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Loomis Sayles Growth Y LSGRX

A strategy with competitive advantages of its own.

Morningstar's Take LSGRX

Morningstar Rating	★★★★
Morningstar Analyst Rating	Gold

Morningstar Pillars

Process	High
Performance	—
People	Above Average
Parent	Above Average
Price	—

Role In Portfolio

Core

Fund Performance

Year	Total Return (%)	+/- Category
YTD	-27.64	2.27
2021	18.65	-1.80
2020	31.77	-4.09
2019	31.72	-0.18
2018	-2.48	-0.39

Data through 12-31-22

1-09-23 | by Tony Thomas

Loomis Sayles Growth's reliable team and appealing process earn the U.S. mutual fund's Y and N share classes a Morningstar Analyst Rating of Gold; others get Silver or Bronze ratings, depending on fees. The fund is closed to most new investors.

Competent hands guide the strategy. Manager Aziz Hamzaogullari launched it in 2006 at Evergreen Investments, moving to Loomis Sayles in 2010. He also selected and trained each of his seven analysts, and it was time well spent: No analysts have left during his Loomis Sayles tenure. While Hamzaogullari's influence is significant, he's only in his early 50s and likely to be here quite a while.

Hamzaogullari has crafted and faithfully followed a worthy approach. He and his team seek large-cap companies (mostly in the United States, but with a decent dose of non-U.S. ones as well) with strong competitive positions. Stocks of such companies can get pricey, so Hamzaogullari exercises restraint with his purchases—and even looks a little contrarian at times. His few trades in 2022 included purchases of Tesla TSLA and Shopify SHOP—two former highfliers that had retreated. And industry-leading companies dominate this portfolio: All holdings in late 2022 had wide or narrow Morningstar Economic Moat Ratings, making it a relative rarity in the large-growth Morningstar Category.

A lackluster stretch from 2018 through 2021 wasn't surprising given this strategy's traits—and a closer look at 2022's ugly numbers shows how the strategy can work well. Hamzaogullari's insistence on attractive valuations kept him away from Apple AAPL (a major index constituent and contributor to its performance); that, plus his preference for proven moats, kept him out of more-speculative names like Tesla that wowed the market at times during the fund's four-year slog. And while the fund's Y share class suffered a 27.6% decline in 2022, that was 4 percentage points better than the index. A high-conviction stake in Vertex Pharmaceuticals VRTX buoyed the strategy, as the company's suite of cystic fibrosis drugs—a strong competitive advantage—gained traction.

In all, this remains a solid large-growth equity option.

Process Pillar High | Tony Thomas 01/09/2023

This strategy's attractive and well-executed approach earns a High Process rating.

Manager Aziz Hamzaogullari has geared this strategy for long-term investing. His team's "alpha thesis" (or the view of what gives it an edge) is sound in principle. The team believes that patient, high-conviction, valuation-sensitive investing in companies with clear and persistent competitive advantages is key to success. Here, the focus is on stocks in the Russell 1000 Growth Index and a decent helping of large- and mid-cap non-U.S. companies.

The team then walks the walk. It uses an extensive seven-step process to identify effective business models that can produce durable free cash flow growth. Analysts dig into company and industry growth drivers and expect them to persist for five years or longer. They also try to discern whether a stock's recent price reflects changes in market sentiment or fundamentals, looking for disconnects between the two that create opportunities. They're willing to spend months on their research. Ultimately, Hamzaogullari constructs a relatively concentrated 30- to 40-stock portfolio that he trades with restraint. Companies with wide or narrow moat ratings (measures of competitive advantage) usually dominate the list. While he has few formal diversification requirements, Hamzaogullari typically distributes holdings across a healthy variety of sectors and industries.

True to its guiding lights, the portfolio regularly consists of competitively advantaged companies. In November 2022, for example, all holdings had either wide or narrow moat ratings. Often, wide-moat firms hold at least 75% of assets, though by late 2022 that had dropped to 66%. Some of that owed to the strategy's five new purchases in early 2022: Tesla TSLA, Shopify SHOP, PayPal PYPL, Block SQ, and Netflix NFLX. Each had a narrow moat per Morningstar's equity analysts. Those stocks held 11% of the strategy's assets in November.

