



# International Growth Fund

## Fund Facts

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

Strategy AUM <sup>1</sup>	\$41.9 million
Fund AUM	\$37.7 million
Share Class	Y
Inception	12/15/2020
Ticker	LIGYX
Benchmark	MSCI ACWI ex USA Index (Net)
CUSIP	543488563
Portfolio Manager	Aziz Hamzaogullari
Manager Since	Inception

<sup>1</sup>Strategy assets are comprised of Loomis Sayles International Growth style accounts.

## Portfolio Review

- The fund posted positive returns of 0.32% vs. 0.96% for the MSCI ACWI Ex USA Index (Net), underperforming the benchmark by 0.64% during the quarter. Arm Holdings Plc, Novo Nordisk, and Tencent Holdings Limited were the three largest contributors to performance during the quarter. Adyen N.V., Block, and Vipshop Holdings Limited were the three lowest contributors to performance.
- Stock selection in the consumer discretionary, information technology, healthcare, communication services, and industrials sectors, as well as our allocations to the information technology, healthcare, and industrials sectors, contributed positively to relative performance. Stock selection in the financials and consumer staples sectors, as well as our allocations to the consumer discretionary, financials, and consumer staples 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	SINCE INCEPTION
<b>FUND</b>	0.32	5.22	8.22	-1.41	-	0.63
<b>BENCHMARK</b>	0.96	5.69	11.62	0.46	-	3.59
<b>EXCESS RETURN</b>	-0.64	-0.47	-3.40	-1.87	-	-2.96

*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](http://www.loomissayles.com).*

*Additional share classes may be available for eligible investors. Performance will vary based on the share class. Performance for periods less than one year is cumulative, not annualized. Returns reflect changes in share price and reinvestment of dividends and capital gains, if any. You may not invest directly in an index.*

*Gross expense ratio 1.62% (Class Y). Net expense ratio 0.95%. As of the most recent prospectus, the investment advisor has contractually agreed to waive fees and/or reimburse expenses once the expense cap of the fund has been exceeded. This arrangement is set to expire on 4/30/2025. When an expense cap has not been exceeded, the fund may have similar expense ratios.*

*Institutional Class shares (Class Y) are available to institutional investors only; minimum initial investment of \$100,000.*

## Top Ten Holdings (%)

Novo Nordisk A/S	9.1
MercadoLibre, Inc.	6.6
Arm Holdings plc	5.8
WiseTech Global Limited	5.4
Tesla, Inc.	5.1
Adyen N.V.	4.9
Tencent Holdings Limited	4.4
Trip.com Group Limited	4.3
SAP SE	4.3
NXP Semiconductors N.V.	3.7
<b>Total</b>	<b>53.5</b>

*MSCI ACWI ex USA Index (Net) is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed (excluding the USA) and emerging markets. The index is shown with minimum dividend reinvested after deduction of withholding tax.*



## 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 Shopify and Tesla as near-term price weaknesses created attractive reward-to-risk opportunities.

## Contributors

Arm Holdings Plc, Novo Nordisk, and Tencent Holdings Limited were the three largest contributors to fund 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 record quarterly revenues that were better than expected and driven by strong licensing and royalty growth. While the company is seeing weaker-than-expected unit growth from customers, it 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 seeing strong traction for its next-generation Armv9 architecture in the mobile market it has long dominated. Further, the company is seeing strong demand and taking market share in both cloud server compute, from legacy x86 players like Intel and AMD, as well as in automotive end markets. As a result, Armv9 royalty revenue, which carries a royalty rate twice as high as Armv8, grew to 20% of royalty revenue from 15% and 10% in the prior two quarters, respectively. 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 represented approximately 55% of the company's revenue when last disclosed in its 2023 fiscal year. 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 mid-teens. 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 significant discount to our intrinsic value and represents an attractive reward-to-risk opportunity.



