a forward-looking metric, was modestly below expectations. The company also updated its full-year outlook, which maintained prior guidance for revenue, adjusted operating income, and free cash flow, but modestly lowered is projected subscription revenue growth. There is no change to our view of Salesforce as a high quality company with secular growth opportunities. We believe Salesforce's strong and sustainable competitive advantages, which include its brand, comprehensive CRM solutions, large installed base of clients with high switching costs, and scale, will enable it to benefit from secular growth in adoption of its cloud-based applications and to grow faster than the industry as a whole.

For the quarter, revenue of \$9.1 billion increased 11% year over year in constant currency and included double-digit growth in all subscription segments. Subscription revenue for the company's core CRM cloud software services accounted for 94% of total revenue and rose 12% versus the prior-year quarter in reported terms. Outside of its subscription products, professional services revenue accounted for 6% of total revenues and declined 9% versus the prior-year period. From a geographic standpoint, the Americas accounted for 66% of revenue and grew 11% year over year in constant currency. Europe accounted for 23% of revenue and grew 9%, while Asia-Pacific accounted for 10% of revenue and grew 21% in constant currency. The company also reported revenue attrition of approximately 8% that was largely consistent with the past several quarters but up from previously achieved all-time low levels between 7% - 7.5%.

Salesforce has an attractive financial model that we believe will continue to improve over our long-term investment horizon. Adjusted operating income of \$2.9 billion rose 29% year over year on margins of 32% that expanded by approximately 450 basis points year over year. Free cash flow of \$6 billion rose 43% year over year and represented 67% of revenues during the period. The company's balance sheet remains solid, but now carries long-term debt following its acquisition of Slack, with approximately 14% debt to equity or -7% net debt to equity after accounting for cash and short-term investments. The company also repurchased \$2.2 billion of shares during the quarter and paid \$400 million in dividends. We believe Salesforce's share price continues to embed expectations for key revenue and cash flow growth drivers that are well below our long-term assumptions. As a result, we believe the company is selling at a significant discount to our estimate of its intrinsic value and offers a compelling reward-to-risk opportunity.

- **Monster Beverage** is a leading marketer and distributor of energy drinks in the US and internationally. A holding in the fund since 2013, the company reported quarterly financial results that were in line with both near-term consensus expectations as well as our long-term revenue growth expectations. The company saw a slight decline in market share in the US as competitors Celsius and Red Bull both grew more quickly. The company has already launched innovations that will compete more directly with Celsius's health and wellness offerings, including Monster's Reign Storm product, which is already seeing good traction and received additional shelf space during the quarter. The company also expects share gains for Bang, acquired in July 2023, where it is leveraging the Coca-Cola distribution system to roll out the brand more extensively. Despite the share decline, Monster's 7% sales growth in the US was in line with our long-term expectations for mid-to-high single-digit growth. The company continued to perform well in channels not measured by Nielsen, such as e-commerce and sales through Home Depot. The company also continued to experience faster growth outside the US where it saw share gains in many key markets. Over time, we



believe the company will leverage its superior distribution and industry leadership to gain shelf space and incremental distribution for its new offerings as it has on prior occasions. While cost inflation has impacted the consumer packaged goods industry broadly, Monster has been able to increase prices on multiple occasions in its largest US market over the past few years, and expects to again increase pricing later this year. The company also plans to raise prices in its international markets as well. Monster's sustained strong growth has led the company to operate less efficiently in order to meet consumer demand. However, we believe the company is making great progress in alleviating some of these transitory costs and will benefit from its ongoing pricing initiatives. Despite near-term pressure on margins, we believe Monster will benefit from margin expansion over the long term as it achieves greater scale in international markets.

Patiently built using non-traditional, grass roots marketing, Monster's iconic brand is a competitive advantage so difficult to replicate that even Pepsi and Coca-Cola were unable to make meaningful inroads in the profitable and growing energy drink market, despite over a decade of effort and investments. By outsourcing capital-intensive components of the value chain such as manufacturing and distribution, Monster has generated attractive returns on invested capital. In 2014, Monster entered a partnership with Coca-Cola in which Coca-Cola purchased a 16.7% stake in the company, and Monster became its exclusive energy drink partner. Prior to this agreement, Coca-Cola was a leading distributor for Monster in the US, but was one of many distributors for Monster outside the US. The new partnership gave Monster exclusive access to Coca-Cola's unmatched global distribution system, accelerating its pace of expansion outside of the US, and extending its benefits of scale. The global energy drink industry is effectively a duopoly, creating strong competitive advantages for Monster and Red Bull, which command a combined share of approximately 75% to 80% of the US market, and an estimated 50% of the \$50 billion global energy drink market.

For the quarter, Monster reported an 11.7% year-over-year increase in global net sales to \$1.9 billion. Sales in the US rose 6.7% year over year, accounting for 61% of total net sales. Having completed its transition to Coca-Cola bottlers in the US, Monster continues to benefit from growth in traditional distribution channels and is gaining access to non-traditional food service accounts and non-food retailers as well – including Home Depot. With strong progress on its distribution realignment with Coca-Cola, Monster has moved past the required operational focus and picked up the cadence of innovation, reflecting the innovative marketing culture that contributed to its historic success.

