



# 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	\$2.4 billion
Inception	12/1/2021
Benchmark	MSCI ACWI Index Net
Portfolio Manager	Aziz Hamzaogullari
Manager Since	Inception

## Portfolio Review

- The strategy posted negative returns of -3.38% (gross) and -4.10% (net wrap fee) vs. -1.32% for the MSCI All Country World Index Net, underperforming the benchmark by -2.06% gross during the quarter. MercadoLibre, Novartis, Alibaba, Tencent Holdings Limited, and Visa were the five largest contributors to performance during the quarter. Tesla, Alphabet, Amazon, Oracle, and Novo Nordisk were the five lowest contributors to performance.
- Stock selection in the consumer staples, healthcare, and communication services sectors, as well as our allocations to the information technology and healthcare sectors, contributed positively to relative performance. Stock selection in the financials, consumer discretionary, and information technology sectors, as well as our allocations to the consumer discretionary, financials, consumer staples, communication services, and industrials 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).

## Top Ten Holdings (%)

	Rep. Account
Meta Platforms, Inc.	7.8
MercadoLibre, Inc.	6.6
Amazon.com, Inc.	6.0
Netflix, Inc.	5.5
Alphabet Inc.	4.6
Tesla, Inc.	4.6
Shopify Inc.	4.2
Visa Inc.	4.2
Oracle Corporation	3.7
Adyen N.V.	3.4
Total	50.6

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).

## Global Growth ADR Managed Account Composite as of March 31, 2025 (%)

	CUMULATIVE TOTAL RETURN		ANNUALIZED TOTAL RETURN				
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR	SINCE INCEPTION
<b>PURE GROSS</b>	-3.38	-3.38	12.11	10.71	-	-	7.09
<b>NET MGMT FEE</b>	-3.56	-3.56	11.29	9.89	-	-	6.29
<b>NET WRAP FEE</b>	-4.10	-4.10	8.87	7.50	-	-	3.97
<b>BENCHMARK</b>	-1.32	-1.32	7.15	6.91	-	-	5.70

Returns for multi-year periods are annualized. 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, and is shown as supplemental information. Net returns are the gross returns less the effective management fees. The effective fee for an account is derived by applying the highest applicable fee based on the current model fee schedule for the composite (0.75%) to calculate an annual fee amount. Net of total wrap fee results reflect the deduction of an annual fee of 3.0%, the highest applicable fee for a managed account.

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.

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

MercadoLibre, Novartis, Alibaba, Tencent Holdings Limited, and Visa were the five largest contributors to performance during the quarter. We highlight the top three contributors, MercadoLibre, Novartis, and Alibaba, below.

- **MercadoLibre** is the largest online commerce platform in Latin America. The company offers its users an ecosystem of six integrated e-commerce services that include its marketplace, payment and fintech solutions, shipping and logistics, advertising, classified listings, and merchant web services. In its most recent fiscal year, commerce and related services accounted for approximately 59% of net revenue, while payments and fintech solutions accounted for approximately 41%. The company operates in 18 countries representing the vast majority of Latin American GDP, and its 218 million active users, last disclosed in 2023, represented over 45% of the region's estimated 480 million total internet users. We believe MercadoLibre benefits from strong and sustainable competitive advantages that include its network and ecosystem, brand, and understanding of local markets that collectively contribute to its leadership position in each market it serves. With continued growth in internet access, increasing availability of credit, and the company's continuing investments to improve the ease and convenience of transacting online, we believe MercadoLibre remains well positioned for sustained growth over the next decade, driven by the secular growth of e-commerce across Latin America.

A strategy holding since inception, MercadoLibre reported strong quarterly financial results that were above consensus expectations for gross merchandise volume (GMV), revenue, operating income, and earnings per share. The company continues to execute well and gained market share in e-commerce, payments, and financial services. Despite remaining in a period of elevated investment spending, the company also showed improvements in operating profits that were materially above consensus expectations, as well strong growth in free cash flow. Since 2019, the company's GMV has increased by approximately 3.5 times, reflecting the high value proposition to consumers, and the company continues to invest in providing better selection, price, and service.

