

# 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 <sup>1</sup>	\$74.6 billion
Fund AUM	\$14.1 billion
Share Class	Y
Inception	5/16/1991
Ticker	LSGRX
Benchmark	Russell 1000® Growth
CUSIP	543487110
Portfolio Manager	Aziz Hamzaogullari
Manager Since	June 2010

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

## Top Ten Holdings (%)

NVIDIA Corporation	8.2
Meta Platforms, Inc.	7.9
Netflix, Inc.	6.6
Tesla, Inc.	6.2
Visa Inc.	6.0
Amazon.com, Inc.	5.9
Alphabet Inc.	5.5
Boeing Company	4.6
Oracle Corporation	4.3
Microsoft Corporation	4.2
<b>Total</b>	<b>59.4</b>

**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 negative returns of -9.34% vs. -9.97% for the Russell 1000® Growth Index, outperforming the benchmark by 0.63% net during the quarter. Visa, Vertex Pharmaceuticals, and Alibaba were the three largest contributors to performance during the quarter. Tesla, Nvidia, and Alphabet were the three lowest contributors to performance.
- Stock selection in the communication services and consumer staples sectors, as well as our allocations to the information technology, healthcare, financials, and industrials sectors, contributed positively to relative performance. Stock selection in the healthcare, consumer discretionary, financials, information technology, and industrials sectors, as well as our allocations to the consumer discretionary 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 March 31, 2025 (%)

	CUMULATIVE TOTAL RETURN		ANNUALIZED TOTAL RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
<b>FUND</b>	-9.34	-9.34	8.39	13.12	18.69	14.93
<b>BENCHMARK</b>	-9.97	-9.97	7.76	10.10	20.09	15.12
<b>EXCESS RETURN</b>	+0.63	+0.63	+0.63	+3.02	-1.40	-0.19

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**Performance data shown represents past performance and is no guarantee 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).**

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 0.66%. 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 1/31/2026. 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 Deere and Thermo Fisher as near-term price weaknesses created attractive reward-to-risk opportunities. We trimmed our positions in Alibaba, Netflix, Oracle, and Qualcomm to finance purchases and manage position size.

## Contributors

Visa, Vertex Pharmaceuticals, and Alibaba were the three largest contributors to fund performance.

- **Visa** is the largest payments technology company in the world, with a comprehensive offering of digital payment products, including credit cards, debit cards – which Visa invented – a range of value-added services, and transaction security services known as tokenization. Visa has one of the world's most recognized brands, which took decades and significant investment to build. Through its open-loop, multi-party network, Visa has built a massive global network, orchestrating transaction settlements between merchants, merchants' banks, card-issuer banks, and cardholders in more than 200 countries. Visa does not issue cards or extend credit. It provides processing capabilities, each day authorizing hundreds of millions of transactions by cardholders, the exchange of financial information, and the settlement of funds to merchants. Visa receives fees for these services from both the card issuers and merchants' banks. The company has extensive client relationships, partnering with almost 14,500 financial institutions. A growing global network with 4.7 billion Visa-branded payment credentials that are accepted by over 150 million merchants worldwide creates a powerful virtuous cycle, reinforcing what we believe are Visa's difficult-to-replicate competitive advantages.

A long-term fund holding, Visa reported quarterly financial results that were strong and above consensus expectations for revenues, earnings before interest and taxes (EBIT), and earnings per share (EPS). The company also raised its initial revenue and EPS guidance for 2025. We believe industry leader Visa remains well positioned to benefit from the long-term, global shift from cash and checks to digital payments. The company continues to manage and invest with a long-term focus to digitize the cash in consumer payments through technology, increased endpoint acceptance, and partnerships to capture new payment flows, and to drive growth in value-added services. Between Visa's card credentials and network-of-networks strategy, the company now reaches and enables global commerce and money movement through over 11 billion cards, bank accounts, and digital wallets, globally.