- **Novo Nordisk** is a global healthcare company with over 100 years of innovation and leadership in protein science and diabetes care. Over this time, we believe Novo's focus on the biology and causes of diabetes has led to unparalleled endocrine and metabolic disorder expertise, experience, and competitive advantage. The company's understanding of the biology of diabetes has not only sustained Novo as a global leader in the market for decades, but also provided the foundation for Novo to be the leading innovator and first mover in using GLP-1s to treat obesity. Today, with over 90% of Novo sales coming from diabetes and obesity, Novo also captures over one third of global diabetes value share and over 85% value share of the global obesity market. In its rare disease business segment, which represents approximately 10% of annual revenues, Novo Nordisk has leading positions within hemophilia care, growth hormone therapy, and hormone replacement therapy. Headquartered in Denmark, Novo Nordisk employs over 60,000 people globally and markets its products in 170 countries. We believe this expertise, commercial scale, and manufacturing footprint, combined with its relentless commitment to ongoing innovation, provides the foundation for continued growth.

A fund holding since inception, Novo reported quarterly financial results that were modestly ahead of consensus expectations, benefiting from continued demand for the company's industry-leading GLP-1 products. The company also increased its full-year guidance range for both revenue and operating profits by 1%. Novo continues to invest in manufacturing infrastructure that can be leveraged not only for GLP-1s, but which also has the flexibility to produce all of Novo's peptide-based therapies.

GLP-1 therapies are a quickly growing class of medications that were first indicated for type 2 diabetes and are now indicated for the broad obesity market and being further tested in a range of comorbidities, including heart failure, sleep apnea, MASH/NASH (metabolic dysfunction-associated steatohepatitis aka nonalcoholic steatohepatitis), and kidney disease. Wegovy, the brand name for Novo's semaglutide molecule in obesity indications, is the first GLP-1 approved for obesity and is seeing rapid growth as patient demand from the more than 100 million obese patients in the US and over 1 billion obese people worldwide learn of the substantial weight loss benefits the treatment can provide. Ozempic, the brand name for Novo's GLP-1 semaglutide molecule in the type 2 diabetes setting, is the latest generation non-insulin, once weekly, anti-diabetic treatment that can postpone the need for insulin for two-to-four years. Novo continues to transition patients to Ozempic from its prior generation, lower-efficacy and once-daily Victoza, which should further insulate the company from pending biosimilar competition for this earlier class. The GLP-1 market continues to innovate and grow rapidly, and Novo is at the forefront. While rival therapy Tirzepatide (brand name Mounjaro in Type 2 diabetes and Zepbound in obesity) from competitor Eli Lilly has posted very solid competitive data, we believe Novo will sustain its competitive position. In addition to innovation, Novo's results also reflect its success in converting patients to its next generation therapies, growing penetration of the GLP-1 market, and share gains against former market leader Trulicity. The company estimates that GLP-1 therapies continue to penetrate earlier into the treatment paradigm. With class-leading Ozempic now capturing over 40% of new-to-market patients in the US, Novo's next generation therapies now have over 50% of the new patient share, and we believe that Novo's leading profile and continued innovation will allow it to continue to improve upon its leading share of the total market.

While we expect Novo will maintain its strong market position, we believe both Eli Lilly and Novo will continue to innovate and compete in GLP-1s, driving increased penetration of the overall addressable market and sustaining double-digit market growth over our long-term investment horizon. We believe that Novo's product differentiation and first-mover advantage will drive continued penetration across a growing range of obesity and comorbidity patients, contributing to double-digit growth in revenues and free cash flows. Despite competitive pressures, we believe continued innovation in products still in development as well as ongoing operational execution will enable the company's continued long-term success. We believe the company's shares are currently selling at a discount to our



estimate of intrinsic value and offer an attractive reward-to-risk opportunity.

