



# Global Growth ADR Managed Account

## Strategy Facts

The strategy 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 strategy's portfolio manager also aims to invest in companies when they trade at a significant discount to the estimate of intrinsic value.

Strategy AUM	\$2.3 billion
Inception	12/1/2021
Benchmark	MSCI ACWI Index Net
Portfolio Manager	Aziz Hamzaogullari
Manager Since	Inception

## Portfolio Review

- The strategy posted positive returns of 3.92% (gross) and 3.16% (net wrap fee) vs. 2.87% for the MSCI All Country World Index Net, outperforming the benchmark by 1.05% gross during the quarter. Alphabet, Alnylam Pharmaceuticals, Inc., Tencent Holdings Limited, Arm Holdings Plc, and MercadoLibre were the five largest contributors to performance during the quarter. Adyen N.V., Shopify Inc., Salesforce, CRISPR Therapeutics, and AMBEV S.A. were the five lowest contributors to performance.
- Stock selection in the consumer discretionary, healthcare, and communication services sectors, as well as our allocations to the communication services, financials, consumer staples, and industrials sectors, contributed positively to relative performance. Stock selection in the financials, information technology, and consumer staples sectors, as well as our allocations to the consumer discretionary, information technology, and healthcare sectors, detracted from relative performance.
- The strategy 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).

## Global Growth ADR Managed Account Composite as of June 30, 2024 (%)

### Top Ten Holdings (%)

Meta Platforms, Inc.	7.3
Amazon.com, Inc.	6.6
MercadoLibre, Inc.	6.1
Alphabet Inc.	5.9
Netflix, Inc.	4.3
Microsoft Corporation	4.3
Oracle Corporation	4.0
Tesla, Inc.	3.9
Boeing Company	3.7
Novo Nordisk A/S	3.6
<b>Total</b>	<b>49.7</b>

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).

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN				
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR	SINCE INCEPTION
<b>PURE GROSS*</b>	3.92	11.02	19.72	-	-	-	6.07
<b>NET WRAP FEE</b>	3.16	9.41	16.27	-	-	-	2.98
<b>BENCHMARK</b>	2.87	11.30	19.38	-	-	-	5.73

\*Pure Gross of fee account returns are time-weighted rates of return that do not reflect the deduction of any trading costs, fees, commissions or expenses. Net of fee account returns are the gross returns less the effective management fee for the measurement period.

The effective fee for an account is derived by applying the highest applicable fee based on the current standard fee schedule for the Composite. The fee amount is divided by the assets for an annual effective fee. The monthly effective fee is based on 1/12 of the annual effective fee. Net-of-total-wrap-fee results are calculated by taking the highest applicable fee for a managed account that a sponsor would have charged on an annual basis, and deducting one-twelfth of this annual fee from each monthly gross return. On an annual basis, the wrap fee schedule is 3.00%, which includes portfolio management, custody, advisory and other administrative fees.

The Global Growth ADR Managed Account Composite's returns were calculated on a total return basis, and assume the reinvestment of dividends, capital gains and other earnings. Gross returns are net of trading costs. Net of total wrap fee results reflect the deduction of an annual fee of 3%. This managed account fee includes all charges for trading costs, portfolio management, custody and other administrative fees.

Benchmark: MSCI AC World Index Net.

**There is no guarantee that the investment objective will be realized or that the strategy will generate positive or excess return. Actual accounts have the potential for loss as well as profit.**

**Past performance is no guarantee of future results.**



## Contributors

Alphabet, Alnylam Pharmaceuticals, Inc., Tencent Holdings Limited, Arm Holdings Plc, and MercadoLibre were the five largest contributors to performance during the quarter. We highlight the top three contributors, Alphabet, Alnylam Pharmaceuticals, Inc., and Tencent Holdings Limited, below.

- **Alphabet** is a holding company that owns a collection of businesses, the largest and most important of which by far is Google. Google is the global leader in online search and advertising and also offers cloud solutions to businesses and consumers globally, with a goal of organizing the world's information and making it universally accessible and useful. Google dominates the US and global search market with a greater than 80% share of search volumes. As a function of seeing more searches, Google is able to provide better search results, resulting in a higher customer conversion rate for advertisers and enabling Google to capture a leading share of search revenue. Google's large network of consumers, advertisers, and publishers is a powerful business ecosystem as third-party participants such as marketing affiliates and independent software vendors add value to the user experience. As a result, we believe consumers get their best and most relevant search results and advertisers get the best returns on their advertising dollars. We believe such a robust ecosystem attracts increasing numbers of participants and thereby creates a virtuous cycle for a sustainable business model and long-term growth. In its emerging cloud business, we estimate that Google captures less than 10% market share of the global market for public cloud services. We believe Google remains one of the few global companies that has the scale, research and development (R&D), and technical talent to effectively compete in this market over the long term. Non-Google businesses comprise less than 1% of Alphabet revenues and are held in the company's Other Bets segment.