For the quarter, net operating revenues rose 10% in constant currency to \$8.9 billion. Total payment volumes increased 9% compared with the same quarter last year, with 10% growth in debit card transactions and 8% growth in credit volumes. Services revenue represented 32% of gross revenue and increased 7% year over year, driven by payment volumes and card benefits. Data processing revenue accounted for 36% of gross revenue and grew 9% year over year, driven by processed transactions. International transaction revenue accounted for approximately 26% of revenue and rose 14% versus the prior year quarter, driven by cross-border volumes (excluding intra-European transactions), which rose 16%. Value-added services, which are reflected in multiple reporting segments, grew 18% year over year.

Visa operates in a large addressable market and continues to benefit from a long-term secular shift from cash and checks to digital payments. We believe the primary addressable market in Visa's consumer payments business is the approximately \$54 trillion of global personal consumption expenditures (PCE) outside of China, where the company is not currently operating. Of this amount we estimate that card-based payments represent approximately 60% of the dollar volume and smaller portion of transaction volumes. While Visa captures an estimated almost 60% share of global electronic payments outside



of China, Visa's share represents only about 25% of global PCE, and we believe its growth opportunities remain very large. In addition to its consumer payments business, Visa has large growth opportunities stemming from its network solutions arising from new payment flows, as well as its ability to offer value-added services. We believe new payment flows represent an incremental \$200 trillion of payment volume that is largely outside of Visa's consumer business, and which we estimate represents just under a \$100 billion revenue opportunity, while value-added services represents a greater than \$500 billion revenue opportunity – both of which leverage Visa's network, intellectual property, and other competitive advantages and expand its addressable market.

Attractive operating margins of 69% declined 40 basis points versus the prior-year. The company continues to invest significantly in its long-term initiatives, including accelerating revenue growth through consumer payments, new flows, and value added services, while simultaneously investing in its brand, security, technology, and talent – all of which we view favorably. Free cash flow of \$5 billion rose 51% year over year and reflected a strong conversion rate of 53% of revenues. Management continues to be active in returning capital to shareholders, repurchasing about \$3.9 billion in outstanding shares and paying over \$1.1 billion in dividends during the quarter. The balance sheet is solid, with \$16 billion in cash and investments and total long-term debt to equity of approximately 43%. Visa ended the quarter with 4.7 billion payment credentials globally, up 7% year over year.

We expect Visa to generate low-double-digit revenue growth and faster growth in free cash flow over our investment time horizon as the company continues to benefit from the secular growth in digital payments. We believe the assumptions embedded in Visa's share price underestimate the company's significant long-term growth opportunities and the sustainability of its business model. As a result, we believe the company's shares currently sell at a significant discount to our estimate of intrinsic value and offer a compelling reward-to-risk opportunity.

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

A fund holding since June 2021, Vertex reported quarterly results that were generally in line with consensus expectation and reflected continued penetration of its core CF market, progress in expanding access to recently launched Casgevy for sickle cell disease, and clinical progress in a number of pipeline therapies. The company also provided details on the launch of two other recently approved therapies, Alyftrek for CF and Journavx for acute pain. In particular, shares responded positively to the January announcement that Journavx was approved as the first and only non-opioid oral pain inhibitor for adults with moderate-to-severe acute pain, and the first new class of pain medicine approved in more than 20 years. With the company's pain program being the most advanced in its clinical pipeline, we believe near-term market expectations were placing a heavy emphasis on these programs, and shares had previously responded negatively to phase 2 trial results in December for suzetrigine (the same molecule behind Journavx) in the treatment of painful lumbosacral radiculopathy (LSR), a chronic back nerve pain. With our long-term investment thesis still intact, we took advantage of this recent share price weakness to add to our position in the prior quarter. While the study met its primary endpoint and showed a statistically significant reduction in pain, a placebo had a similar outcome which cast some uncertainty over the results. As there are no currently approved pain medications for LSR, and measuring pain is inherently subjective, there is no preexisting template for trial designs in LSR and Vertex is pioneering this particular approach. In addition to the statistically significant positive outcome, the therapy had already demonstrated successful results in acute pain, and a further phase 3 trial is underway in neuropathic pain – suggesting there is additional evidence the therapy is effective in combating pain. We believe the less-than-compelling results in LSR reflected more on Vertex's pioneering innovation in the pain therapies and the difficulty of designing a trial for a novel and challenging target than the efficacy of the therapy itself. While there is risk that the novelty and difficulty of this particular trial design will make it difficult for Vertex to unequivocally demonstrate clinical benefit, we believe the therapy works and the success or failure of this particular trial does



not have implications for either the other pain trials or the company's other therapies. The company is proceeding with phase 3 trials in LSR that will have much larger patient populations and provide the opportunity for the company to further isolate the placebo effect. With the approval of Journavx and the ability to establish the drug broadly in the market, we believe the company is laying the foundation to penetrate a much larger opportunity if they are ultimately successful in chronic pain indications.

