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.

<table>
<thead>
<tr>
<th>Strategy AUM</th>
<th>$60.0 billion</th>
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<tbody>
<tr>
<td>Fund AUM</td>
<td>$11.4 billion</td>
</tr>
<tr>
<td>Share Class</td>
<td>Y</td>
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<tr>
<td>Inception</td>
<td>5/16/1991</td>
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<tr>
<td>Ticker</td>
<td>LSGRX</td>
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<tr>
<td>Benchmark</td>
<td>Russell 1000® Growth</td>
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<tr>
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<tr>
<td>Portfolio Manager</td>
<td>Aziz Hamzaogullari</td>
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<tr>
<td>Manager Since</td>
<td>June 2010</td>
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Portfolio Review

- The fund posted positive returns of 13.51% vs. 12.81% for the Russell 1000® Growth Index, outperforming the benchmark by 0.70% net during the quarter. Nvidia, Meta Platforms, and Oracle were the three largest contributors to performance during the quarter. Illumina, Regeneron Pharmaceuticals, and Walt Disney were the three lowest contributors to performance.

- Stock selection in the information technology, communication services, and consumer staples sectors, as well as our allocations to the communication services, consumer staples, and consumer discretionary sectors, contributed positively to relative performance. Stock selection in the financials, industrials, healthcare, and consumer discretionary sectors, as well as our allocations to the information technology, financials, and healthcare sectors, detracted from relative performance.

- The fund is actively managed with a long-term, private equity approach to investing. Through our proprietary bottom-up research framework, we look to invest in those few high-quality businesses with sustainable competitive advantages and profitable growth when they trade at a significant discount to intrinsic value (our estimate of the true worth of a business, which we define as the present value of all expected future net cash flows to the company).

Class Y Performance as of June 30, 2023 (%)

<table>
<thead>
<tr>
<th></th>
<th>CUMULATIVE TOTAL RETURN</th>
<th>AVERAGE ANNUALIZED RETURN</th>
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<tr>
<td></td>
<td>3 MONTH</td>
<td>YTD</td>
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<td>FUND</td>
<td>13.51</td>
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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.

Performance for periods less than one year is cumulative, not annualized. Returns reflect changes in share price and reinvestment of dividends and capital gains, if any. You may not invest directly in an index.

Additional share classes may be available for eligible investors. Performance will vary based on the share class.

Gross expense ratio 0.65% (Class Y). Net expense ratio 0.65%. As of the most recent prospectus, the investment advisor has contractually agreed to waive fees and/or reimburse expenses once the expense cap of the fund has been exceeded. This arrangement is set to expire on 1/31/2025. When an expense cap has not been exceeded, the fund may have similar expense ratios.

The Class Y Inception date is 5/16/1991. Institutional. Class shares (Class Y) are available to eligible investors with a minimum initial investment of $100,000 and without a sales charge.

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.
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 Block, Disney, Illumina, PayPal, and Tesla as near-term price weaknesses created attractive reward-to-risk opportunities. We trimmed our positions in Meta Platforms and Nvidia as they approached our maximum allowable position size.

Contributors

Nvidia, Meta Platforms, and Oracle were the three largest contributors to fund performance.

• **Nvidia Corporation** is the world leader in artificial intelligence (AI) computing, which enables computers to mimic human-like intelligence for problem solving and decision making capabilities. Founded in 1993 to develop faster and more-realistic graphics for PC-based video games, Nvidia created the first graphics processing unit (GPU), a dedicated semiconductor that employs a proprietary parallel processing architecture to perform superior graphics rendering outside of a computer’s standard central processing unit (CPU). The parallel processing capability of Nvidia’s GPUs, which contrasts with the linear processing requirement of CPUs, can accelerate computing functions performed by standard CPUs by greater than ten times. As a result, Nvidia has extended its visual computing expertise beyond its legacy gaming market into innovative new and larger markets, including data centers, autos, and professional visualization. The parallel processing capability facilitates pattern recognition and machine learning functions that have enabled Nvidia to be at the forefront of growth in artificial intelligence applications. As a result, the data center business, 55% of revenue, has now surpassed the gaming business to become Nvidia’s largest revenue and profit generator. The company is also focused on building out its GPU-computing-based ecosystem and is enabling breakthroughs in autonomous driving, and virtual reality. Today, Nvidia is the market leader in GPUs where it forms a duopoly with competitor Advanced Micro Devices (AMD).