Despite owning only 35 stocks in November, the strategy was broadly diversified. Manager Aziz Hamzaogullari tries to spread out among "business drivers" such as e-commerce, growth in emerging markets, and outsourcing. That gave the portfolio stakes in 19 different industries in late 2022, with the largest being internet content and information and software infrastructure (at just shy of 11% of

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assets each). By contrast, the Russell 1000 Growth Index's largest industry exposure was to software infrastructure at about 13.5%.

While this is mostly a U.S.-focused portfolio, overseas companies may appear here. They took up nearly 20% of assets back in 2015 but only half that by late 2022. That included Swiss drug giants Roche and Novartis and two Chinese consumer plays: Alibaba BABA and Yum China YUMC.

Performance Pillar | Tony Thomas 01/09/2023
This strategy has a decent long-term record, though recent relative weakness has hurt it against the Russell 1000 Growth Index. From manager Aziz Hamzaogullari's May 2010 start through December 2022, the U.S. mutual fund's Y share class' 13.5% annualized gain bested the typical large-growth category peer's 11.6% but trailed the index's 14.2%.

After faring relatively well in 2020's pandemic-roiled first quarter, the strategy struggled in the ensuing rebound. But Hamzaogullari acted consistently throughout. The strategy had owned Chinese e-commerce giant Alibaba BABA (which isn't in the index) since 2014 and mostly stuck with it even as regulatory and economic pressures began to weigh on the stock. (Hamzaogullari cut the position in half in late 2021, however.) He also missed Tesla's TSLA rally during the period because he wasn't yet comfortable with its scale and profitability. (The strategy added Tesla in early 2022.) Not owning Apple AAPL—a major benchmark constituent—also hurt. As a result, the mutual fund trailed 95% of its peers from the March 23, 2020, market bottom through December 2021.

But the strategy's focus on competitively advantaged companies helped a bit in 2022. Stakes in farm equipment leader Deere DE and biotech firm Vertex Pharmaceuticals VRTX, which has a promising suite of cystic fibrosis drugs, helped the fund hold up better than nearly 70% of peers in a tough market for growth stocks.

People Pillar ● Above Average | Tony Thomas 01/09/2023
A veteran manager who has built a suitable, stable analyst team earns an Above Average People rating.

Manager Aziz Hamzaogullari is the key player here. He established this U.S. large-growth equity strategy in 2006 at Evergreen Investments and brought it—along with three analysts—to Loomis Sayles in 2010. He has since expanded his team to seven analysts, each of which he has rigorously and patiently trained. It's a loyal group: No analyst has left while Hamzaogullari has been at Loomis Sayles.

Although the unit supports all-cap, global, and international strategies as well as this one, workloads are manageable. The portfolios' holdings are concentrated and overlapping—the team held only 71 distinct stocks in September 2022. This U.S.-focused version is the flagship, with $47 billion of the team's $51 billion in total assets under management that month.

Hamzaogullari is the sole decision-maker here—which heightens key-person risk—but he's likely to be here a while. He was only in his early 50s as of late 2022, and he has indicated he will give plenty of notice if his plans change. Hamzaogullari has also effectively laddered his team by levels of experience: His three senior analysts average 22 years in the industry, while the other four range from eight to 16 years. An eighth, soon to receive an undergraduate degree, will join later in 2023.

Parent Pillar ● Above Average | Sarah Bush 03/12/2020
Loomis Sayles' reputation has largely been forged by the firm's well-regarded taxable fixed-income team and its vice chairman, Dan Fuss. In 2019, Loomis expanded its tax-exempt bond capabilities with the integration of muni-focused McDonnell Investment Management, which was originally purchased by Loomis' Paris-based parent Natixis Investment Managers in 2012. While Loomis' stock funds don't get the same attention as their bond cousins, teams behind strategies like Loomis Sayles Growth have built solid records. Those developments have helped drive modest diversification of the firm's lineup even as taxable-bond-related strategies continue to dominate.