For the quarter, revenues of \$2.9 billion rose 16% year over year, driven by the continued penetration of Trikafta, until recently its latest and most efficacious CF therapy. The company continues to penetrate the global market, both through new patients that did not previously have a therapy available and patients switching from older generations of therapies to the new standard of care. In late December, the company received FDA approval for Alyftrek, the next generation of Trikafta. The therapy requires once-a-day dosing versus twice daily for Trikafta, offers improved cell function, and may be better tolerated by the approximately 20% of patients who experienced uncomfortable side effects with earlier generation therapies. By continuing to innovate, the company not only extends patent protection beyond 2040 (versus mid-to-late 2030s for Trikafta), but also again raises the bar for new entrants by producing a clinically superior drug with real benefit to all stakeholders. Adjusted operating margins of 41% were down 500 basis points year over year, reflecting the buildout of pivotal studies in a number of clinical therapies, as well as investment in recent and upcoming commercial launches.

When we initiated our position in Vertex, the company's then-approved therapies all addressed CF. Given the company's deep understanding of biology, its focus on specialty markets where its core expertise is determinative of success, and its well-defined strategy of iterating through multiple parallel approaches to treat a single target, we believed the company was likely to increase its penetration of the CF market, drive further innovation in their already leading suite of CF therapies, and develop potentially transformative therapies outside of CF as well. Since then, through its partnership with CRISPR, the company received FDA approval in December 2023 for Casgevy, a therapy for sickle cell disease and the first approved therapy using CRISPR-Cas9 gene editing technology, which was further approved for the treatment of beta thalassemia, another blood disorder, in January 2024. The company has also continued to advance pipeline therapies for CF, non-opioid pain medication, kidney disease, and type-1 diabetes, among other initiatives. Our forecast at the time of purchase included a probabilistic estimate of contributions from the company's pipeline – which continues to contribute positively to our estimate of intrinsic value as its pipeline therapies move closer to commercialization.

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

- **Alibaba Group** is a leading China e-commerce and consumer-engagement platform provider, operating several businesses across commerce, technology, advertising, digital media and entertainment, logistics, payments, and local services. With over 40% of



China's e-commerce transactions estimated to take place through its Taobao and Tmall marketplaces, we believe Alibaba's scale and brand would be difficult-to-replicate.

A fund holding since its initial public offering in the third quarter of 2014, Alibaba reported quarterly financial results that were fundamentally solid and better than consensus expectations for revenue, operating income, and earnings per share. For the quarter, revenue growth of 8% year over year was driven by improved growth in both its commerce customer management revenue at Taobao and Tmall and its cloud business, as well as continued strong growth within the company's international commerce retail business. Taobao and Tmall represented 49% of total revenue and grew 5% year over year, with customer management revenue growth accelerating to 9%, benefitting from gross merchandise volume (GMV) growth and an improved take rate. The company's cloud business represented 11% of revenue and accelerated to 13% revenue growth – and the company highlighted triple-digit growth in AI-related revenue for the 6th consecutive quarter. The company's international commerce business represented 13% of revenues and grew 32% year over year, benefitting from strong growth of its cross border business. Cainiao Smart Logistics Network represented 10% of revenue and declined by 1% year over year due in part to restructuring within the business. Alibaba's local services group represented 6% of revenue and grew 12% year over year, benefitting from order growth of Amap and Ele.me and revenue from marketing services. In its digital media and entertainment group (2% of revenue), Alibaba grew its revenue by 8%, benefitting from an increase in Youku's advertising revenue. In Alibaba's "all others" segment, which represented 19% of revenue, sales increased by 13% year over year, driven by growth in its retail businesses including Freshippo and Alibaba Health.