For the quarter, net revenue of \$6.1 billion grew by 96% year over year in constant currency. The services provided by MercadoLibre generally fall into two distinct revenue streams. "Commerce" includes MercadoLibre's core e-commerce marketplace and related services and solutions, and accounted for 59% of revenue. "Fintech" accounted for 41% of revenue and includes items such as off-platform payment fees generated through the company's Mercado Pago payments platform, financing fees, and revenues from the sale of mobile point-of-sale (POS) products. Commerce revenue of \$3.5 billion rose 106% year over year in constant currency. GMV of \$14.5 billion rose approximately 56% year over year on a constant currency basis, driven by strong growth in Brazil and Mexico. While benefiting in part from a highly inflationary environment in Argentina, this follows solid GMV growth of 79% in the prior-year quarter, which suggests to us that the accelerated shift to e-commerce is persisting due to the high value proposition to consumers and merchants and the lower penetration rate of e-commerce in Latin America versus other geographies. The company continues to focus on expanding its product categories and deepening its selection. Live listings, one of the company's key performance indicators that demonstrates the broad and growing number of products available through the company's marketplaces, rose by approximately 7% to 446 million in the quarter, while the number of active users of MercadoLibre's commerce and fintech businesses grew by 24% and 34%, respectively. Fintech revenue of \$2.5 billion grew 84% in constant currency, driven by strong growth in merchant acquiring and credit services. Credit services in particular benefited from 74% growth in the company's \$6.6 billion credit portfolio that extends credit to both consumers and merchants. Total platform payment volumes increased by 49% to \$59 billion. Acquiring payment volumes represented 71% of the total volume and increased by 36% while payment volumes related to fintech services represented 29% of volume and increased by 101%. The company also reported that its emerging asset management business now has \$10.6 billion in assets under management, which grew 129% year over year.

We believe MercadoLibre continues to have an attractive financial model which has been



impacted over the past few years by an elevated investment cycle intended to strengthen the company's ecosystem and long-term competitive positioning. Reported operating margins of 13.5% rose 60 basis points year-over-year, and have improved materially over the past few years from the low-to-mid single digits. Margin improvement was driven by strong execution and cost discipline in the company's logistics network, efficiencies in collecting fees in its fintech businesses, and operating leverage. Management has demonstrated its long-term focus and commitment to investing everywhere needed to add value for users, including greater selection, frictionless payment options, and reduced cost and increased speed of delivery. In its commerce business, the company opened six new fulfillment centers during the prior quarter, including five in Brazil that will increase same-day delivery cities by 40%, and the company anticipates opening a further six by the end of 2025. While its elevated investments over the past few years have pressured near-term profits, management remains focused on balancing the investments needed to further improve user experience and extend the company's leadership in e-commerce and payments with maintaining a sustainable and profitable financial model. We believe the current market price embeds expectations for revenue and cash flow growth that are well below our long-term assumptions. As a result, we believe the shares trade at a significant discount to our estimate of intrinsic value and represent a compelling reward-to-risk opportunity.

- **Alibaba Group** is a leading China e-commerce and consumer-engagement platform provider, operating several businesses across commerce, technology, advertising, digital media and entertainment, logistics, payments, and local services. With over 40% of China's e-commerce transactions estimated to take place through its Taobao and Tmall marketplaces, we believe Alibaba's scale and brand would be difficult-to-replicate.

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

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

In March 2023, Alibaba announced its intention to reorganize the company into six independent business units, each of which would have its own CEO and Board of Directors and could seek to raise outside capital and potentially pursue its own initial public offering (IPO). While a number of the planned spin-offs have been delayed while it awaits stronger market conditions, the company continues to work to improve the synergies among all of its businesses. As currently constructed, Alibaba meets each of our quality, growth, and valuation criteria and trades at a discount to our estimate of intrinsic value. We will continue to evaluate whether the current business and any potential spin-offs meet each



of our quality, growth, and valuation criteria as more details become available. In the interim, we expect the company to continue to benefit from improving growth and margin expansion as China consumption growth and cloud spending eventually improves. We trimmed our position size during the quarter.

- **Novartis** is a diversified global healthcare company with market leadership in branded pharmaceuticals across a broad range of treatment areas, including oncology (30% of revenues), immunology (almost 20% of revenues), cardiovascular, renal, and metabolic (almost 20%), and neurology (10%). The company also derives over 20% of revenues from mature branded products in non-core therapy areas. With the October 2023 spinoff of the company's Sandoz generics and biosimilars division, which followed the 2019 spinoff of ophthalmologic equipment maker Alcon and 2018 divestiture of a consumer health joint venture, the company is now purely focused on innovative medicines, which accounted for about 80% of revenue and 85% of core operating income prior to the Sandoz spinoff. The company generates over 50% of revenue from the Americas, approximately 30% from Europe, and almost 20% from the rest of the world.

