

Global 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 ¹	\$2.7 billion
Fund AUM	\$127.2 million
Share Class	Y
Inception	3/31/2016
Ticker	LSGGX
Benchmark	MSCI ACWI Net
CUSIP	63872T224
Portfolio Manager	Aziz Hamzaogullari
Manager Since	Inception

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

Portfolio Review

- The fund posted negative returns of -4.17% vs. -1.05% for the MSCI ACWI Net Index, underperforming the benchmark by 3.12% net during the third quarter. Adyen, Oracle and Alphabet were the three largest contributors to fund performance. Alibaba, Crisp Therapeutics and Tencent were the largest detractors to performance during the quarter.
- Stock selection in the information technology sector contributed positively to relative return. Stock selection in the healthcare, consumer discretionary, consumer staples, communication services, industrials, energy and financials sectors as well as our allocation to the consumer discretionary, financials, communication services and energy sectors detracted from relative performance.
- The fund is an actively managed strategy 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).

TOP TEN HOLDINGS (%)

Amazon.com, Inc.	6.7
MercadoLibre, Inc.	6.4
Alphabet Inc.	5.8
Facebook, Inc.	5.2
Adyen NV	4.7
Boeing Company	4.3
Novartis AG	4.0
Oracle Corporation	4.0
Microsoft Corporation	4.0
Visa Inc.	3.9
Total	48.9

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.

PERFORMANCE AS OF SEPTEMBER 30, 2021 (%) CLASS Y

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			SINCE INCEPTION
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	
FUND	-4.17	5.53	19.47	17.72	16.82	17.57
BENCHMARK	-1.05	11.12	27.44	12.58	13.20	13.19
EXCESS RETURN	-3.12	-5.59	-7.97	+5.14	+3.62	+4.38

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.

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 1.14% (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 3/31/2022. 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.

**NEW PURCHASE
HIGHLIGHTS**

There were no new purchases during the period.²

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 Alibaba and Tencent as near term price weaknesses created more attractive reward-to-risk opportunities. We trimmed our positions in Deere, Oracle and MercadoLibre.²

Contributors

Adyen, Oracle and Alphabet were the three largest contributors to fund performance.

- **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 fund holding since its initial public offering (IPO) in the second quarter of 2018, Adyen reported financial results for the first half of 2021 that were strong and above consensus expectations, and management reiterated its mid-term revenue outlook for growth in the mid-20%-to-low-30% range. Revenue of €445 million grew 46% versus the prior-year period, benefiting from organic growth within its existing client base – in particular platform businesses like eBay in which Adyen has been investing over the past several years. Processed volumes grew 67% over the prior-year period, faster than overall growth in either personal consumption expenditures or electronic-based payments, indicating that the company expanded its market share. Despite the ongoing impact from Covid-19 in certain industries such as airlines, volumes in travel-related businesses rebounded to pre-pandemic levels towards the end of the period, and the company benefited from over 100% growth in POS transactions as the company’s unified commerce offerings become increasingly important to clients. From a geographic standpoint, North America represented 22% of revenue and grew 80% year over year. Strength in the US was reflective of nearly a decade of investments, first focused on helping US merchants expand internationally but increasingly driven by growth in domestic volumes. Europe represented 60% of revenue and grew 40% year over year, while Asia-Pacific and Latin America each represented a high-single-digit percentage of revenue and grew by 44% and 26%, respectively. Across its platform, existing clients accounted for over 80% of the company’s growth, and client retention by payment volume remained in excess of 99%.

Adyen benefits from high incremental margins and reported that EBITDA (earnings before interest, taxes, depreciation and amortization) margins of 61% rose over 700 basis points year over year. The company reiterated its long-term guidance for EBITDA margins to eventually exceed 65%, enabled by the growth, scalability, and operating leverage of its single platform. Free cash flow of €236 million rose 60% year over year and represented 55% of net revenue during the period. The company maintains a strong balance sheet with

²Quarter-to-date transactions as of September 30, 2021.

a negative net-debt position.

We believe Adyen remains well positioned in the payments value chain, and that its 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.