In recent quarters the company has emphasized its focus on pursuing healthy, high-quality revenue growth and optimizing its cost structure to improve and sustain strong operating profit and cash flow. During the quarter, adjusted operating margins declined by 100 basis points year over year to 22% as margin improvement in the company's cloud business was offset by ongoing investments in the company's Taobao, Tmall and international consumer businesses. The company continued to return capital to shareholders and repurchased \$1.3 billion of shares during the quarter.

In March 2023, Alibaba announced its intention to reorganize the company into six independent business units, each of which would have its own CEO and Board of Directors and could seek to raise outside capital and potentially pursue its own initial public offering (IPO). While a number of the planned spin-offs have been delayed while it awaits stronger market conditions, the company continues to work to improve the synergies among all of its businesses. As currently constructed, Alibaba meets each of our quality, growth, and valuation criteria and trades at a discount to our estimate of intrinsic value. We will continue to evaluate whether the current business and any potential spin-offs meet each of our quality, growth, and valuation criteria as more details become available. In the interim, we expect the company to continue to benefit from improving growth and margin expansion as China consumption growth and cloud spending eventually improves. We trimmed our position size during the quarter.

## Detractors

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

- 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 approximately 90% of its sales from its automotive segment and 10% from its energy generation and storage segment in its 2024 fiscal year. From a geographic standpoint, the US and China are the company's two largest markets and accounted for approximately 49%



and 21% of 2024 sales, respectively, while the rest of the world collectively accounts for approximately 30%.

A fund holding since the first quarter of 2022, Tesla shares declined during the quarter, after appreciating 60% in the fourth quarter following the US election results in which CEO Elon Musk publicly supported President Trump. We believe the election results, which have no impact on our long-term structural investment thesis for the company, brought renewed focus on full-self driving (FSD) and other software opportunities for Tesla. Tesla's monetization of its growing installed base of vehicles through software sales, primarily FSD, has always been a key aspect of our investment thesis. More recently, Musk's greater involvement in US and global politics is thought to have brought negative attention to the brand, which is believed to be one of the primary drivers for current share price weakness. While we believe this could be impacting some sales, we believe the greater impact to current sales is customers awaiting the full availability of the new model Y, which is Tesla's most popular vehicle. Despite this near-term uncertainty, 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, including new models anticipated in 2025. 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.

In its most-recent financial results, Tesla reported record quarterly deliveries in the fourth quarter, but had its first fiscal year in which deliveries declined year over year. 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 the company's Model Y becoming the highest selling vehicle on a global basis in both 2023 and 2024. The company was also able to lower its cost of goods sold (COGS) per car to an all-time low. We believe ongoing near-term industry weakness does not reflect on Tesla's long-term prospects, nor does it change our expectation for long-term secular growth in EV penetration and software sales around the world, irrespective of the level of interest rates.

Quarterly revenue of \$25.7 billion rose 2% 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 few years. The company also reiterated that it would be launching new passenger-driven vehicles and more affordable models starting in the first half of 2025 to further drive adoption of EVs. We estimate Tesla's existing models currently address a potential market of approximately 20 million cars sold annually. We believe a lower-priced car could increase the company's addressable market to 50 million units. 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 six months, the company captured more data than in the prior 2.5 years combined, and the company is ramping up customer education by demonstrating the technology at every new vehicle pick up, which it will extend to every service appointment as well.

Despite further lowering COGS per car, operating margins of 6.2% declined by 200 basis points during the period, due primarily to lower average selling prices as the company provided heavy incentives to clear inventory in advance of the launch of a new Model Y in 2025. However, the Cybertruck posted positive gross margins less than one year after its launch, while competitors such as Rivian still generate gross losses. We believe



this underscores the company's cost leadership, scale advantages, and the maturity of its manufacturing operations. We believe these recent margin impacts are temporary and that over the long term, Tesla can generate operating margins in the mid-20% range, supported in part by 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 third 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 the global leader in battery EV sales, with high-teens 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 enable the company to maintain a leading global market position.