A fund holding since the first quarter of 2019, Nvidia reported financial results for its fiscal first quarter that were better than consensus expectations as adoption of AI continues to accelerate with new applications such as generative AI driving strong demand for GPUs by companies looking to leverage AI capabilities and drive competitive differentiation. The company also provided revenue guidance for its second quarter that was over 50% higher than consensus expectations, and projected even greater strength in its third and fourth quarters, resulting in a material increase in expectations for revenue, profits, and free cash flow for its full fiscal year.

For the quarter, total revenue of $7.2 billion declined 13% year over year but rose 19% from the prior quarter. A 38% year-over-year decline in gaming revenue, which represented 31% of quarterly revenue, more than offset a 14% increase in the company’s data center segment, which accounted for 60% of revenue. In gaming, while revenue declined year over year, it rose 22% from the previous quarter. We believe recent weakness in gaming reflects global demand for PCs returning to pre-pandemic levels after a period of excess, along with the impact of macroeconomic weakness and Covid restrictions on China consumer spending. Gaming results were better than expectations due to strong uptake of the company’s newest 40-series graphics cards, and as a result of actions Nvidia took to clear existing inventory in its retail channels. We believe the gaming business is poised to return to secular growth.
In the company’s data center business, we believe the company’s decades of focused investment, cumulative know-how, and robust software platform and architecture that has attracted millions of developers position it to benefit from several secular long-term growth drivers, including accelerated adoption and continued growth in applications and use cases for artificial intelligence – with the most recent being generative AI, one example of which is ChatGPT. To further drive adoption by enterprises, Nvidia is also partnering with cloud service providers including Oracle, Microsoft, and Google to offer its AI services via the cloud.

Nvidia maintains a high-quality financial model in which operating margins have expanded significantly over the past two decades and strong cash flow returns on invested capital have consistently exceeded the cost of capital by a significant margin. Over our long-term investment horizon, we believe double-digit growth in gaming revenues and faster growth in its data center markets will help enable Nvidia to sustain total annualized revenue growth of approximately 20%. With low capital intensity and high cash flow returns on invested capital, we believe the company can generate faster growth in free cash flow. We believe Nvidia’s free cash flow growth prospects are not currently reflected in its share price. As a result, we believe the company’s shares trade at a significant discount to our estimate of intrinsic value and offer a compelling long-term reward-to-risk opportunity.

- **Meta Platforms** operates online social networking platforms that allow people to connect, share, and interact with friends and communities. The company’s Facebook platform allows message exchange, photo and video sharing, and common-interest user groups, and Meta’s family of apps also includes leading global social and messaging applications Instagram, Messenger, and WhatsApp.

A fund holding since its initial public offering (IPO) in the second quarter of 2012, Meta reported quarterly financial results that reflected ongoing macroeconomic pressure on advertising spending but were above expectations for revenue, operating income, earnings per share, and free cash flow. The company also provided guidance for the current quarter that was higher than consensus expectations and lowered its total expense outlook for the year. In May, the company reported an anticipated fine by the Irish Data Protection Commission of €1.2 billion regarding its transfer of user data between the EU and the US. The company is seeking a stay as it appeals the decision, and highlighted a political agreement in place but not yet implemented between the Presidents of the US and the European Commission that would solve the issue by allowing the free flow of transatlantic data. Over the past year, Meta’s growth has faced headwinds from privacy restrictions implemented by Apple in 2021, a transition to a new product format that lowered monetization as it cannibalized older, higher monetizing products, and more recently macro weakness that impacted advertising demand among clients in certain industries. Apple’s changes and macroeconomic weakness impact not just Facebook, but the broader mobile advertising ecosystem. As a function of its competitive advantages, we believe the company remains well positioned relative to its peers, and there are no changes to our assessment of Meta’s quality or secular growth opportunities.