- **Oracle** is a leader in the enterprise software market, with a strong market position in database, infrastructure and application software, and cloud-based software and services. The company's competitive advantages include its direct sales force, a founder-driven management team that reinvests relentlessly to maintain a differentiated product suite and leading intellectual property portfolio, and a large installed base of clients where it consistently achieves client renewal and retention rates in the mid-90% range. We believe Oracle is well positioned to benefit from the continuing growth in data storage and enterprise application software, as well as the shift to cloud-based solutions.

A fund holding since inception, Oracle reported fundamentally strong quarterly results that were better than consensus expectations for earnings before interest and taxes (EBIT) and earnings per share (EPS), but modestly below expectations for revenue, despite exceeding management's guidance. Total revenue for Oracle rose 2% year over year in constant currency to \$9.7 billion. At \$8.2 billion, software sales represented 84% of total revenue and rose 4% year over year. Oracle's infrastructure business (59% of total software revenue) grew 3% year over year, benefiting from the company's autonomous database offering, which grew 56% in the quarter and already has thousands of customers following its 2018 launch, demonstrating the product's early success. Oracle's cloud infrastructure (OCI) grew by over 80% versus the prior-year quarter. Oracle's applications business (41% of total software revenue) generated 7% organic growth. Driven by 25% growth in its strategic back office applications, which include its Fusion suite of cloud-enabled enterprise software solutions, the company experienced much faster growth in several key cloud products such as enterprise resource planning (ERP) and its NetSuite small-business ERP offering, demonstrating the company's progress in transitioning to a cloud-based model and positioning the company to improve its growth rate over time. While Oracle remains the world leader in its largest business segment, enterprise database software used in customer on-premise IT environments, the company continues to focus on transitioning its business from a traditional on-premise, up-front software licensing and maintenance revenue model to a cloud-computing subscription-based model where software revenue is recognized over the life of the client's contract. While there has been pressure on year-over-year overall revenue comparisons during this transition as up-front license revenue shifts to subscription revenue, we expect this to lead to faster growth as the transition progresses over time due to a higher customer lifetime value. The cloud model also allows Oracle to monetize its services and technology more efficiently and yield savings to the customer. The company recently reported that its two largest cloud businesses, which include its software-as-a-service (SAAS) and infrastructure-as-a-service (IAAS) offerings, now represent 25% of total revenue and had an annual run rate of over \$10 billion.

In Oracle's hardware segment, revenue of \$763 million declined 7% year over year, which was below consensus expectations. The hardware business accounted for approximately 8% of total revenue and a smaller percentage of total cash flow. With the ongoing transition to the cloud and faster growth in its larger software businesses, we expect hardware to continue to decline as a percentage of revenue and cash flow. In its services segment (about 8% of revenue), revenue of \$781 million rose 7% compared with the same quarter last year.

Even though the company is in the midst of a major business model transition, Oracle's financials remain strong. Adjusted EBIT of \$4.3 billion rose 2% versus the prior-year quarter in constant currency and was above consensus expectations. Operating margins declined 18 basis points to 45%, due primarily to a decline in gross margins. Over the trailing four quarters, Oracle generated \$12.6 billion in free cash flow, which rose 9% year over year and represented 90% of net income, demonstrating the company's strong cash generation ability. The company repurchased \$8 billion of shares during the quarter and has reduced its outstanding share count by 8% year over year. Oracle's financial leverage has increased over the past several years, due primarily to its increased allocation of capital to share repurchases. However, given its persistently strong cash flow and resulting debt servicing capability, we believe the balance sheet remains solid. We believe Oracle's stock price embeds free cash flow growth assumptions that are well below our long-term forecast. As a result, we believe its shares are selling at a significant discount to our estimate of intrinsic value and offer a compelling reward-to-risk opportunity.

- **Alphabet** is a holding company which 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. Non-Google businesses comprise less than 1% of Alphabet revenues and are held in the company's Other Bets segment.