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

A holding since inception, Tencent reported quarterly financial results that were fundamentally strong and above consensus expectations for revenue, operating profit, and net income. After declining sharply in late-2023 on new draft regulations from China's gaming regulator that potentially target excessive usage and spending on games, shares rebounded in part on signs of a recovery in the company's gaming business. We continue to monitor the impact of any changes that may be adopted; however, our initial assessment is the proposed changes would not have a material impact on Tencent. Tencent has navigated through various gaming regulatory changes during the past decade by investing in high quality content and IP that fits within the regulatory framework and has established a clear leadership position in the market. Following a period during which a combination of ongoing regulation, weakness in Chinese consumer spending, and the resurgence of Covid impacted a number of the company's key businesses, the company has since returned to growth and demonstrated improving profitability. While the company is operating in a challenging near-term environment, we believe Tencent's leading digital enterprise and consumer platforms remain structurally well positioned for long term growth and benefit from strong and sustainable competitive advantages that stem from Tencent's network, distribution, brand and scale.

For the quarter, total revenue of renminbi (RMB) 160 billion rose 6% year over year. Tencent reports in four segments; value added services (VAS) (45% of quarterly revenue), fintech and business services (35% of revenue), online advertising (19% of quarterly revenue), and other revenue (1% of quarterly revenue). VAS includes the company's gaming and social networking businesses, which accounted for approximately 60% and 40% of VAS revenues, respectively. VAS total revenues of RMB 79 billion declined 1% year over year, with a low-single-digit decline in domestic gaming and social networks offsetting 3% growth in international gaming. However, gross receipts in China domestic gaming increased 3%, with the increase in deferred revenue suggesting the beginning of a recovery in that business. In the past few years, the Chinese government enacted regulations that limit the amount of time spent by minors on gaming. Tencent had already proactively introduced tools and restrictions intended to enable parents to monitor and manage minors' time and spending levels, which it estimated represented less than 1% of total time spent on domestic gaming and 1.5% of domestic game sales. Tencent has embraced the regulatory changes, and we don't believe any of the regulations materially impact the company's strong and sustainable competitive advantages. Social network revenue benefitted from growth in music and video subscriptions, Video Accounts live streaming, and mini games that was offset by weakness in revenue from music- and games-related live streaming services. The company now has 260 million fee-based subscribers to its video and music services, which increased 23% year over year. The company's Weixin/WeChat platform ended the quarter with 1.36 billion monthly active users, up 3% year over year.

Fintech and business services, which consists primarily of payments and cloud services, rose 7% year over year to RMB 52 billion. Growth benefited from a recent period of cloud restructuring as well as higher e-commerce tech services fees in the business services segment, while fintech revenue growth slowed due moderating consumption in offline commercial payments that was offset in part by higher wealth management revenue. Online advertising revenues of RMB 26.5 billion grew 26% year over year, benefitting from



increased engagement and AI-powered ad targeting. Strong advertising demand for video accounts and growth within Tencent's mobile ad network and the Weixin search business demonstrated strong recovery in the advertising business.

Adjusted operating profit of RMB 59 billion rose 30% year over year on margins that expanded 700 basis points to 37%, due primarily to an expansion in gross margins across all business segments, as well as lower general and administrative spending. Management has responded to the challenging operating environment by increasing its cost focus and rationalizing non-core businesses. In recent quarters, Tencent exited non-core businesses related to online education, e-commerce, and live-streaming gaming, rationalized underperforming businesses including loss-making digital content services and subscale social media products, substantially lowered selling and marketing expenditures on low-return investments, and reduced headcount by almost 5%. The company's actions have contributed to improved free cash flow of RMB 52 billion, which rose modestly year over year and represented 32% of revenue.

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

## Detractors

Adyen N.V., Block, and Vipshop Holdings Limited were the largest detractors to performance during the quarter.