In 2024, we believe the company made great progress towards its vision of an autonomous driving future. Tesla replaced the current FSD offering with FSD (Supervised), which allows the company to offer full-self-driving functionality but requiring consumers to remain alert. In addition, the company debuted FSD version 13 that was used to power the cybercab and the unmanned Model 3 and Model Y as the company announced its robotaxi strategy. FSD 13, which represents the first version of FSD software based solely on AI training on the company's super computers, delivers a step change improvement in autonomous driving capabilities and has been rolled out to existing subscribers. We believe most consumers will ultimately adopt FSD functionality over the long term. 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.

- **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 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 88% 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.

A fund holding since the first quarter of 2019, Nvidia reported quarterly financial results



that were exceptional and reflected the company's dominance in capturing spending on AI computing within data centers. The strong results, which included data center revenues that grew 93% year over year and 16% versus the prior quarter, were notable due to recent concerns that spending might slow given cheaper options to develop AI functionality. In January, shares reacted negatively to news that DeepSeek, a Chinese company, had launched a chatbot, DeepSeek-V3, that appears to rival OpenAI's ChatGPT from the standpoint of industry performance metrics, but which it claims was created for a fraction of the cost using Nvidia's H800 chips. The H800 is a chip that was modified to comply with US regulations prohibiting the sale of Nvidia's most advanced chips to China on the grounds of national security concerns. If DeepSeek's claims are valid, market participants reasoned that it could reduce the need for Nvidia's most-advanced chips to create cutting-edge AI functionality and potentially reduce the tens of billions of dollars companies are currently budgeting for AI investing. While the concerns are reasonable, we believe there are mitigating considerations that could dispel the concern that extensive investment to reach AGI (Artificial General Intelligence) and beyond is no longer needed. First, there are legitimate questions as to the true cost involved in creating DeepSeek-V3. Because Nvidia's most advanced chips are restricted in China, DeepSeek would unlikely disclose if they had used them, and there are numerous reports of Chinese entities bypassing the restrictions. However, there is no independent way to confirm this. More likely, we believe, is that DeepSeek used existing large language models developed by other companies such as OpenAI and Meta to train DeepSeek-V3. This view appears to be supported by independent 3rd party testing. The techniques used by DeepSeek are already known and used across the AI industry. And while DeepSeek may have added to the tools available to others, we don't see this development as materially changing the level of investment needed to develop the next generation of frontier models as companies strive for AGI and beyond. We believe this view is supported by the unchanged plans for AI investment by the industry's leading spenders. Following the news, some of the world's largest investors in AI technology, including Meta, Microsoft, and Alphabet, reaffirmed and expanded on their intention to spend tens of billions of dollars in 2025. We believe this supports our thesis that Nvidia's accelerated computing technology remains crucial to achieving AGI and other AI advances. We will continue to assess the impact of this development on Nvidia and other portfolio holdings, but there is currently no change to our structural investment thesis for any of these companies, and the company's most recent earnings report remains supportive of this view.

Record data center revenues of \$35.6 billion rose 93% year over year and represented 91% of quarterly revenues. The company dominated data center spending on AI computing, with quarterly data center revenue that was again approximately four-times that of competitors Intel and AMD, combined. Enterprise and consumer internet companies represented approximately 50% of data center revenue in the quarter, while 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 represented the balance. We anticipate there could be a pause following the initial buildout period as hyperscalers digest their substantial new purchases of GPUs, or as they await the full availability of the new Blackwell architecture, which offers a 2.5x performance improvement over the prior Hopper generation, driving lower cost of ownership. However, the companies have already announced increased capex plans with a greater share going to AI architecture that should continue to benefit Nvidia in its 2026 fiscal year and beyond. Further, having eased supply constraints, Blackwell accounted for \$11 billion of revenue in the quarter, which represents the fastest product launch in the company's history.

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 to mid-teens percentage today.