A fund holding since inception, Alphabet reported strong quarterly financial results that reflected accelerated revenue growth, expanded adjusted operating margins, and EPS (earnings per share) that more than doubled, all of which were better than consensus expectations. For the quarter, total revenue of \$61.9 billion represented a 62% increase year over year in constant currency and was 10% above consensus expectations. Alphabet reports results in three segments: Google Services, Google Cloud, and Other Bets. Google Services reported quarterly revenue of \$57.1 billion, which rose 63% year over year and represented 92% of total revenue. Advertising revenue accounted for 88% of Google Services revenue and grew 69% compared with the year-ago quarter, powered by the secular shift of advertising to online and mobile platforms. With growth well above that of traditional advertising, Google continued to take market share. Advertising revenue growth was driven by continued recovery in the search business, which grew 68% year over year, and 84% growth in YouTube. Both businesses benefited from strong growth in direct response ads, particularly for YouTube, where direct response ads have grown to become what we believe to be one of the largest advertising businesses on YouTube after contributing almost nothing three years earlier. YouTube has benefited from strong demand from brand advertisers due to its reach and engagement with 2 billion monthly users who spend over 1 billion hours daily on the platform. Non-advertising revenue, which includes Google Play, hardware, and YouTube non-advertising revenues such as subscriptions, represented 12% of Google Services revenues and grew 29% year over year. Growth was driven by YouTube and Google Play.

Google Cloud reported quarterly revenue of \$4.6 billion, which rose 54% year over year and represented 7% 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. Cloud growth was led by GCP, which grew well above the overall cloud business. The segment generated an operating loss of \$591 million on EBIT (earnings before interest and taxes) margins of -13%, which improved from -47% in the prior-year

period. The operating loss reflects substantial up-front investments that the company is making to drive long-term growth in advance of revenue. Significant areas of investment include a direct sales force that has tripled over the past few years and substantial expansion of distribution via partners, large investments in its product offerings that are being tailored for six industry verticals, and expansion of network computing capacity to serve customers around the world. Alphabet's Other Bets segment reported revenue of \$192 million that increased 30% in the quarter and represented 0.3% of total revenues. Many of these businesses are still early stage and results are volatile on a quarterly basis. Revenue in this segment is currently driven by Fiber and Verily. We believe Google's key revenue drivers of mobile search, YouTube, programmatic advertising, and an emerging cloud business that is growing approximately three-times faster than the core search 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. The company reported gross margins of 58% that rose 600 basis points year over year, due to improvement in traffic acquisition costs and lower other cost of goods sold. Adjusted operating margins of 38% rose over 1,400 basis points compared with the year-ago quarter, benefiting from operating leverage in all expense items. Google's attractive financial model generates strong free cash flow and earns high returns on invested capital, enabling it to reinvest significantly in its business. Over the past five years, Google has invested over \$100 billion in R&D, an amount very few other companies could replicate. In the quarter, Alphabet generated free cash flow of \$16.4 billion that rose 91% and represented 26% of revenue. Capital expenditures increased by 2% year over year to \$5.5 billion and represented 9% of gross revenue. The company's capital expenditures continue to focus on infrastructure spending required to support growth, including servers, data centers, and office facilities.

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

Detractors

Alibaba, Crispr Therapeutics and Tencent were the largest detractors to performance during the quarter.

- **Alibaba Group**, launched in 1999, is a leading China e-commerce and consumer engagement platform provider. The company operates several increasingly connected businesses across commerce, technology, advertising, digital media and entertainment, logistics, payments, and local services. Collectively these businesses form a powerful ecosystem, providing Alibaba with advantaged insights that facilitate e-commerce and enable merchants and brands to engage with customers across the entire consumer lifecycle via an unparalleled platform.

A fund holding since inception, Alibaba reported quarterly financial results that reflected strong fundamentals and continued market share gains, but were mixed with respect to consensus expectations, with revenue slightly below and earnings per share (EPS) well above. However, shares remained under pressure despite good fundamentals due to concern regarding increased regulatory intervention by the Chinese government in a

growing number of industries, most recently the education sector, and the uncertainty these measures have created among investors questioning the ultimate impact on the businesses.

Earlier this year, China's State Administration for Market Regulation (SAMR) released regulations aimed at preventing monopolistic practices across China's internet industry and conducted investigations regarding anti-competitive practices by a number of companies, including Alibaba. In August, China passed the Personal Information Protection Law (PIPL) which is focused on protecting personal information rights and interests by standardizing the handling and usage of personal information by businesses.