Meta also remains in an elevated investment cycle focused on building new data centers to support next-generation AI hardware that will support its core Feed, Reels, and advertising platforms, as well as business messaging and its metaverse products. The company is also transitioning to a new product format – short term video – where monetization is currently lower. During our ownership of Meta, Facebook has successfully navigated several product transitions. Each such transition first requires capital expenditures followed by a gradual revenue ramp-up, creating pressures on topline, margins, and earnings. Over time, the required investment decreases and revenues increase. We believe this is a necessary cycle for maintaining sustainable competitive advantages and long-term growth. The company believes it will begin to break even on the new product format towards the end of 2023 or early 2024. Finally, the company continues to invest significantly in its early-stage
Reality Labs segment, which includes augmented- and virtual-reality products that the company views as building its long-term vision for the metaverse. While the company incurred operating expenses of almost $16 billion in the Reality Labs segment in 2022, the investment represented just over 35% of the operating profit generated by the company's highly profitable core business. Mark Zuckerberg has always managed the company with a long-term focus and strong strategic vision. Over the past ten years, Meta has spent over $125 billion on research and development and $110 billion on capital expenditures, including over $100 billion and over $90 billion, respectively, in just the last five years. This represents a level of investment that few firms can match and creates high barriers to entry for competitors that are further compounded by Meta's growth of cumulative knowledge over time. The successful development of a metaverse is not an explicit part of our investment thesis for Meta. However, given the potential size of the opportunity, which we estimate could impact over $1 trillion of spending over the long term, and Meta's current balanced approach to its forward looking investments make sense. Despite the near-term pressure on financial results that it experienced recently, Meta continues to have significant advantages arising from its network of 3 billion daily users of its family of apps, over 200 million businesses that use its platforms and tools every month, and approximately 10 million advertisers who have consistently paid more per user for access to its rare network. We expect that businesses and decision makers in all sectors will continue to allocate an increasing proportion of their advertising spending online, and Meta remains one of very few platforms where advertisers can reach consumers at such scale in such a targeted and effective fashion.

For the quarter, revenue from Meta's family of apps, which is primarily advertising revenue, accounted for 99% of the company's $32 billion in total revenue and accelerated to 7% year-over-year growth in constant currency. User data, coupled with the scale and frequency of engagement, allows Meta an unprecedented ability to specifically target direct marketing. The ability of advertisers to deliver relevant content, in turn, increases user engagement, and contributes to growth in the overall ecosystem. Year over year the number of Facebook users rose 2% to 2.99 billion global users, with daily active users growing 4% to 2 billion. As a result, engagement, as measured by the percentage of daily active users, increased approximately 140 basis points year over year to 68%. Across its family of apps — Facebook, Messenger, WhatsApp, and Instagram — Meta now reaches 3.8 billion consumers monthly, approximately 3 billion of which, or approximately 79%, are daily users. Users outside of North America account for 2.7 billion or 91% of Facebook's global user base, while the US and Canada accounted for 9%, or 269 million users. As users grow, more advertisers come to the platform. Meta now has over 200 million businesses that use its platforms or tools every month, and the company recently reported the number of advertisers grew to over 10 million, up from over 8 million at the end of 2019 and over 7 million at the end of 2018. Total average revenue per user (ARPU) for the quarter of $9.62 rose 1% year over year. Quarterly ARPU ranged from $49 per user in North America to approximately $3.4 per user in the rest-of-world category. Since 2012, annual monetization per user has increased globally from $5 per user to approximately $40 in 2022, a compounded annual growth rate of 23%, which we believe is a secular trend that reflects Facebook's strong pricing power and ability to monetize its global user base. The company's reality labs segment, which includes augmented- and virtual-reality consumer hardware, software, and content, accounted for 1% of total revenues and decreased 51% year over year, impacted by lower sales of Quest 2.