Gaming revenues of \$2.5 billion declined 11% year over year after posting six consecutive quarters of growth. Given supply constraints in its data center business, the company focused its resources on alleviating constraints in that segment, which have since been





addressed. 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 of approximately 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, consumers get their best and most relevant search results and advertisers get the best returns on their advertising dollars. Such a robust ecosystem attracts increasing numbers of participants and thereby creates a virtuous cycle for a sustainable business model and long-term growth. In its emerging cloud business, we estimate that Google captures less than 10% market share of the global market for public cloud services. We believe Google remains one of the few global companies that has the scale, research and development (R&D), and technical talent to effectively compete in this market over the long term. Non-Google businesses comprise less than 1% of Alphabet revenues and are held in the company's Other Bets segment.

A long-term fund holding, Alphabet reported quarterly financial results that were fundamentally strong and above consensus expectations for operating income, operating margin, and earnings per share. Despite a fundamentally strong quarter, shares were likely weaker as a result of cloud revenue, which was below consensus expectations and decelerated to 30% year over year growth from 35% in the prior quarter, as well as guidance for increased capital expenditures. The company expects to spend \$75 billion on capex in 2025, which was over 25% higher than expected. During the quarter, the company also announced it had agreed to acquire Wiz, a leading cloud security platform, for \$32 billion – which would be its largest acquisition to date. We believe Wiz will complement Alphabet's current security solutions and enable the company to offer a unified security platform which would enable the company to secure cloud native applications starting at the development stage through application run time and providing threat intelligence, AI threat protection, cyber team support and measurable defense. The founders of Wiz previously founded and sold another cloud security business to Microsoft, before founding Wiz in 2020 and growing the company to an estimated \$500 million in annualized recurring revenue in 2024, which Wiz management previously suggested could double in 2025. We believe the proposed all-cash acquisition highlights the strength of Alphabet's balance sheet and financial resources, and will continue to monitor the approval process and assess potential incremental benefits to the company's cloud business.

For the quarter, total revenue of \$96 billion represented a 12% increase year over year in constant currency. Reported earnings per share rose 31% and were above expectations. Alphabet reports results in three segments: Google Services, Google Cloud, and Other Bets. Google Services reported quarterly revenue of \$84 billion, which increased 10% year over year and represented approximately 87% of total revenue. Advertising revenue accounted for 86% of Google Services revenue and increased by 11% compared with the year-ago quarter. Advertising revenue was driven by the search business, which grew 13% year over year. Outside of search, the company reported 14% growth in YouTube, which benefited



from improvement in brand advertising and direct response ads, while the network advertising businesses continued to show weakness, declining 4% year over year. Non-advertising revenue, which includes Google Play, hardware, and YouTube non-advertising revenues such as subscriptions, represented 14% of Google Services revenues and increased 8% 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 \$12 billion on growth that decelerated 500 basis points to 30% 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 \$2.1 billion on EBIT (earnings before interest and taxes) margins of approximately 17.5%, which improved from 9% in the prior-year quarter. Alphabet's Other Bets segment reported revenue of \$400 million that declined 39% 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.

Alphabet continues to have a high-quality financial profile and strong financial position. Overall operating income rose 31% to \$31 billion, benefiting from lower cost of goods sold and operating leverage, and the company reported solid adjusted operating margins of 32% that expanded 465 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. In the quarter, Alphabet generated free cash flow of \$25 billion that rose 215% year over year and represented 26% of gross revenue. Free cash flow was impacted by elevated capital expenditures, which rose 30% year over year to \$14.3 billion, and are expected to grow a further 50% in 2025, reflecting the substantial opportunities the company has identified to leverage AI functionality across all of its businesses.

We believe market expectations underestimate Alphabet's long-term sustainable growth rate. As a result, we believe the company is selling at a significant discount to our estimate of intrinsic value and offers a compelling reward-to-risk opportunity.

## 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, consumer discretionary, and industrials sectors. We were underweight in the information technology and consumer staples sectors. We held no positions in the materials, real estate, 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 8.6%. The overall portfolio discount to intrinsic value was approximately 52.0% as of March 31, 2025.



## 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.*

*This marketing communication is provided for informational purposes only and should not be construed as investment advice. Investment decisions should consider the individual circumstances of the particular investor. Investment recommendations may be inconsistent with these opinions. Information, including that obtained from outside sources, is believed to be correct, but we cannot guarantee its accuracy. This information is subject to change at any time without notice.*

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

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

**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](http://global.morningstar.com/managerdisclosures).*

**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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