We believe SAMR and other Chinese regulatory efforts are focused on promoting sustainable and healthy development of China's online ecosystem, fair competitive behavior, compliance with social responsibility, and setting reasonable limits on the usage of personal information. We believe that many of the companies to which the regulations pertain, including Alibaba, are engaged in activities that are supportive of the Chinese government's long-term strategic goals. These goals include promoting domestic consumption as well as the development of domestic cloud technologies in order to reduce China's dependence on foreign companies and countries. On both of these counts, Alibaba is a leader and its continued success advances those long-term goals. We also believe that China may have other reasons to wish to exert greater regulation in sectors such as education, where we do not have any holdings.

Regarding Alibaba specifically, SAMR investigated allegations that the company required merchants to enter exclusive relationships which prevented them from offering the same products on competing platforms. In April, SAMR concluded that Alibaba's practices had violated antitrust law. The company was fined approximately \$2.8 billion and ordered to carry out "comprehensive" self-inspections to standardize business practices and ensure compliance with anti-monopoly laws. Alibaba cooperated fully with the investigation and had already established a special task force, including leaders of its business units, to conduct internal reviews, and has changed certain business practices. Before the ruling, we believed that Alibaba could potentially be fined a meaningful percentage of prior-year revenue if it was found to have violated the rules. The \$2.8 billion fine represents under 3% of FY 2021 revenues, approximately 20% of Alibaba's free cash flow in the preceding quarter, and a fraction of the company's approximately \$73 billion of cash and short-term investments. We do not believe the investigation, fine, or any potential remedies will ultimately impact Alibaba's strong and sustainable competitive advantages, which include the power of its platform and business ecosystem, scale, and brand strength.

With respect to PIPL, companies such as Alibaba may continue to collect, maintain, and use personalized data in their operations with certain restrictions. The law requires that companies must have legitimate reasons for collecting personal information, which will require consent from consumers and should be limited in scope. The law also requires that companies establish compliance systems and an independent body which includes outside members to supervise the processing of personal information. We believe the focus of PIPL is similar to the General Data Protection Regulation (GDPR) which went into effect in the European Union in 2018. The GDPR impacted other portfolio holdings such as Alphabet and Facebook, which incurred increased compliance costs and other disruptions as they adjusted certain business practices to comply with the new regulations. However, both companies continued to generate strong growth in revenue and free cash flow due to their competitive advantages and strong value propositions. While PIPL will go into effect beginning in November, we believe Alibaba has already started to implement portions of

PIPL's requirements into its business. As with Facebook and Google, we expect that Alibaba will experience other short-term disruptions as it further modifies its practices to fully comply with the law and other changes in regulations. During the quarter, the company announced that it will be contributing \$15 billion to China's sustainable social values program by 2025. This may include operating expenses, capital expenditures, and equity investments aimed at social initiatives aimed at key stakeholders of the Alibaba ecosystem. However, we do not believe that PIPL's provisions or other regulatory developments will ultimately impact the company's difficult-to-replicate competitive advantages, and we believe the company remains well positioned to benefit from secular growth in China e-commerce, as well as advertising growth, digitizing offline retail, cloud computing, and international expansion. As we do with any legislative or regulatory developments, we continue to monitor and assess any potential structural impact to our investment thesis for Alibaba. However, we do not believe the investigation, fine, or any potential remedies will ultimately impact Alibaba's strong and sustainable competitive advantages.

During the quarter, reported revenue grew 34% year over year, faster than our estimate of China consumer spending or e-commerce sales, indicating the company continued to expand its market share. Excluding the recent consolidation of supermarket chain Sun Art, organic revenue growth was 22% year over year. With gross merchandise volume (GMV) that exceeded \$1 trillion in its 2021 fiscal year across the Alibaba digital economy, which includes its commerce, local services, and digital media and entertainment offerings, Alibaba is the world's largest retail platform. The company continues to be driven by its core commerce segment, which accounted for 87% of Alibaba's \$31.9 billion of total quarterly revenue and grew 35% year over year. China commerce retail accounted for 75% of core commerce revenues and grew 34% year over year. The company ended its 2021 fiscal year with 811 million active consumers in its China retail marketplaces, up 12% from 726 million a year earlier. In the broader Alibaba digital economy, the company ended the year with 891 million annual active consumers in China and approximately 240 million international consumers. During the quarter, mobile monthly active users grew 7% to 939 million, aided by investment in content and technology to drive strong user engagement. Data gathered from strong consumer engagement on the company's e-commerce and digital media sites provide powerful insights into consumer behavior. Alibaba is thereby able to deliver more personalized content, which enables a growing number of merchants to better target and engage customers throughout the consumer lifecycle and drives improved e-commerce monetization. Benefiting from this insight, customer management revenues grew 14% versus the prior-year quarter.