A holding in the portfolio since inception, Alphabet reported quarterly financial results that were strong and above consensus expectations for revenue, operating income, operating margin, and earnings per share. The company also announced an increased capital return program, which included the initiation of an annual quarterly dividend and an incremental \$70 billion in share repurchase authorizations. We believe Google has been operating as an AI-first company for much of the past decade, and the company continues to focus on leveraging its AI-driven innovation internally and to improve performance. Google released its AI "chatbot," Bard, in March 2023, and has since made it available globally in over 40 different languages. Nearly 80% of the company's advertising customers are using at least one AI-powered search product, and the company continues to integrate more generative AI functionality into search, as well as providing AI services to businesses through its cloud business and rolling out AI features to its entire ad ecosystem, including features designed to support bidding, targeting, and creative measurement.

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



growth in YouTube subscriptions such as Premium Music and YouTube TV, which have over 80 million subscribers.

Google Cloud reported quarterly revenue of \$9.5 billion, on growth that accelerated 200 basis points to 28% year over year, and represented 12% of total revenue. Google's cloud business includes Google Cloud Platform (GCP), the company's infrastructure- and platform-as-a-service offerings, and G Suite, which includes the company's software-as-a-service offerings such as Gmail, Docs, Drive, and Calendar. The segment generated an operating profit of \$900 million on EBIT (earnings before interest and taxes) margins of approximately 9%, which improved from 3% in the prior-year quarter. Alphabet's Other Bets segment reported revenue of \$495 million that increased 72% year over year and represented less than 1% of total revenues. Many of these businesses are still early stage and results are volatile on a quarterly basis. We believe Google's key revenue drivers of mobile search, YouTube, programmatic advertising, and an emerging cloud business that is Google's fastest growing business, each continue to benefit from secular drivers including increased mobility, video advertising, better use of advertising technology to drive performance, and increased penetration of public cloud services.

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

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

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

- **Alnylam Pharmaceuticals** is a leader in gene therapies based on its pioneering small-interfering RNA (siRNA) approach to disease treatment. Founded in 2002, Alnylam was one of the first companies to develop and commercialize therapies based on RNA interference (RNAi), a breakthrough discovery in understanding how genes are naturally regulated within cells that was recognized with the 2006 Nobel Prize in Medicine. RNAi therapies exploit a naturally occurring biological pathway within cells that regulates the expression of specific genes. In particular, siRNA has proven to be one of the most effective approaches to RNAi therapy, and Alnylam remains the first and only company to successfully commercialize siRNA-based therapies. We believe Alnylam's strong and sustainable competitive advantages include its deep, cumulative and compounding knowledge in the science of RNAi therapeutics, in particular its creation and advancement of unique siRNA-based therapies, as well as the multiple partnerships it has entered into on the basis of its technology which provide both external funding and established commercialization avenues. Today, the company's technology is the basis for five approved therapies, over ten therapies currently in clinical trials, and a robust pipeline of potential treatments that we expect to enter the clinic in the coming years, with a focus on genetic diseases, cardiometabolic diseases, infectious diseases, and central nervous system and



ocular diseases. After two decades in investment mode, Alnylam has begun to generate positive gross profits, and we believe it is at an inflection point where the successful launch of its late-stage therapies will help enable it to begin to realize the economics of a successful biotechnology firm.

A strategy holding since inception, Alnylam reported quarterly financial results that reflected solid commercial execution and were ahead of consensus expectations for revenues and earnings per share. Our long term investment thesis for Alnylam is a function of the broad opportunity we see arising from the breadth of clinical programs based on the company's siRNA platform. Alnylam's current lead products are ONPATTRO and AMVUTTRA, both approved in hATTR-PN, which is a small indication that impacts less than 10,000 people in the US. The company is attempting to prove clinical benefit in wild-type ATTR with cardiomyopathy, ATTR-CM, the same disease but with related cardiac manifestations and a much larger patient population, with potentially over 400,000 addressable patients globally. Vutrisiran, the molecule behind AMVUTTRA, is being tested in ATTR-CM in phase 3 trials, and is the most significant near-term readout and significant potential near-term growth driver.