Despite the impact of elevated investment spending, we believe Meta continues to have an attractive financial profile. Quarterly earnings before interest and taxes (EBIT) of $7.2 billion declined 15% year over year on adjusted margins of 29% that contracted 100 basis points. The company's family of apps generated $11.2 billion of EBIT on operating margins of 40%. Meta continues to invest heavily in new growth drivers, such as Reality Labs, which is the division that focuses on virtual reality and augmented reality hardware and
software. Reality Labs revenue increased from around $500 million in 2019 to $2.2 billion in 2022. During the quarter, the Reality Labs segment generated an operating loss of $4 billion, which increased from a loss of $3 billion in the prior-year period. Total free cash flow of $6.9 billion declined 19% due to capital expenditures of $7.1 billion that remained elevated at 25% of revenue and which rose 28% year over year. During the quarter, Meta repurchased $9.2 billion of its shares, reducing outstanding share count by 4%. We believe Meta remains a high-quality company, benefiting from the secular shift from traditional advertising to online advertising and positioned for strong and sustainable growth over our investment time horizon. We believe Meta benefits from the competitive advantages of its network, scale, strong brands, platform strategy, and a targeting advantage. With 3.8 billion monthly users and over 200 million businesses worldwide using its family of apps, the scale and reach of Meta’s network is unrivaled. When excluding China, where Meta is not currently operating, we estimate the company’s Facebook and Messenger application ecosystem represents approximately 75% of the world’s internet population. We expect that corporations will continue to allocate an increasing proportion of their advertising spending online, and Facebook remains one of very few platforms where advertisers can reach consumers at such scale in such a targeted and effective fashion. We believe Facebook’s brand, network, and targeting advantage position the company to take increasing share of the industry’s profit pool and grow the company’s market share from approximately 6% currently to approximately 10% of the estimated over $1.8 trillion total global advertising market over our investment time horizon. We also believe that the expectations embedded in Meta’s current share price show a lack of appreciation for the company’s growth opportunities and the sustainability of its business model. We believe the consensus expectations and current market price reflect assumptions for free cash flow growth that are well below our long-term expectations of double-digit cash flow growth. As a result, we believe the shares trade at a significant discount to our estimate of intrinsic value, creating a compelling reward-to-risk opportunity. We trimmed our position during the quarter as it approached our maximum allowable position size.

- **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 large 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 with high switching costs 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 long-term fund holding, Oracle reported quarterly financials that were strong and better than consensus expectations for revenues, earnings before interest and taxes (EBIT), earnings per share (EPS), and free cash flow. The company also provided initial guidance for the current quarter that was better than expected for revenues, and highlighted its expectation that the cloud business would maintain revenue growth of approximately 30% and that Oracle would experience margin expansion in the coming fiscal year. Including the company’s recent acquisition of Cerner, which was also a holding within our large and all cap growth portfolios, total revenue of $13.8 billion rose 18% year over year in constant currency. At $11.5 billion, software sales represented 83% of total revenue and rose 14% year over year, benefitting from 33% growth in its cloud revenue during the quarter. Oracle’s infrastructure and cloud services and support business (53% of total software, cloud services and support revenue) grew 15% year over year – a sequential improvement from 10% growth in the previous quarter. Revenue drivers included Oracle cloud infrastructure (OCI), which grew by 112% versus the prior-year quarter, 60% growth in Cloud@Customer, and autonomous database growth of 47%. Oracle’s applications business (47% of total software, cloud services and support revenue) generated 11% organic growth in constant currency. Driven by 24% growth in its strategic back office
applications, which include its Fusion suite of cloud-enabled enterprise software solutions, the company experienced strong growth in several key cloud products such as enterprise resource planning (ERP) and its NetSuite small-business ERP offerings, 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 over time due to a higher customer lifetime value as the transition progresses. The cloud model also allows Oracle to monetize its services and technology more efficiently and yield savings to the customer.

In Oracle’s hardware segment, revenue of $850 million rose 1% year over year, which was also above consensus expectations. The hardware business accounted for approximately 7% 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 11% of revenue), revenue of $1.5 billion rose 78% compared with the same quarter last year, benefiting from the acquisition of Cerner.

Even though the company is in the midst of a major business model transition, we believe Oracle’s financials remain strong Adjusted EBIT of $6.2 billion rose 12% versus the prior-year quarter in constant currency and was above consensus expectations. Operating margins declined approximately 260 basis points to 44%, due primarily to the inclusion of Cerner, which we expect will improve over time as the acquired company benefits from Oracle’s technology and scale. Over the trailing twelve months, Oracle generated $8.5 billion in free cash flow, which rose 68% year over year and represented 17% of total revenue. Capital expenditures of $8.7 billion remained elevated as Oracle continues to build capacity to support the strong growth in its cloud services. Following the acquisition of Cerner, the company continues to have a high degree of financial leverage, with long-term debt to capital of 94%. However, given its persistently strong cash flow and resulting debt servicing capability, we believe the balance sheet remains solid and expect the company to focus on decreasing leverage in the near to immediate term. 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.

**Detractors**

Illumina, Regeneron Pharmaceuticals, and Walt Disney were the three lowest contributors to performance.