A growing initiative within the China commerce retail segment is Alibaba's new retail strategy, in which it seeks to leverage its data, scale, technology, and network ecosystem to digitize the entire retail value chain and create a seamless consumer experience between online and offline retail. The initiative, which includes the company's acquisitions of China department store Intime, Sun Art supermarkets, and Hema grocery stores (now Freshippo), accounts for approximately one quarter of China commerce retail revenue and is growing at a multiple of the overall core commerce business. During the quarter, the company benefited from the consolidation of Sun Art, a leading supermarket chain in China in which it first invested in 2017 and took a controlling stake in October 2020. Consistent with its new retail strategy, through the partnership Alibaba is focused on driving deeper digital transformation of China's supermarkets and hypermarkets. Other revenues, which are driven primarily by new retail, expanded 42% year over year in the most recent quarter.

Core commerce revenues also benefited from the company's substantial focus on

international and cross-border commerce, with the international commerce retail business growing 54% year over year, driven by growth at southeast Asia-focused Lazada Group and AliExpress. In total, the core commerce segment reported adjusted operating profits that declined by 11% year over year. Adjusted operating margins of 33% declined 900 basis points versus the prior-year period. Margins continue to be pressured by losses at the company's strategically important but currently loss-making businesses, including new retail, local services, Lazada, and logistics operations. Absent those key strategic investments, adjusted operating profit would have risen by 6% year over year. We believe the company's core marketplace business continues to generate stable and attractive operating profits, and that its currently loss-making newer businesses will expand the company's addressable market and become profitable over time, contributing to earnings and free cash flow growth.

Alibaba's cloud-computing revenue rose 29% year over year, well above the single-digit growth in China IT spending, and accounted for 8% of total revenue. Growth was driven by an increase in both public and hybrid cloud businesses, including growth in revenue from customers in the internet, financial services, and retail sectors. Growth was negatively impacted by the earlier loss of a large cloud client and partial competitor that is no longer using Alibaba for its operations outside of China. Alibaba remains China's top cloud services provider, and the company's top ten clients represent less than 10% of total cloud revenues. The cloud-computing business remains in investment mode, focusing on geographic and product expansion, but generated its third consecutive positive adjusted profit during the quarter, as operating margins of 2% improved from -9% margins in the year-ago quarter.

Alibaba's adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) declined 5% over the prior-year quarter, and EBITDA margins of 24% were down 900 basis points year over year. For the quarter, free cash flow was \$3.2 billion, but declined 43% year over year, due in part to the partial payment of the anti-monopoly fine, as well as elevated strategic investments. We believe Alibaba continues to execute well on its business model, allowing it to expand its already dominant market position and invest to strengthen its competitive advantages. The company benefits from secular growth in China e-commerce, as well as advertising growth, digitizing offline retail, cloud computing, and international expansion. We believe the near-term uncertainty regarding the regulatory environment does not change the long-term fundamentals; namely, China remains one of the largest and most attractive e-commerce markets and Alibaba is one of the best-positioned companies to take advantage of this long-term secular opportunity. Many great businesses in our portfolio, including Microsoft, Google, Facebook, Visa, and others, have faced significant regulatory challenges around the globe over the last few decades, which often resulted in near-term uncertainty and share price weakness. We recognize that the individual circumstances of these challenges had significant differences in terms of regulatory bodies and geographies. We also recognize that China offers both unique differences and challenges that we do not take lightly. However, while all of these situations are different, what is similar is that the uncertainty associated with these challenges did not change the strong underlying business characteristics of these companies; nor did it prevent them from continuing to generate strong long-term returns for shareholders. We believe the current market price embeds expectations for key revenue and cash flow growth drivers for Alibaba that are well below our long-term assumptions, and we added to our position during the quarter, taking advantage of the long-term secular growth opportunity. With its shares trading at a significant discount to our estimate of intrinsic value, we believe Alibaba offers a compelling reward-to-risk opportunity.