The firm appears to be prepared for a post-Fuss era. CIO Jae Park has overseen development of an expansive research team as well as proprietary quant tools and a thoughtful risk process. The firm also deserves kudos for its clear and transparent approach to succession planning: At Loomis Sayles Bond, for example, two of Fuss' three comanagers count more than a decade with the strategy. Finally, Loomis aims to keep its professionals in place with a sensible compensation plan that emphasizes long-term performance. More than half of the firm's separately managed accounts and mutual funds are run by a manager with at least 10 years' experience.

All in all, the firm's many positives support an Above Average Parent Pillar rating.

Price Pillar | Tony Thomas 01/09/2023
It's critical to evaluate expenses, as they come directly out of returns. Based on our assessment of the fund's People, Process, and Parent pillars in the context of these expenses, we think this share class will be able to deliver positive alpha relative to the category benchmark index, explaining its Morningstar Analyst Rating of Gold.

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Average Annual Total Returns as of 12/31/2022	3 Months	1 Year	3 Years	5 Years	10 Years
Loomis Sayles Growth Fund Class A at NAV	6.18	-27.79	3.95	7.50	12.69
Loomis Sayles Growth Fund Class A with 5.75% maximum sales charge	0.10	-31.95	1.92	6.23	12.01
Loomis Sayles Growth Fund Class Y	6.20	-27.64	4.20	7.76	12.96
Russell 1000 ® Growth Index	2.20	-29.14	7.79	10.96	14.10

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Gross expense ratio 0.90% (Class A share) / 0.65% (Class Y share). Net expense ratio 0.90% (Class A share) / 0.65% (Class Y share). As of the most recent prospectus, the investment advisor has contractually agreed to waive fees and/or reimburse expenses (with certain exceptions) once the expense cap of the fund has been exceeded. This arrangement is set to expire on 01/31/24. When an expense cap has not been exceeded, the gross and net expense ratios may be the same.

Morningstar Ratings as of 12/31/2022	3-Years	10-Years
Loomis Sayles Growth Fund Class Y	★★★ Out of 1131	★★★★ Out of 804

Overall rating derived from weighted average of the 3-, 5- and 10-year (if applicable) Morningstar Rating metrics; other ratings based on risk-adjusted returns.

For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating™ used to rank the fund against other funds in the same category. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly excess performance, without any adjustments for loads (front-end, deferred, or redemption fees), placing more emphasis on downward variations and rewarding consistent performance. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star (each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages). Past performance is no guarantee of future results.

The Morningstar Analyst 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. The approach serves not as a formula but as a framework to ensure consistency across Morningstar's global coverage universe. The Analyst Rating scale ranges from Gold to Negative, with Gold being the highest rating and Negative being the lowest rating. A fund with "Gold" rating distinguishes itself across the five pillars and has garnered the analysts' highest level of conviction. A fund with a "Silver" rating has notable advantages across several, but perhaps not all, of the five pillars—strengths that give the analysts a high level of conviction. A "Bronze"—rated fund has advantages that outweigh the disadvantages across the five pillars, with sufficient level of analyst conviction to warrant a positive rating. A fund with a "Neutral" rating isn't seriously flawed across the five pillars, nor does it distinguish itself very positively. A "Negative" rated fund is flawed in at least one if not more pillars and is considered an inferior offering to its peers. For more detailed information about Morningstar's Analyst Rating, including this methodology, please go to http://corporate.morningstar.com/us/documents/Methodology/Documents/AnalystRatingsFundsMethodology.odf. The Morningstar Analyst Rating should not be used as the sole basis in evaluating a mutual fund. Morningstar Analyst Ratings are based on Morningstar's current expectations about future events; therefore, in no way does Morningstar represent ratings as a guarantee nor should they be viewed by an investor as such. Morningstar Analyst Ratings involve unknown risks and uncertainties which may cause Morningstar's expectations not to occur or to differ significantly from what we expected.

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