- Founded in 1998, **Illumina** is the industry leader in fast-growing field of sequencing for genetic and genomic analysis, supporting research, clinical, and consumer genetics applications. The company’s customers include leading genomic research centers, academic institutions, government laboratories, hospitals, pharmaceutical and biotechnology companies, commercial molecular diagnostic laboratories, and consumer genomics companies. Genetic information is carried within DNA – the molecules in our genes that humans and all organisms need to develop, live, and reproduce. Sequencing is the process of determining the precise order of nucleotides that comprise DNA. Because genes determine cell function and characteristics, understanding genetic sequencing and variation can provide valuable information in fields ranging from disease treatment to crop optimization. Illumina also offers array-based solutions that represent a faster, less expensive way to
identify genetic variation within a known gene pool.

A fund holding since March 2020, Illumina reported quarterly financial results that were ahead of lowered consensus expectations, but declined 9% year over year in constant currency. The company reported strong orders for its newest sequencing platform, NovaSeq X, including over 200 orders from almost 30 countries that led it to increase its full-year projected shipments. However, the company’s near-term results and guidance are below our long-term expectations. While the launch of a new platform typically results in an initial slowdown in revenues as customers exhaust existing inventory while evaluating the new platform, we believe the company’s acquisition of GRAIL has detracted from near-term focus and returns. GRAIL was founded by Illumina in 2016 and was spun out as a standalone company in 2017, with Illumina retaining an equity interest that represented approximately 15% ownership. The company reacquired GRAIL in August 2021, but uncertainty remains as the company closed the transaction prior to receiving approval from the EU, which has since ordered that the business be divested. Illumina is challenging divestiture rulings from both the EU and FTC, which we believe might be resolved by the first quarter of 2024.

GRAIL is an early leader in asymptomatic cancer screening through liquid biopsies, which utilize Illumina’s Next Generation Sequencing technology to detect tumor DNA in the bloodstream before it could otherwise be sampled via a traditional biopsy. To date GRAIL has produced increasingly compelling data in support of its screening technology. Continued reduction in sequencing costs potentially broaden the $20+ billion accessible market opportunity. We believe the combination with Illumina would provide GRAIL with structural operating and distribution advantages relative to competitors that potentially position it to become the standard of care. And while realizing the acquisition’s potential will take substantial ongoing investment that will depress Illumina’s near-term financial results, we believe successful execution could yield positive value to Illumina. However, our structural investment thesis for Illumina is not premised on a successful completion of the GRAIL acquisition, which prompted a campaign by an activist investor that was understandably dissatisfied with management’s handling of the acquisition process. While the process is likely to remain a distraction over the coming year, we believe Illumina’s core business remains highly attractive on a reward-to-risk basis and remains substantially discounted to intrinsic value regardless of the GRAIL outcome. As we do with all regulatory developments, we continue to monitor and assess any potential structural impact to our investment thesis for Illumina.

The activist investor campaign was seeking three board seats. It succeeded in securing one seat while the Chairman, John Thompson, was voted off the board. About two weeks following the annual meeting, CEO Francis deSouza submitted his resignation. The timing of the leadership turnover comes at an inopportune moment. Illumina is in the early stages of a major platform launch while simultaneously facing more competition than in recent years. The company is also involved in legal disputes with regulators both home and abroad. Though we prefer not to have this level of management uncertainty, we believe it presents an opportunity for the business to redouble its focus on the significant opportunity in its core markets and reinvigorate operational execution - which appears to have diminished over the last several quarters under deSouza. Charles Dadswell, Senior Vice President and General Counsel, has been named interim CEO, and deSouza will remain with Illumina through July 31 in an advisory capacity. In addition to the activist sponsored candidate, Illumina added two new board members with significant experience at innovative, market-expanding healthcare businesses that we believe should contribute positively to Illumina’s efforts to return to growth. We think the board is diligently working to name a successor and believe that the next leader of Illumina should bring experience developing clinical markets, nurturing R&D led organizations, growing ecosystems, and building platform-driven business models.
Despite the near term uncertainty, we believe Illumina remains advantageously positioned in a high quality industry benefitting from long-term, secular growth. We believe Illumina is at the forefront of a multi-decade transformation that will see genetic analysis incorporated into multiple facets of our lives. While demand today is still predominantly from large life sciences research facilities, over the next decade we believe democratization of gene sequencing technology and greater practical application will result in the equipment becoming ubiquitous in clinical settings as well, with oncology offering the largest market opportunity. We believe Illumina is a dominant competitor whose sequencing technology represents the critical enabling technology that uniquely positions it to capitalize on an approximately $100 billion market opportunity. We believe Illumina's shares 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. We took advantage of near-term price weakness to add to our position during the quarter.