- Founded in 2013, **CRISPR Therapeutics (“CRSP”)** is a leading gene editing company, based in Switzerland. CRISPR, an acronym for “Clustered Regularly Interspaced Short Palindromic Repeats,” is a naturally occurring defense mechanism that protects bacteria against viral infections. Functioning as a “molecular scissors,” the process enables the bacteria to cut viral DNA, thereby disabling the virus. Dr. Emmanuelle Charpentier, a CRSP co-founder, elucidated the mechanism and developed a methodology to adapt and simplify its use for human gene therapy – for which she and a collaborator were awarded the 2020 Nobel Prize in Chemistry. The resulting gene editing technology enables precise alteration of DNA that can “silence” or correct undesirable sequences, potentially enabling a next generation of curative therapies for genetic diseases. Today, the company is focused on developing transformative gene-based medicines for serious diseases in areas including hemoglobinopathies (a group of inherited blood disorders including sickle cell disease), oncology, regenerative medicine, and rare diseases.

A new purchase in the second quarter of 2021, CRSP shares declined on no specific news in the quarter after experiencing sharp price appreciation at the end of June following positive clinical results for another competitor using CRISPR technology that served as a proof point for the technology and prompted a broad rally in gene editing stocks. The company, which doesn’t hold an earnings call, published a quarterly earnings release which demonstrated continued progress across its clinical and pre-clinical therapies, but contained no major developments. The company did receive Orphan Drug designation from the FDA for its CTX130 therapy for T-cell lymphoma, which we believe modestly increases the probability of ultimate approval. While CRSP has a number of therapies currently undergoing clinical trials, it has not yet commercialized any therapies and remains pre-revenue. However, at scale, we believe the company can attain the economics of a successful biotech company, including operating margins that could exceed 40% and cash flow returns on investment that substantially exceed its cost of capital. We believe the expectations embedded in CRSP’s market price substantially underestimate the potential of its curative therapies, its ability to rapidly innovate, and its structural advantages in the development process that should lift its probability of success compared to traditional biopharmaceutical therapies. We believe management is executing on a sound investment strategy that we expect to eventually generate meaningful free cash flow growth that is not reflected in current expectations. As a result, we believe the company is selling at a substantial discount to our estimate of its intrinsic value and offers a compelling 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 fund holding since Q4 2018, Tencent reported fundamentally solid quarterly financial results that were slightly below consensus expectations for revenue but above expectations for earnings per share (EPS). However, shares remained under pressure despite good fundamentals due to investor concern regarding increased regulatory intervention by the Chinese government in a growing number of industries, including the internet, fintech, and most recently the education sector, and the uncertainty these measures have created

among investors questioning the ultimate impact on the business. For Tencent, this has included government allegations of anti-competitive practices, and more recently, criticism by China state media regarding the negative impact of gaming on children. In July, China's State Administration for Market Regulation (SAMR), fined the company \$1.5 billion for practices within its streaming music business. The fine represented a small portion of the approximately \$40 billion of cash on Tencent's balance sheet, which does not include the further \$224 billion fair market value of its investments in other public companies as of March 31. In fintech, we believe regulatory changes are likely to result in increased licensing requirements and guidelines around consumer and micro lending, information sharing, and disclosures – all of which are focused on reducing systematic risk and promoting healthy market development. We believe Tencent is generally compliant with most of the proposed changes and we do not expect these developments to impact its competitive position. Most recently, shares responded negatively to criticism from Chinese state media regarding the negative impact of gaming on children. Tencent management has embraced the new regulatory framework. The company highlighted the tools and restrictions it has introduced over the past several years to enable parents to manage minors' gaming activity and limit both time spent and spending levels, and also announced further restrictions. While gaming represents the company's single largest source of revenue, approximately 40% of revenue in 2020, we believe the potential impact to the company is small as children under 16 accounted for less than 3% of the company's gaming revenues. We do not believe that the fine or any of the proposed regulations materially impact Tencent's strong and sustainable competitive advantages, and we view the company to be among the best-positioned in the China internet services industry. As we do with any legislative or regulatory developments, we continue to monitor and assess any potential structural impact to our investment thesis for Tencent and all the companies within our portfolios and investment library.