- **Adyen** is a global merchant acquisition and payment solutions provider based in Amsterdam. Surinamese for "to start over again," the company was founded in 2006 by executives who previously founded Bibit, which was sold to Worldpay in 2004 and became the e-commerce platform for the world's largest merchant acquisition company. Adyen was created to serve as a next-generation, integrated provider of payment solutions to merchants, and today the company supports over 250 payment methods globally across online, mobile, and point-of-sale (POS) transactions for clients that include Facebook, Microsoft, Netflix, and Uber.

A holding since inception, Adyen provided a brief first quarter financial update that was in line with its most recent guidance but nonetheless below elevated consensus expectations. The company's results included 21% revenue growth and 46% volume growth that was well above recent levels as the company ramped up its relationships with large clients including Block's Cash App and other large merchants in North America. Shares may have responded negatively to a decline in the company's take rate to 15%, which declined 7% sequentially over the prior quarter. Adyen provides better pricing to merchants as their volumes increase, and the 46% increase in volumes compares with a 36% increase in the previous quarter. Adyen now has 19 platforms for which it has processed at least €1 billion over the past twelve months, reflecting the success and scale of the company's unified offering.

We believe Adyen is a high quality company with sustainable competitive advantages and secular growth opportunities that are not reflected in its current share price. We believe the secular shift to electronic-based payments from traditional paper-based systems represents the most significant growth driver for Adyen. While Adyen has been growing substantially faster than the leading global acquirers over the past few years, the company still captures only a small percentage of overall industry volumes. We believe a combination of industry-



and company-specific factors will help enable Adyen to continue to grow at more than twice the rate of growth in the overall payments industry over our long-term investment horizon. We also expect Adyen to benefit from the high incremental margins of its business, contributing to margin expansion and substantial cash flow growth over our forecast period. We believe Adyen's strong growth prospects are not currently reflected in its share price. As a result, we believe the company's shares are trading at a meaningful discount to our estimate of intrinsic value, offering an attractive reward-to-risk opportunity.

- **Block** is a financial services technology platform (“fintech”) that operates two distinct businesses focused on small merchants and consumers. Founded as Square in 2009, the company's legacy business served as a merchant acquisition company that facilitated point-of-sale (“POS”) acceptance of credit card payments by small, underserved “micro” merchants with an integrated, out-of-the-box solution that was quick to setup and achieved faster and higher merchant approval rates. Today that business, which maintains the Square brand, has grown upmarket and offers a full set of merchant acquisition software solutions directly integrated within the POS devices, including marketing, loyalty, payroll, omnichannel, and invoicing solutions. The company also offers a host of financial services, including debit products, business checking and savings accounts, and financing. Square currently accounts for just over 40% of Block's total net revenue. Block also offers consumer finance applications through its flagship Cash App platform and Afterpay. Cash App started as a peer-to-peer (P2P) payment platform and has since expanded into a digital wallet enabling individuals to store, send, receive, spend, and invest money. With the 2022 acquisition of Afterpay, a buy-now-pay-later (“BNPL”) financing platform, the company has also added a lower-cost consumer financing alternative to credit cards. The company's Cash App ecosystem currently accounts for almost 60% of net revenue. The company generates 90% of revenue from the United States.

A holding since the first quarter of 2022, Block reported quarterly financial results that were strong and above expectations for revenue and operating profits, leading the company to increase its full-year guidance for revenue growth and operating profits. One significant development in the last year is the company's successful focus on operational efficiencies. For example, Block reported operating margins (inclusive of stock-based compensation) of 17% in the first quarter vs. 3% a year ago. The company has capped total headcount at 12,000 employees until growth meaningfully reaccelerates, and has worked to identify efficiencies across corporate overhead functions – both of which contributed meaningfully to improved profitability. Block previously provided guidance for top line revenue growth of at least 15% and adjusted operating margins of 25% by 2026, both of which we believe are attainable. However, shares responded negatively to a report that Federal prosecutors are examining internal compliance practices at the company – in particular transactions involving sanctioned countries. The company reiterated that it is not aware of any new investigations and noted that it had previously identified and voluntarily reported suspect transactions to the Office of Foreign Assets Control, after which OFAC issued a no-action letter in which they determined no further investigation was needed at the time. While we believe the company will face continued scrutiny that may result in fines, the allegations do not impact our view of Block as a high-quality company with long-term secular growth drivers.