• **Regeneron Pharmaceuticals** is a fully integrated biopharmaceutical company that discovers, develops, manufactures, and commercializes medicines for the treatment of serious medical conditions. The company was established in 1988 with the vision of empowering scientists to shape the path of the business by advancing long-term scientific outcomes over short-term results. Regeneron-invented technologies include VelocImmune, a patented technology for creating fully human monoclonal antibodies, enabling rapid discovery and development of viable candidates for clinical trials. With this accelerated process, the time and capital required for pre-clinical research is reduced, allowing Regeneron to significantly outpace its competition in bringing new therapies to trial, and ultimately to market. As a result, while many biotechnology companies have the ability to pursue only one or two drugs, Regeneron has over 30 fully human antibodies in clinical development, including seven currently marketed therapies for which it is investigating additional indications. Regeneron's technology enabled it to negotiate risk-mitigating collaborations with larger biopharmaceutical company partners which fund early-stage research and development (R&D) in exchange for a share of potential profits and research cost reimbursement, and through which Regeneron accesses scale and distribution strength. Today the company markets therapies for eye diseases, atopic dermatitis, asthma, oncology, high LDL cholesterol, and a rare inflammatory condition. The company has also developed a robust pipeline of candidates in areas of high unmet medical need including oncology, allergic disease, central nervous system (CNS) diseases, hematology, and infectious diseases. We believe that Regeneron's science-driven culture, unique technology, and long-term focus on delivering innovative medical solutions will result in substantial value creation over our investment horizon.

Purchased in the third quarter of 2016, shares declined following the company’s late-June announcement that it received a Complete Response Letter (CRL) from the Food & Drug Administration (FDA) in response to its application for approval for 8mg Aflibercept, an improved formulation of the same drug behind the company’s leading Eylea therapy. The therapy has shown comparable efficacy and safety when dosed at 12 to 16 weeks as 2mg Eylea, which is dosed every 8 weeks. According to the company, the CRL was “solely due to an ongoing review of inspection findings at a third-party filler.” The CRL did not question the efficacy of safety of the therapy, and did not call for new data. Management has indicated that they are working with the third-party manufacturer to rectify the identified issues and re-submit with the FDA as quickly as possible. While the company did not provide a timetable for a revised application, in our experience, these processes typically take six-to-nine months to rectify when the result is favorable. The clinical results for 8mg Aflibercept, which are accompanied by an established safety profile after Eylea’s decade on the market, are superior to any existing or clinical therapy, and should firmly maintain the company’s leadership in treating diseases of the back of the eye if approved. Further, because the higher dose required a new formulation and some modifications to the underlying molecule, Regeneron will file for a new patent, which could provide
additional intellectual property protection versus biosimilar competition, which is expected to emerge for Eylea sometime over the next two-to-four years. In the interim, given Eylea’s current market share dominance, but continued competitive inroads from Roche’s recently-approved Vabysmo, which has comparable efficacy to Eylea, we continue to expect to see near-term market share losses prior to 8mg Aflibercept’s approval and commercialization. Given the lack of any issues regarding Aflibercept’s efficacy or safety, we believe the 8mg therapy remains likely to be approved once the production issues are resolved. And Regeneron’s aflibercept-based therapies are expected to continue to lead the market over the long term, albeit with increased competition entering the landscape. While the potential loss of market share over the next few months has modestly impacted our assessment of Regeneron’s intrinsic value, it does not change our conviction in the company’s quality or growth attributes, Regeneron continues to drive innovation in and derive intrinsic value from not only diseases of the back of the eye, but across a host of oncology, hematology and CNS indications. As such, we believe the company continues to trade at a meaningful discount to our view of intrinsic value.