In the prior quarter, shares responded negatively to the company's announcement that it was redesigning the statistical analysis for its Phase III HELIOS-B trial for vutrisiran in ATTR-CM, which would result in a three-month delay in trial results. Vutrisiran is already approved for the related, smaller indication of hATTR with polyneuropathy. While the market reaction may have reflected concern that the results of the original trial design, previously anticipated to be released in late March or early April, suggested potentially inadequate results, we believed management's changes made sense and that their rationale was sound. We believe the redesign reflected the company's takeaways from the FDA's complete response letter, issued in October, regarding trials for an earlier generation therapy (patisiran) in the same indication. The redesign was intended to more fully demonstrate the absolute value of vutrisiran, as well as its benefit in combination with other therapies. Further, by extending the minimum duration of treatment by three months, the updated analysis will allow Alnylam to further substantiate the clinical benefit of the therapy. While we recognized the delay prolonged the inherent uncertainty in the outcome, it did not fundamentally change our assumptions or view that the trial will likely be positive and demonstrate clear benefits. In late June, shares neared an all-time high after the company announced top line results from the redesigned study that reflected positive results across all endpoints. The full dataset is expected to be vetted at a medical conference in late-August, and Alnylam intends to file a U.S. Supplemental New Drug Application using a priority review voucher in late 2024.

We believe the uniqueness of Alnylam's pioneering scientific expertise and technology is evident from both its existing products, which provide meaningful value to previously underserved patient populations, as well as the numerous partnerships in which world-class global pharmaceutical companies and specialty competitors alike have sought to access its proprietary technology. With its approved therapies and substantial pipeline of significant late-stage clinical programs, we believe the company has now reached the point at which its existing therapies will continue to contribute positively and its subsequent innovations will shift its financial profile from that of an early-stage biotech company to a profitable business with normalized margins that is able to internally fund its ongoing growth needs. Over our long-term investment horizon, we believe the company can generate substantial revenue growth, while turning profitable and generating substantial cumulative free cash flow.

We believe Alnylam's market price continues to reflect a lack of appreciation for the significant value embedded in the platform the company has built and the company's clinical-stage assets – which we believe is unsupported by the company's established track record for producing genetically validated therapeutics. Further, while embedded expectations reflect some success for its currently marketed products, we believe the market remains narrowly focused on the near-term path to approval and timing for vutrisiran in ATTR-CM. We believe Alnylam's platform is validated and improving in efficacy, duration,





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

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

Fintech and business services, which consists primarily of payments and cloud services, rose 7% year over year to RMB 52 billion. Growth benefited from a recent period of cloud restructuring as well as higher e-commerce tech services fees in the business services



segment, while fintech revenue growth slowed due moderating consumption in offline commercial payments that was offset in part by higher wealth management revenue. Online advertising revenues of RMB 26.5 billion grew 26% year over year, benefitting from increased engagement and AI-powered ad targeting. Strong advertising demand for video accounts and growth within Tencent's mobile ad network and the Weixin search business demonstrated strong recovery in the advertising business.

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

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

## Detractors

Adyen N.V., Shopify Inc., Salesforce, CRISPR Therapeutics, and AMBEV S.A. were the five lowest contributors to performance. We highlight the top three detractors, Adyen N.V., Shopify Inc., and Salesforce, below.

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

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

We believe Adyen is a high quality company with sustainable competitive advantages and secular growth opportunities that are not reflected in its current share price. We believe the secular shift to electronic-based payments from traditional paper-based systems represents



the most significant growth driver for Adyen. While Adyen has been growing substantially faster than the leading global acquirers over the past few years, the company still captures only a small percentage of overall industry volumes. We believe a combination of industry- and company-specific factors will help enable Adyen to continue to grow at more than twice the rate of growth in the overall payments industry over our long-term investment horizon. We also expect Adyen to benefit from the high incremental margins of its business, contributing to margin expansion and substantial cash flow growth over our forecast period. We believe Adyen's strong growth prospects are not currently reflected in its share price. As a result, we believe the company's shares are trading at a meaningful discount to our estimate of intrinsic value, offering an attractive reward-to-risk opportunity.