We believe Block's strong and sustainable competitive advantages include the positive network effects in its Cash App ecosystem, high switching costs for its merchant (“seller”) clients, which collectively contribute to a two-sided network opportunity, advantaged data insights, a flexible, modern technology platform, and its brand. In particular, we believe Cash App is cementing its lead among digital wallets and is the most serious contender among all fintechs to disrupt the \$1.5 trillion traditional banking industry. For the quarter, gross profit of \$2.1 billion rose 22% year over year and was ahead of consensus expectations for 18% growth. The Cash App segment contributed 60% of gross profit, and rose 25% year over year. The segment ended the quarter with 57 million monthly active users (MAUs), which grew by 8% over the prior-year quarter. Inflows of \$71 billion grew 17% year over year. Block continues to emphasize direct deposit as it positions Cash App as the



consumer's primary banking relationship. Direct deposit is a critical driver of growth; for example, users with a direct deposit relationship typically have inflows that are seven-times higher than a user that only uses the app for P2P transfers. With only 2 million direct depositors compared with 57 million MAUs, we believe this will be a critical driver of long-term growth. The company also continues to experience success with its Cash Card, with 42% of its MAUs using the card, up from 38% in the prior-year period, and representing \$100 billion in spending. The Square segment contributed 40% of gross profit, and rose 19% year over year. Total gross payment volume of \$50.5 billion rose 9% year over year in constant currency. Growth decelerated to 6% year over year in the US, but still exceeded the approximately 4% growth at Visa and Mastercard, suggesting the company continues to take market share, but at a slower pace than in the past. Founder Jack Dorsey stepped back in as CEO of Square in September 2023 to re-accelerate the growth of the Square business. One of his first steps was to simplify the organization with a focus on the engineering, product, and design functions in order to rekindle innovation. Dorsey is also working on transforming Square's distribution. The company historically relied on viral marketing and word-of-mouth to grow the business. However, as Square is now moving upmarket and targeting larger sellers, it is adapting its distribution strategy, especially because the competition for these larger sellers is more intense. The first step in this distribution reform was the establishment of an inbound sales team with industry vertical expertise such as food and beverage or beauty, and we expect the company to hire its first outbound salespersons in the second half of the year.

During the quarter, Block announced that it will invest 10% of the gross profits it generates from Bitcoin trading back into the cryptocurrency. Bitcoin trading represents only about 3% of the total company's gross profits, so it does not represent a significant increase in exposure. However, Jack Dorsey is a vocal proponent of Bitcoin, and Block invests around 3% of its operating expenses in initiatives intended to build alternative products based on the Bitcoin network. These initiatives will take time to mature and Bitcoin is not a driver of long-term value creation in our models.

Block's renewed focus on profitability was evident from adjusted operating margins of 17%, which compares with 3% in the year ago period and were well above consensus expectations. We believe Block's merchant and consumer businesses each have strong secular growth prospects. We believe the primary growth driver for Block is secular growth in the usage of digital wallets and next generation payment systems, which we believe will be accompanied by increased engagement and monetization. By achieving scale in both businesses, we expect Block will realize cross-business synergies that yield advantaged economics and further strengthens the company's competitive advantages. As a function of strong secular growth drivers and numerous competitive advantages, over our long-term investment horizon we believe Block can sustain total annualized revenue growth in the mid-teens. As the company substantially grows in scale, we believe it will benefit from operating leverage that will enable operating margins to expand from the low-teens range today to approach 30% over time. As a result, we expect operating profits and free cash flows to grow faster than revenues over our forecast period. We believe current market expectations are substantially underestimating the company's multiple long-term secular growth drivers and the strength of the company's business model and competitive positioning. As a result we believe the shares trade at a substantial discount to our estimate of intrinsic value and offer a compelling reward-to-risk opportunity.