Outside of heightened competitive intensity for Eylea in the US and the recent CRL, the company continues to perform well, with total quarterly revenue of $3.2 billion reflecting growth of 7% year over year. Dupixent sales of $2.5 billion rose 37% versus the prior-year quarter, benefiting from its differentiated efficacy profile, first-mover advantage, benign side effects, and growing list of indications, while maintaining competitive advantage versus new entrants. Dupixent continued to penetrate patient populations in its atopic dermatitis, allergic asthma, and chronic rhinosinusitis, and Eosinophilic Esophagitis indications.

Libtayo, the company’s PD-1 therapy for cutaneous squamous cell carcinoma (CSCC), basal cell carcinoma (BCC), and non-small cell lung cancer (NSCLC), grew 46% year over year. Although in its nascent stages relative to its potential with $183 million in quarterly sales, the therapy continued to penetrate global markets. Libtayo has ongoing trials as a combination therapy with both chemo and other agents in numerous additional indications. We believe Libtayo’s results to date continue to reflect positively on the likelihood that it will serve as a foundational therapy for Regeneron to successfully compete in other, large immuno-oncology (IO) indications both as a monotherapy and in combination with other agents.

We believe Regeneron is among the highest quality businesses in healthcare, with both broad-based established therapies and meaningful pipeline assets that include over 30 product candidates in clinical development that were generated primarily using the company’s proprietary VelociSuite of technologies. We believe the share price embeds a lack of appreciation for the company’s multiple growth opportunities and the uniqueness of its business model. As a result, the company’s shares trade at a meaningful discount to our estimate of intrinsic value and represent an attractive reward-to-risk opportunity.

• Founded almost 100 years ago, The Walt Disney Company (“Disney”) is one of the largest and most renowned vertically integrated media companies in the world, with iconic entertainment brands and decades of film and TV content that it leverages across its media networks, theme parks, motion picture studios, and direct-to-consumer businesses. The company operates through two segments: media and entertainment distribution (66% of revenue), and parks, experiences and products (34% of revenue). The media and entertainment distribution segment includes three sub-segments: linear networks (domestic and international), content sales/licensing and other, and direct-to-consumer (DTC). Linear networks includes the company’s cable channels such as ESPN, Disney, and National Geographic, as well as broadcast network ABC and local ABC TV affiliates. Linear networks accounted for 33% of revenues and 70% of profits as of fiscal year (FY) 2022. Content sales/licensing and other includes theatrical, 3rd party, and home entertainment distribution, which is monetized through the multi-medium distribution of content produced by studios such as Walt Disney Pictures, Twentieth Century Studios, Marvel,
Lucasfilm, Pixar and others. Content sales/licensing and other accounted for 10% of revenues and -2% of profits in FY 2022. Losses in content sales/licensing were due in part to the company’s decision to de-emphasize high-margin third-party content distribution as it was focused on building its DTC subscriber base. On a normalized basis we expect content sales/licensing to provide a positive low-to-mid single digit contribution to annual operating profits. DTC includes Disney’s streaming services such as Disney+, ESPN+, and Hulu. DTC accounted for 23% of revenues and -33% of profits in FY 2022 as the DTC segment remains in investment mode. Parks, experiences and products (PEP) includes the company’s theme parks and resorts and branded merchandise business; PEP accounted for 34% of sales and 65% of profit in FY 2022.

A holding since the second quarter of 2020, Disney reported financial results that were in line with consensus expectations for revenues and slightly better than expected for operating income. However, subscriptions to the company’s DTC platforms were lower than expected, due in part to pricing increases implemented in the beginning of the year in North America (NA) which led to a 1% decline in NA subscribers, but contributed to 20% growth in NA average revenue per user (ARPU). The company maintained its relative market share as measured by number of subscribers, and modestly expanded its share measured by DTC revenues. While the company expects subscriber growth to remain muted in the current quarter, it expects growth to rebound towards the end of the year. We believe the market continues to underappreciate the long-term opportunity for subscriber growth, pricing increases, and margin expansion in the company’s Disney+ platform.