A holding in the strategy since inception, Novartis reported fundamentally solid quarterly financial results that were better than consensus expectations for both revenue and core earnings per share, and the company provided guidance for 2025 that included mid-to-high single-digit revenue growth and faster expected growth in core operating income. We believe Novartis' narrowed focus on branded innovative medicines, a pipeline increasingly focused on high-value transformative innovations with substantial end markets, and a broad portfolio that continues to have multiple growth drivers, leave the company well-positioned for sustained future growth. In addition, we believe the company is seeing the fruits of its shift in research and development (R&D) efforts over the last decade begin to materialize in the form of novel drug launches, such as Pluvicto and Leqvio, discussed below, with many more expected over the coming years.

Total revenues of \$13.2 billion rose 15% year over year in constant currency, ahead of consensus expectations of \$12.8 billion. In particular, performance was led by strength in the company's established medicines such as Entresto for heart failure and Cosentyx for inflammatory diseases, which grew 34% and 24%, respectively, and continued to penetrate their markets. Other key therapies include Kisqali, which rose 52% year over year, benefiting from recently expanded approvals for its treatment of various forms of breast cancer. Pluvicto, a first-in-class radioligand therapy used to treat prostate cancer, grew 42% year over year. The therapy is expected to be a key growth driver with potential for expanded use cases, including a new March 2025 approval for use of the therapy prior to patients receiving chemotherapy, which essentially triples its addressable patient population. With supply chain constraints appearing to abate, the company anticipates accelerating growth with broadening geographic approvals. Leqvio, a treatment for cardiovascular disease, grew 114% as the company ramped up commercialization initiatives to expand both access to and availability of the therapy. Finally, Scemblix, the company's third-generation successor to Gleevec and Tasisign for chronic myeloid leukemia, grew 66% year over year due to its improved efficacy and tolerability compared to the prior generation therapies.

Core operating income rose 27% in constant currency, benefiting from operating leverage from robust sales growth, offset to some degree by continued investments in R&D. Overall operating margins of 36.9% expanded 370 basis points year over year in constant currency. Despite the strong margin expansion that we have seen in recent periods with productivity and portfolio optimization, we believe margins will continue to expand over time from ongoing productivity gains and consistent investment in innovation that we believe will drive new product launches and resulting operating leverage.

We believe Novartis remains a differentiated business that will benefit from accelerating growth, continued solid execution, a structurally improving businesses, and a strong management team that is making sound strategic decisions to enable greater focus on the company's long-term competitive advantages of brand, scale, technology, and innovation. The company has a vast and well-balanced clinical pipeline of approximately 45 new molecular entities (NMEs) and over approximately 100 projects in total that we believe will support continued long-term growth and profitability. We believe the company is focused on and executing in the right areas of growth to create long-term shareholder value, and





the current stock price embeds future growth below our forecasts. As a result, we believe the shares are selling at a significant discount to our estimate of intrinsic value and offer a compelling reward-to-risk opportunity.

## Detractors

Tesla, Alphabet, Amazon, Oracle, and Novo Nordisk were the five lowest contributors to performance. We highlight the top three detractors, Tesla, Alphabet, and Amazon, below.

- Founded in 2003, **Tesla** is a global leader in the design, manufacturing, and sales of high-performance fully electric (battery) vehicles (EVs). The company's automotive unit sells its products directly to customers through its website and retail locations and continues to grow its customer-facing infrastructure through a global network of vehicle service centers, mobile service technicians, body shops, Supercharger stations, and Destination Chargers to accelerate widespread adoption of its products. Tesla also designs, manufactures, sells, and installs solar energy generation and energy storage products to residential, commercial, and industrial clients through its energy generation and storage unit. The company generated approximately 90% of its sales from its automotive segment and 10% from its energy generation and storage segment in its 2024 fiscal year. From a geographic standpoint, the US and China are the company's two largest markets and accounted for approximately 49% and 21% of 2024 sales, respectively, while the rest of the world collectively accounts for approximately 30%.