- **Vipshop** is a specialty internet retailer focused on off-season, off-price apparel and fashion items which it sells via flash sales. Founded in 2008 with the vision of introducing high-quality, branded fashion merchandise to the China market at value prices, the company is by far the largest flash retailer in China, and the largest player in the off-season, off-price category. In 2023, the company generated almost \$16 billion in net revenues, and today the company is the 7th largest overall retailer in China. We believe that Vipshop creates a strong value proposition for both end customers and vendors alike, which in turn creates a strong network effect that has been difficult to replicate even by the largest e-commerce companies in China.



A holding in the fund since inception, Vipshop reported better-than-expected quarterly profitability, despite ongoing topline pressure. Muted revenue growth was impacted by a compressed spring selling season due to an extended winter, ongoing softness in China consumer spending, and an intensified promotional environment among competitors. These factors led the company to provide guidance for sales to decline between zero and five percentage points in the current quarter. Despite this, the company appears to have grown market share in its core apparel-related business relative to the clothing, footwear and accessories industry in China, which accounts for approximately two-thirds of its revenues, even while experiencing greater competitive pressure in its non-core, general merchandise categories.

For the quarter, net revenues of \$3.8 billion rose 0.4% over the prior-year quarter. The company's core apparel business performed well with double-digit growth in GMV that was well above flat estimated year-over-year GMV growth for the industry as a whole. Active customers declined 1% during the quarter to 43 million, but growth among Super VIP loyalty program customers, who were recently spending eight-times more on average, increased 11% and accounted for approximately 45% of online gross merchandise volume (GMV), which rose 8% to approximately \$7.2 billion. While the company has pulled back on customer acquisition expenditures amidst the promotional environment, the company is increasing its AI-related investments to enable brands to better engage with customers. As a result of its continuing focus on Super VIP customers and the aging of customer cohorts that historically increase spending over time, management expects and we believe both purchasing frequency and ARPU will improve over time.

Vipshop reported adjusted operating profit of \$382 million which rose 39% year over year. Operating margins of 103% improved 280 basis points from the prior-year quarter, due primarily to a pullback in marketing spending and lower general and administrative spending that was offset in part by fulfillment and technology costs growing as a percentage of total expenses. We believe that Vipshop is a high-quality and highly differentiated business. We believe the company's competitive position in its core off-price apparel and accessories business remains intact, and that Vipshop will continue to benefit from structural growth in China consumption and e-commerce where it has a strong and defensible position in the off-season, off-price niche in which it competes. We believe the current market price embeds expectations for free cash flow growth that are well below our long-term assumptions. With its shares trading at a significant discount to our estimate of intrinsic value, we believe Vipshop 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 consumer discretionary, healthcare, information technology, consumer staples, and communication services sectors. We were underweight in the financials and industrials sectors. We held no positions in the materials, energy, utilities, or real estate sectors.
- We remain committed to our long-term investment approach to invest in those few high-quality businesses with sustainable competitive advantages and profitable growth when they trade at a significant discount to intrinsic value. Though we have no stated portfolio turnover target, as a result of our long-term investment horizon, our estimated portfolio turnover since the inception of the fund is approximately 6.2%. The overall portfolio discount to intrinsic value was approximately 39.7% 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. **Growth stocks** may be more sensitive to market conditions than other equities as their prices strongly reflect future expectations. **Investments in small and mid-size companies** can be more volatile than those of larger companies. **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 depository receipts. Portfolio weight calculations include accrued interest. For current holdings, please visit [www.loomissayles.com](http://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.**

**Before investing, consider the fund's investment objectives, risks, charges, and expenses. Please visit [www.loomissayles.com](http://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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