- **Shopify** is a leading global provider of mission-critical commerce infrastructure that enables retail companies to start, grow, market, and manage a retail business of any size. Shopify's cloud-based platform offers merchants an end-to-end solution that was previously only available to significantly larger businesses. From a single global storefront, the company offers merchants a multi-channel solution through which they can display, manage, market, and sell products across all sales channels, including web and mobile storefronts, physical retail locations, social media, marketplaces, and other retail formats. The platform enables merchants to sell anywhere and in any language, facilitating cross-border commerce for end customers who can shop using their local currencies, languages, domains, and payment methods. Shopify also provides merchants a single, integrated back-end platform through which merchants can manage and source inventory, process orders and payments, fulfill and ship orders, build customer relationships, leverage reporting and analytic tools, and access financing. With a mission to improve commerce and empower merchants to realize their potential by making a complex process simple, the company has effectively created a retail operating system used by over two million merchants in over 175 countries. The company generates approximately 72% of revenues in North America, with Europe, the Middle East and Africa accounting for 18%, and Asia-Pacific contributing approximately 10%.

A strategy holding since the first quarter of 2022, Shopify reported fundamentally strong quarterly results that were above consensus expectations for most key metrics, including gross merchandise volume (GMV), revenue, adjusted operating profit, and free cash flow. However, the company provided guidance for the current quarter that was mixed relative to higher near-term expectations, and the company also announced plans to increase some marketing and product spending. Revenue of \$1.9 billion rose 23% year over year, despite a 600 basis point headwind from the sale of its logistics business that was included in the prior-year period's results. The company generated \$61 billion of GMV on its platform during the quarter, which increased by 23% and was above our estimates of the growth in both e-commerce and overall retail sales, indicating that the company grew its market share during the quarter. Subscription revenue represented 27% of revenue and grew 34% year over year, driven by merchant additions and an increase in the company's take rate to 3.06%, which rose year over year adjusted for the sale of its logistics business – and demonstrating the company's pricing power. Merchant solutions represented 73% of revenue and grew 20% year over year, benefiting from strong growth in GMV and greater usage of the company's value-added services. Adjusted operating income of \$201 million rose from -\$31 million in the prior-year period as the company benefited from lower headcount and the sale of its logistics business. Adjusted operating margins of 11% were well above -2% in the year-ago period. Positive free cash flow of \$232 million was well above consensus expectations and substantially above free cash flow of \$86 million in the prior-year quarter.

We believe Shopify's strong and sustainable competitive advantages include its network and ecosystem, scale, brand, and an installed base of clients for whom its mission-critical platform serves as a retail operating system. Shopify's network includes software developers that have built over 10,000 applications that extend the functionality of the company's core commerce solutions, as well as over 40,000 partners such as design and marketing



agencies, photographers, and other digital and service professionals and experts that add further solutions and services to merchants. Because merchants wish to partner with a leading platform that offers numerous tools and solutions by partners that are in turn attracted to the platform by the merchants' growth and success, we believe a difficult-to-replicate network effect is created which ultimately increases the value to all participants. With over two million merchants and over \$230 billion of GMV in 2023, Shopify is the second largest merchant platform in the US behind Amazon. As a function of its scale, the company can provide merchant services including software, payments, capital, shipping, and fulfillment at a cost that only a large merchant could achieve, enabling Shopify's small and mid-sized business (SMB) clients to better compete against larger merchants. The company's scale also allows it to reinvest substantially in the business, all of which is focused on growing its platform and driving success for its merchants. As a result of its embedded nature and centrality to merchants' daily operations and success, switching costs are high, which contributes to high client retention, and merchants tend to expand their relationship with the company over time. Individually and collectively, we believe Shopify's strong and sustainable competitive advantages would be difficult for a competitor to replicate and can become stronger still over time as growth in its ecosystem continues to add value for all participants.

We believe Shopify will benefit from several secular growth drivers, all focused on driving merchant and commerce growth. While most of Shopify's revenue and GMV is linked to e-commerce, we expect omnichannel commerce will also become a growth driver for Shopify. We believe merchants will look to have an integrated software solution for all of their commerce needs, which we expect will benefit Shopify by expanding its addressable market to all retail commerce while simultaneously increasing client stickiness. As a function of strong secular growth drivers and numerous competitive advantages, we believe Shopify can sustain total revenue growth of almost 20% over our long-term investment horizon. While we expect investments to remain elevated in the near-term, over time we believe Shopify will benefit from increased operating expense leverage in all expense categories, including product and development, general and administrative, and sales and marketing. As a result, we expect operating profits and free cash flow to grow faster than revenues over our forecast period, in excess of 20% compounded annually. We believe current market expectations are substantially underestimating the company's multiple long-term secular growth drivers and the strength of the company's business model and competitive positioning. As a result we believe the shares trade at a substantial discount to our estimate of intrinsic value and offer a compelling reward-to-risk opportunity. We took advantage of near-term price weakness to add to our position during the quarter.