A portfolio holding since the first quarter of 2022, Tesla shares declined during the quarter, after appreciating 60% in the fourth quarter following the US election results in which CEO Elon Musk publicly supported President Trump. We believe the election results, which have no impact on our long-term structural investment thesis for the company, brought renewed focus on full-self driving (FSD) and other software opportunities for Tesla. Tesla's monetization of its growing installed base of vehicles through software sales, primarily FSD, has always been a key aspect of our investment thesis. More recently, Musk's greater involvement in US and global politics is thought to have brought negative attention to the brand, which is believed to be one of the primary drivers for current share price weakness. While we believe this could be impacting some sales, we believe the greater impact to current sales is customers awaiting the full availability of the new model Y, which is Tesla's most popular vehicle. Despite this near-term uncertainty, we believe the concurrent pullback in EV investments by many traditional auto manufacturers will enable Tesla to extend its product and technology advantages, driving even further differentiation as consumers consider the full suite of Tesla products, including new models anticipated in 2025. There is no change to our long-term structural investment thesis for Tesla, which continues to trade at a significant discount to our estimate of intrinsic value.

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

Quarterly revenue of \$25.7 billion rose 2% year over year. Despite working to lower the price of its vehicles to increase affordability, higher interest rates have impacted the core mass market customer Tesla ultimately seeks to win over. Tesla has a pricing strategy where they price their vehicles to maximize overall profit dollars. Historically the company had reduced price annually as it leveraged its growing scale to lower the total cost of ownership for potential buyers and drive EV adoption. The company is focused on penetrating mass-market buyers, where pricing sensitivity is a greater factor, and rising rates effectively increased the price of Tesla's cars by 10% over the past few years. The company also reiterated that it would be launching new passenger-driven vehicles and more affordable



models starting in the first half of 2025 to further drive adoption of EVs. We estimate Tesla's existing models currently address a potential market of approximately 20 million cars sold annually. We believe a lower-priced car could increase the company's addressable market to 50 million units. We believe this is the correct strategy as long as Tesla continues to protect its brand equity, which is one of the company's most important intangible assets. Given that Tesla manufacturing factories have high fixed costs that benefit from scale, increasing EV sales from current levels would improve production utilization and generate higher profit per vehicle. We believe that increased volumes will offset near-term margin pressure over time. Further, unlike traditional auto manufacturers, Tesla has the ability to sell software to car owners after the initial sale, providing incentive to grow an installed base that can later be monetized through software sales. The company is making strong progress on its industry-leading software which benefits from its data leadership in autonomous driving. In the last six months, the company captured more data than in the prior 2.5 years combined, and the company is ramping up customer education by demonstrating the technology at every new vehicle pick up, which it will extend to every service appointment as well.

Despite further lowering COGS per car, operating margins of 6.2% declined by 200 basis points during the period, due primarily to lower average selling prices as the company provided heavy incentives to clear inventory in advance of the launch of a new Model Y in 2025. However, the Cybertruck posted positive gross margins less than one year after its launch, while competitors such as Rivian still generate gross losses. We believe this underscores the company's cost leadership, scale advantages, and the maturity of its manufacturing operations. We believe these recent margin impacts are temporary and that over the long term, Tesla can generate operating margins in the mid-20% range, supported in part by an increasing mix of FSD sales. After posting negative free cash flow in the first quarter of 2024, free cash flow was positive for the third quarter in a row, and we believe it will remain positive as profits and capital expenditure efficiencies improve. Despite an automotive industry slowdown, we believe that Tesla is a structural share gainer in the overall auto industry and will continue to gain share and grow faster than the industry as a whole.

We believe the secular growth driver for Tesla is increasing penetration of electric vehicles as a share of global automotive sales. Around the world, EVs accounted for a low-double-digit percentage of new light vehicle sales in 2024, with penetration rates ranging from high-single digits in North America to low double-digits in Western Europe and almost 30% in China. We believe the pace of EV adoption will accelerate, driven by advances in battery technology that will drive cost parity, lower ongoing cost of ownership for consumers, government incentives, and numerous global initiatives to phase out internal combustion engine sales over the next two decades. Tesla is the global leader in battery EV sales, with high-teens unit share, around 25% revenue share, and a much higher share of industry profitability. While we expect competition to increase substantially, we believe Tesla's superior brand, focus, technology leadership, and strong ongoing consumer demand will enable the company to maintain a leading global market position.