For the quarter, total revenue of renminbi (RMB) 138 billion rose 20% year over year. Tencent reports in four segments; value added services (VAS) (52% of quarterly revenue), fintech and business services (30% of revenue), online advertising (16% of quarterly revenue), and other revenue (1% of quarterly revenue). VAS includes the company's gaming and social networking businesses, which accounted for 60% and 40% of VAS revenues, respectively. VAS total revenues of RMB 72 billion rose 11% over the prior-year quarter, led by solid growth in its gaming business – in particular its international segment. Online games grew 12% versus the prior-year quarter, benefiting from mobile games in China and in international markets, which grew 37% year-over-year. Smart phone gaming revenue increased by 13%, which contributed to high average revenue per user. Social network revenue increased 9%, driven by moderate growth in digital content revenue from live streaming and music and video subscriptions and in-game item sales. The company now has 229 million fee-based subscribers to its video and music services, up 13% year over year.

Fintech and business services, which consists primarily of payments and cloud services, rose 40% year over year to RMB 42 billion. Tencent has been seeing increasing adoption of its payments services by consumers, merchants, and wealth management partners. The company has been working closely with regulators and industry partners and has focused on risk management over scale. For the quarter, revenue was driven by growth in digital payment transactions. Business services revenue growth benefited from digitalization of public services and traditional industries, which contributed to customer adoption of public and private cloud services, security, artificial intelligence, and growth in big data services. Online advertising revenues of RMB 22 billion grew 23% year over year, led by 28% growth in the company's "social and other" segment. The company's Weixin/WeChat

platform ended the quarter with 1.25 billion monthly active users, up 3% year over year. Tencent's media advertising business grew 1% year over year, as revenue from music apps offset weakness in news advertising.

Adjusted operating profit of RMB 43 billion grew 14% year over year on margins that declined 180 basis points to 31%, due both to sales mix and accelerated investments. The company previously announced that it would be increasing investments in four areas where it could benefit from an early-mover advantage. In businesses services, the company is adding headcount in product development, sales, and infrastructure to assist different industries in digitizing their businesses. In gaming, the company is investing in more high-production-value, large-scale games that can attract users globally, as well as other innovative and cross-platform games. In social networks, the company is investing in short-form video content by building more ecosystems to match user demand for unique content, and providing tools to attract diverse content creators and improve algorithmic recommendations. Finally, the company is investing to increase the sustainable social value of its products and to elevate sustainability in its decision making. These investments are anticipated to support long-term growth, but will decrease near-term profitability. For the quarter, adjusted EPS of RMB 3.50 rose 12% year over year. Free cash flow of RMB 17 billion declined 39% year over year and represented 12.5% 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 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 growth drivers, including gaming, media, advertising, payments, and cloud-computing growth. Many great businesses in our portfolio, including Microsoft, Google, Facebook, Visa, and others, have faced significant regulatory challenges around the globe over the last few decades, which often resulted in near-term uncertainty and share price weakness. We recognize that the individual circumstances of these challenges had significant differences in terms of regulatory bodies and geographies. We also recognize that China offers both unique differences and challenges that we do not take lightly. However, while all of these situations are different, what is similar is that the uncertainty associated with these challenges did not change the strong underlying business characteristics of these companies; nor did it prevent them from continuing to generate strong long-term returns for shareholders. 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. We took advantage of near-term price weakness to add to our position during the quarter.

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.
- The fund ended the quarter with overweight positions in the consumer discretionary, communication services, information technology, healthcare, industrials and consumer staples sectors and underweight positions in the financials and energy sectors. We did not own positions in the materials, 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 annualized portfolio turnover since the inception of the fund is approximately 9.6%. As of September 30, 2021, the overall portfolio discount to intrinsic value was approximately 45.7%.

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. **Currency** exchange rates between the US dollar and foreign currencies may cause the value of the fund's investments to decline. **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.

MSCI All Country World Index (Net) is a free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed and emerging markets.

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.

Before investing, consider the fund's investment objectives, risks, charges, and expenses. Please visit www.loomissayles.com or call 800-633-3330 for a prospectus and a summary prospectus, if available, containing this and other information. Read it carefully.

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