Monster's international business also continued to realize the partnership benefits of its access to Coca-Cola's global distribution infrastructure. Sales outside of the US grew 19% year over year and represented 39% of total net sales. We believe Monster's continued progress in its transition to Coca-Cola bottling partners was evident from market share gains across many key markets in Europe, Latin America, and Asia. Prior to our investment in the company in 2013 and Coca-Cola's investment in 2014, international sales represented approximately 20% of total sales. We believe they can grow to exceed 50% over the next decade.

Gross profit margins of 54.1% rose 1300 basis points year, benefiting from pricing increases, cost management, and lower freight costs. Operating margins of 25.5% rose 120 basis points due primarily to the expansion in gross margins that was partially offset by higher distribution expenses. While we expect operating margins will expand as the company reaches scale in international markets, we expect margin expansion to be muted in the near-term as the company continues to invest in large markets such as China and India.

During the quarter, co-CEO and co-founder Rodney Sachs announced plans to step down as CEO in 2025, but he will remain Chairman of the Board. Co-founder and co-CEO Hilton Schlosberg will become the sole CEO. Sachs has taken on a lesser role since the pandemic, with Schlosberg assuming much of the responsibility for international travel and bottler visits. We have discussed succession planning for both Schlosberg and Sachs who indicated that it was a high priority for the board and have identified potential successors that already have responsibility for key aspects of the business. In addition, the company more recently hired Rob Gehring as its Chief Growth Officer. Prior to joining the company, Gehring served since 2021 as CEO of Swire Coca Cola, one the largest distributors of Monster energy drinks in the US. Gehring brings a rich knowledge of innovation and



customer service in the consumer packaged goods industry, having led divisions for Walmart, Hershey, and the Coca Cola Company. We believe Rob will be added to the list of potential successors.

We believe energy drinks are here to stay and their continued penetration around the world is the primary long-term business driver for the company. We believe Monster's large presence in North America and its expansion into international markets leave it well positioned to benefit from this long-term secular growth driver. The transition to Coca-Cola's global distribution network has enabled Monster to enter new countries and access immediate distribution scale, which we believe will drive long-term market share gains. Monster remains in investment mode as it enters new countries such as China and India, investing in advance of product launches much as it did when it first entered Europe, Japan, and other markets. We believe the company's new product innovations will allow it to address larger demographics. We estimate Monster can grow in the mid-teens in international markets and at a mid-to-high single-digit rate in the US market over our long-term investment horizon. As the company continues to scale its business in international markets, we expect it will be able to increase cash flow growth, expand margins, and improve its return on invested capital. With its shares selling at a significant discount to our estimate of intrinsic value, we believe Monster offers a compelling reward-to-risk opportunity.

Outlook

- Our investment process is characterized by bottom-up, fundamental research and a long-term investment time horizon. The nature of the process has led to a lower-turnover portfolio in which sector positioning is the result of stock selection.
- At quarter end, we were overweight in the communication services, healthcare, financials, industrials, and consumer discretionary sectors. We were underweight in the information technology and consumer staples sectors. 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 since manager transition of the fund is approximately 8.9%. The overall portfolio discount to intrinsic value was approximately 44.8% as of June 30, 2024.



About Risk

Equity securities are volatile and can decline significantly in response to broad market and economic conditions. **Foreign and emerging market securities** may be subject to greater political, economic, environmental, credit, currency and information risks. Foreign securities may be subject to higher volatility than US securities due to varying degrees of regulation and limited liquidity. These risks are magnified in emerging markets. **Investments in small and mid-size companies** can be more volatile than those of larger companies. **Growth stocks** may be more sensitive to market conditions than other equities as their prices strongly reflect future expectations. **Currency** exchange rates between the US dollar and foreign currencies may cause the value of the fund's investments to decline.

Important Disclosure

Outlook as presented in this material reflects subjective judgments and assumptions of the portfolio team and does not necessarily reflect the views of Loomis, Sayles & Company, L.P. There is no assurance that developments will transpire as stated. Opinions expressed will evolve as future events unfold. These perspectives are as of the date indicated and may change based on market and other conditions. Actual results may vary. Please refer to the Fund prospectus for a comprehensive discussion of risks.

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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.

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Market conditions are extremely fluid and change frequently.

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

Commodity, interest and derivative trading involves substantial risk of 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 Fund will generate positive or excess return.

Past performance is no guarantee of future results.

The Morningstar Medalist Rating™ is not a credit or risk rating. It is a subjective evaluation performed by the mutual fund analysts of Morningstar, Inc. Morningstar evaluates funds based on five key pillars, which are process, performance, people, parent, and price. Morningstar's analysts use this five pillar evaluation to identify funds they believe are more likely to outperform over the long term on a risk-adjusted basis. Analysts consider quantitative and qualitative factors in their research, but the assessment and weighting of each of the five pillars is driven by the analyst's overall assessment and overseen by Morningstar's Analyst Rating Committee. A fund with "Gold" rating distinguishes itself across the five pillars and has garnered the analysts' highest level of conviction.

For more detailed information about the Morningstar Medalist Rating™, including its methodology, please go to global.morningstar.com/managerdisclosures.

Before investing, consider the fund's investment objectives, risks, charges, and expenses. Please visit www.loomissayles.com or call 800-225-5478 for a prospectus and a summary prospectus, containing this and other information. Read it carefully.

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