In 2024, we believe the company made great progress towards its vision of an autonomous driving future. Tesla replaced the current FSD offering with FSD (Supervised), which allows the company to offer full-self-driving functionality but requiring consumers to remain alert. In addition, the company debuted FSD version 13 that was used to power the cybercab and the unmanned Model 3 and Model Y as the company announced its robotaxi strategy. FSD 13, which represents the first version of FSD software based solely on AI training on the company's super computers, delivers a step change improvement in autonomous driving capabilities and has been rolled out to existing subscribers. We believe most consumers will ultimately adopt FSD functionality over the long term. Tesla's software offerings carry profit margins that are significantly greater than the current company average and we believe they will drive strong profit growth. Over time, we believe uptake of high-margin software capabilities, which we believe can increase from a negligible percentage of profits today to approximately 25%, will contribute to expanding the company's operating margins. We believe the assumptions embedded in Tesla's share price underestimate the company's significant long-term growth opportunities and the sustainability of its global market share. We believe the company's shares currently sell at a significant discount to our estimate of intrinsic value and thereby offer a compelling reward-to-risk opportunity.



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

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

For the quarter, total revenue of \$96 billion represented a 12% increase year over year in constant currency. Reported earnings per share rose 31% and were above expectations. Alphabet reports results in three segments: Google Services, Google Cloud, and Other Bets. Google Services reported quarterly revenue of \$84 billion, which increased 10% year over year and represented approximately 87% of total revenue. Advertising revenue accounted for 86% of Google Services revenue and increased by 11% compared with the year-ago quarter. Advertising revenue was driven by the search business, which grew 13% year over year. Outside of search, the company reported 14% growth in YouTube, which benefited from improvement in brand advertising and direct response ads, while the network advertising businesses continued to show weakness, declining 4% year over year. Non-advertising revenue, which includes Google Play, hardware, and YouTube non-advertising revenues such as subscriptions, represented 14% of Google Services revenues and increased 8% year over year. The company experienced strong growth in YouTube subscriptions such as Premium Music and YouTube TV, which have over 80 million subscribers.

Google Cloud reported quarterly revenue of \$12 billion on growth that decelerated 500 basis points to 30% year over year, and represented 12% of total revenue. Google's cloud business includes Google Cloud Platform (GCP), the company's infrastructure- and platform-as-a-service offerings, and G Suite, which includes the company's software-as-a-service offerings such as Gmail, Docs, Drive, and Calendar. The segment generated an operating profit of \$2.1 billion on EBIT (earnings before interest and taxes) margins of approximately 17.5%, which improved from 9% in the prior-year quarter. Alphabet's



Other Bets segment reported revenue of \$400 million that declined 39% year over year and represented less than 1% of total revenues. Many of these businesses are still early stage and results are volatile on a quarterly basis. We believe Google's key revenue drivers of mobile search, YouTube, programmatic advertising, and an emerging cloud business that is Google's fastest growing business, each continue to benefit from secular drivers including increased mobility, video advertising, better use of advertising technology to drive performance, and increased penetration of public cloud services.

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

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

- Online retailer **Amazon** offers millions of products – sold by Amazon or by third parties – with the value proposition to consumers of selection, price, and convenience. Amazon's enterprise IT business, Amazon Web Services (AWS), offers a suite of secure, on-demand, cloud-computing services, with a value proposition to clients of speed, agility, and savings. In both of its core markets, Amazon possesses strong and sustainable competitive advantages that would be difficult for competitors to replicate. In e-commerce, these include its brand, scale, technology platform, network advantage, and logistics and distribution systems. AWS benefits from its brand, technology platform, and massive scale, which allows it to pass along cost savings while continuing to innovate. Growing well in excess of their underlying markets, both of Amazon's businesses are gaining market share. Led by visionary founder and Executive Chairman Jeff Bezos, Amazon invests aggressively to expand and leverage its customer base, brand, and infrastructure, targeting businesses with strong financial returns that are anticipated to offer large and enduring growth opportunities.

A portfolio holding since strategy inception, Amazon reported quarterly financial results that were fundamentally solid and generally above management guidance and consensus expectations. Shares may have responded negatively to guidance for the current quarter that was below expectations for both revenue and operating income. For the quarter, net sales of \$188 billion increased 9% year over year in constant currency. E-commerce and related revenue, which accounted for approximately 82% of revenue, was driven by 7% growth in the online store, 9% growth in third-party services, 18% growth in advertising, and 10% growth in retail subscription services such as Prime membership and digital media subscriptions. E-commerce unit sales growth of 11% suggest that the company expanded its market share both in North America and globally during the period. The company's e-commerce leadership is also benefiting its advertising business, which was led by its sponsored products unit and is further expected to benefit from newer streaming ads on Prime. Over the past decade, the company has grown its advertising business from what we estimate was approximately \$1 billion in 2014, to over \$55 billion in revenue over the past 12 months, and which we believe will continue to grow at a mid-teens rate over our long-term investment horizon.