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

A portfolio holding since inception, Salesforce reported fundamentally solid quarterly financial results that exceeded consensus expectations for earnings per share (EPS) and free cash flow, but the company's current remaining performance obligations (CRPO) bookings, a forward-looking metric, was modestly below expectations. The company also updated its full-year outlook, which maintained prior guidance for revenue, adjusted operating income, and free cash flow, but modestly lowered is projected subscription revenue growth. There is no change to our view of Salesforce as a high quality company with secular growth opportunities. We believe Salesforce's strong and sustainable competitive advantages, which include its brand, comprehensive CRM solutions, large installed base of clients with high





switching costs, and scale, will enable it to benefit from secular growth in adoption of its cloud-based applications and to grow faster than the industry as a whole.

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

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

## 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, consumer discretionary, and healthcare sectors. We were underweight in the financials, information technology, consumer staples, and industrials sectors. We held no positions in the energy, 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 is approximately 10.3% since the inception of the strategy on December 1, 2021. The overall portfolio discount to intrinsic value was approximately 42.0% as of June 30, 2024.



## Important Disclosure

*Loomis, Sayles & Co., L.P. (“Loomis Sayles”) acts as a discretionary investment manager or non-discretionary model provider in a variety of separately managed account or wrap fee programs (each, an “SMA Program”) sponsored by a third party investment adviser, broker-dealer or other financial services firm (a “Sponsor”). When acting as a discretionary investment manager, Loomis Sayles is responsible for implementing trades in SMA Program accounts. When acting as a non-discretionary model provider, Loomis Sayles’ responsibility is limited to providing non-discretionary investment recommendations (in the form of a model portfolio) to the SMA Program Sponsor or overlay manager, and the Sponsor or overlay manager may utilize such recommendations in connection with its management of its clients’ SMA Program accounts. In such “model-based” SMA Programs (“Model-Based Programs”), it is the Sponsor or overlay manager, and not Loomis Sayles, which serves as the investment manager to, and has trade implementation responsibility for, the Model-Based Program accounts, and may customize each client account according to the reasonable restrictions or customization that a client may request.*

**Key Risks:** *Equity Risk, Market Risk, Non-US Securities Risk, Liquidity Risk. Investing involves risk including possible loss of principal.*

*Gross returns are net of trading costs. Net returns are gross returns less wrap fees.*

*Top and bottom holdings may not be representative of current or future holdings and will evolve over time. The examples above do not represent all securities purchased, sold or recommended for client accounts. They should not be considered specific investment recommendations or representative of other investments made by Loomis Sayles. A list showing the contribution of each holding to the overall performance of the representative account during the measurement period is available upon request.*

*Holdings analysis is shown for a representative account as supplemental information. Due to systems limitations it is difficult to analyze holdings on a composite basis. This representative account was selected because it closely reflects the Loomis Sayles Global Growth investment strategy. Due to guideline restrictions and other factors, there is some dispersion between the returns of this account and other accounts managed in the Global Growth investment style.*

*This marketing communication is provided for informational purposes only and should not be construed as investment advice. Any opinions or forecasts contained herein reflect the subjective judgments and assumptions of the authors only and do not necessarily reflect the views of Loomis, Sayles & Company, L.P. Investment recommendations may be inconsistent with these opinions. There is no assurance that developments will transpire as forecasted and actual results will be different. Information, including that obtained from outside sources, is believed to be correct, but Loomis cannot guarantee its accuracy. This information is subject to change at any time without notice.*

*The Global Growth ADR Managed Account Composite includes all discretionary Managed Accounts with market values greater than \$100,000 managed by Loomis Sayles that seek to produce long-term excess returns at or below benchmark risk over a full market cycle relative to the MSCI All Country World Net Index, generally within the market capitalization range of the Index, through investment in U.S. Dollar denominated securities and American Depositary Receipt (ADR). The Composite inception date is December 1, 2021. The Composite was created in 2022. For additional information on this and other Loomis Sayles strategies, please visit our web site at [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.**

**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 strategy will generate positive or excess return. Actual accounts have the potential for loss as well as profit.**

**Past performance is no guarantee of future results.**