For the quarter, Disney reported revenue of $21.8 billion that rose 8% year over year, and operating profit of $3.3 billion that was better than expected but decreased by 11% over the prior-year period. The company’s media and entertainment distribution segment accounted for almost 65% of revenue and grew 3% year over year, driven by 18% growth in content sales/licensing (primarily theaters), 12% growth in DTC, which was offset in part by softer advertising spending in its linear networks business. Subscribers to its DTC streaming services declined 1% year over year, driven by subscriber declines at Disney Hotstar, where last year the company walked away from the digital rights to broadcast Indian Premier League (IPL) cricket, which had been an important customer acquisition tool for the service. ARPU at Hotstar was over six-times lower than Disney’s core markets, and the company has been re-evaluating its level of investment spending in markets with lower profitability. Following the November 2019 launch of its Disney+ service, the company surpassed its five-year goal of attaining 130 million global subscribers in just 12 months, underscoring the global appeal of its unique content and brands. Operating losses of $0.7 billion in the company’s DTC segment narrowed by $400 million over the prior quarter, benefiting from price increases for both Disney+ and ESPN+, as well as lower marketing spending. Revenue in the company’s PEP segment rose 17% year over year, while operating income grew 23%. The segment continues to perform strongly, driven by its domestic business which has seen strong attendance and per capita spending which is up approximately 40% over pre-pandemic 2019 levels, but also reflected a rebound in international parks and cruise lines. The company believes the growth in per capita spending is sustainable, and that it will realize structural improvement in park operating margins.

We believe Disney’s strong and sustainable competitive advantages include its iconic brands, content, and intellectual property (IP), its massive scale in the media, entertainment, and leisure industries, and a structural cost advantage that directly benefits its streaming business. We believe the company is pursuing a well-articulated strategy to optimize distribution for its high-quality, best-in-class brands and franchises through a multi-pronged DTC strategy, which we believe will be central to the company’s media strategy over the next decade. Over our long-term investment horizon, we believe the company’s portfolio of iconic brands and IP that reaches a broad swath of demographic groups globally, its massive scale, and nearly impossible-to-replicate guest experiences leave the
company well positioned to benefit from secular growth in global entertainment spending. We believe current market expectations substantially underestimate the uniqueness of the company’s IP, the opportunity to monetize that IP across several global business segments, and the company’s ability to generate sustainable growth in free cash flow over our long-term investment horizon. 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.

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, financials, industrials, healthcare, and consumer discretionary sectors. We were underweight in the information technology and consumer staples sectors. We held no positions in the real estate, materials, energy, or utilities sectors.

• We remain committed to our long-term investment approach to invest in those few high-quality businesses with sustainable competitive advantages and profitable growth when they trade at a significant discount to intrinsic value. Though we have no stated portfolio turnover target, as a result of our long-term investment horizon, our estimated annualized portfolio turnover since manager transition of the fund is approximately 12.5%. The overall portfolio discount to intrinsic value was approximately 45.6% as of June 30, 2023.
About Risk

Equity securities are volatile and can decline significantly in response to broad market and economic conditions. Foreign and emerging market securities may be subject to greater political, economic, environmental, credit, currency and information risks. Foreign securities may be subject to higher volatility than US securities due to varying degrees of regulation and limited liquidity. These risks are magnified in emerging markets. Investments in small and mid-size companies can be more volatile than those of larger companies. Growth stocks may be more sensitive to market conditions than other equities as their prices strongly reflect future expectations. Currency exchange rates between the US dollar and foreign currencies may cause the value of the fund’s investments to decline.

Russell 1000® Growth Index measures the performance of the large cap growth segment of the US equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000® Growth Index is constructed to provide a comprehensive and unbiased barometer for the large cap growth segment. Indexes are unmanaged and do not incur fees. It is not possible to invest directly in an index. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Russell Investment Group.

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.

The Morningstar Medalist Rating™ is not a credit or risk rating. It is a subjective evaluation performed by the mutual fund analysts of Morningstar, Inc. Morningstar evaluates funds based on five key pillars, which are process, performance, people, parent, and price. Morningstar’s analysts use this five pillar evaluation to identify funds they believe are more likely to outperform over the long term on a risk-adjusted basis. Analysts consider quantitative and qualitative factors in their research, but the assessment and weighting of each of the five pillars is driven by the analyst’s overall assessment and overseen by Morningstar’s Analyst Rating Committee. A fund with “Gold” rating distinguishes itself across the five pillars and has garnered the analysts’ highest level of conviction.

For more detailed information about the Morningstar Medalist Rating™, including its methodology, please go to global.morningstar.com/managerdisclosures/.

Before investing, consider the fund’s investment objectives, risks, charges, and expenses. Please visit www.loomissayles.com or call 800-225-5478 for a prospectus and a summary prospectus, if available, containing this and other information. Read it carefully.

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