Comprising 15% of total net sales at \$29 billion, AWS revenue grew 19% in constant currency compared with the year-ago quarter, consistent with recent quarters but higher than growth of approximately 13% in the prior year. Amazon is the world's largest cloud vendor, with over 30% overall market share that we estimate to be 1.5x that of next largest competitor Microsoft, which has approximately 20% share. All other providers each have less than 10% share. The acceleration of growth represents stabilization in spending after businesses spent the prior year optimizing their cloud spending following a period of economic weakness. The company observed clients continuing to shift from optimization





to driving innovation and bringing more workloads to the cloud. In particular, AI-based workloads now represent a multibillion-dollar revenue run rate business that is growing at a triple-digit rate year over year and remains early stage in terms of the total addressable opportunity. Physical stores accounted for approximately 3% of revenues and rose 8% year over year. We believe Amazon is one of the best-positioned companies in e-commerce and enterprise IT – in each case addressing large, underpenetrated markets that benefit from secular growth that is still in its early stages. In both of its core markets, we believe Amazon possesses strong and sustainable competitive advantages that would be difficult for competitors to replicate.

Amazon's sales mix has been shifting over the past few years to higher-margin product categories such as third-party e-commerce sales, AWS, and advertising. Overall, Amazon reported operating income of \$21 billion, up 60% compared with the year-ago quarter. The company benefited from an improvement in all segments, with operating margins improving by 350 basis points on a global basis to exceed 11% operating margins. We expect Amazon to continue to drive operating margin expansion in the core commerce business with structural margins exceeding 10% over the longer term. Over the past few years, Amazon has made substantial investments to ensure that its fulfillment and transportation network remained unconstrained during the pandemic. As a result, the company doubled its fulfillment footprint – which took 25 years to build – and built out a transportation network to support last-mile delivery. Given the company's long-tailed secular growth opportunities, over time we believe it will realize greater productivity and fixed cost leverage from these investments in labor, fulfillment, and distribution. The company has showed efficiency gains due in part to its decision to transition away from a national network and towards several smaller regional networks that resulted in faster and less expensive deliveries in the quarter. AWS operating income rose by 48% to \$10.6 billion, with operating margins of 37% that expanded approximately 700 basis points versus the year-ago quarter. Over the trailing twelve months, the company generated positive free cash flow of \$38 billion that rose 4% year over year.

On a global basis, e-commerce represents over 12% of an estimated \$23 trillion of global retail sales outside of China, where Amazon does not have a substantial presence. We estimate that Amazon's share of total e-commerce across these markets is in the mid-20% range and approximately 3% of total retail sales. We believe a long-term, secular shift from traditional brick-and-mortar retail to e-commerce is still in its early stages and that e-commerce will come to represent a significantly higher portion of the global retail market. We believe Amazon's structural operational advantages, network effect, and relentless focus on customer service position the company to grow faster and more efficiently than its traditional or online retail competitors. We also believe AWS is well positioned in the nascent and underpenetrated cloud-computing services market. We estimate the segment can realize mid-teens compounded annual revenue growth with structural operating margins in the mid-to-upper 30% range, albeit with annual fluctuations in margin depending on investment opportunities. As a result, we believe the long-term operating profit potential of AWS can approach 50% or more of the company's core retail opportunity. Over our investment time horizon, we believe Amazon can sustain low-double-digit revenue growth and faster growth in operating profits and free cash flow that is not currently reflected in the share price. As a result, we believe the company is selling at a significant discount to our estimate of intrinsic value and offers a compelling reward-to-risk opportunity.

## Outlook

- Our investment process is characterized by bottom-up, fundamental research and a long-term investment time horizon. The nature of the process has led to a lower-turnover portfolio in which sector positioning is the result of stock selection.
- At quarter end, we were overweight in the consumer discretionary, communication services, 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 9.0% since the inception of the strategy on November 6, 2017. The overall portfolio discount to intrinsic value was approximately 48.3% as of March 31, 2025.

## 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. Due to systems limitations it may be 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 may be some dispersion between the returns of this account and other accounts managed in the Global Growth investment style.*

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*The Global Growth ADR Managed Account Composite includes all discretionary Managed Accounts with market values at least \$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 January 2022. For additional information on this and other Loomis Sayles strategies, please visit our web site at [www.loomissayles.com](http://www.loomissayles.com).*

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**Market conditions are extremely fluid and change frequently.**

**Diversification does not ensure a profit or guarantee against a loss.**

**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.**

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