International Growth Fund

FUND FACTS

The fund seeks to invest in companies with sustainable competitive advantages, long-term structural growth drivers, attractive cash flow returns on invested capital, and management teams focused on creating long-term value for shareholders. The fund's portfolio manager also aims to invest in companies when they trade at a significant discount to the estimate of intrinsic value.

Strategy AUM[1]	$34.0 million
Fund AUM	$25.9 million
Share Class	Y
Inception	12/15/2020
Ticker	LIGYX
Benchmark	MSCI ACWI ex USA Index (Net)
CUSIP	543488563
Portfolio Manager	Aziz Hamzaogullari
Manager Since	Inception

[1]Strategy assets are comprised of Loomis Sayles International Growth style accounts.

TOP TEN HOLDINGS (%)

Tencent Holdings Ltd.	6.4
MercadoLibre, Inc.	6.3
Roche Holding AG	5.6
Alibaba Group Holding Ltd.	5.2
Adyen NV	4.8
Novartis AG	4.5
Ambev SA	4.2
Fanuc Corporation	3.8
Kweichow Moutai Co., Ltd.	3.8
CRISPR Therapeutics AG	3.4
Total	47.9

Data is based on total gross assets before any fees are paid; any cash held is included. The portfolio is actively managed and holdings are subject to change. References to specific securities or industries should not be considered a recommendation. Holdings may combine more than one security from the same issuer and related depositary receipts. Portfolio weight calculations include accrued interest. For current holdings, please visit www.loomissayles.com.

Portfolio Review

- The fund posted positive returns of 5.57% vs. 5.48% for the MSCI ACWI Ex USA Index (Net), outperforming the benchmark by 0.09% during the second quarter. Ambev, Roche and Crispr Therapeutics were the three largest contributors to fund performance. Vipshop, Trip.com and Tencent were the largest detractors to performance during the quarter.

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

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

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

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	SINCE INCEPTION
FUND	5.57	5.25	-	-	-	6.71
BENCHMARK	5.48	9.16	-	-	-	11.77
EXCESS RETURN	+0.09	-3.91	-	-	-	-5.06

Performance data shown represents past performance and is no guarantee of, and not necessarily indicative of, future results. Investment return and value will vary and you may have a gain or loss when shares are sold. Current performance may be lower or higher than quoted. For most recent month-end performance, visit www.loomissayles.com.

Additional share classes may be available for eligible investors. Performance will vary based on the share class. Performance for periods less than one year is cumulative, not annualized. Returns reflect changes in share price and reinvestment of dividends and capital gains, if any. You may not invest directly in an index.

Gross expense ratio 1.35% (Class Y). Net expense ratio 0.95%. As of the most recent prospectus, the investment advisor has contractually agreed to waive fees and/or reimburse expenses once the expense cap of the fund has been exceeded. This arrangement is set to expire on 4/30/2022. When an expense cap has not been exceeded, the fund may have similar expense ratios.

Institutional Class shares (Class Y) are available to institutional investors only; minimum initial investment of $100,000.

NEW PURCHASE HIGHLIGHTS

CRISPR Therapeutics

A leader in a new generation of gene editing technology that enables precise, directed edits to genomic DNA. The company is focused on developing transformative gene-based medicines for serious disease in a number of therapeutic areas including blood disorders, cancer, and others.

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 initiated a position in Crispr Therapeutics. Crispr Therapeutics is a leader in a new generation of gene editing technology that enables precise, directed edits to genomic DNA. The company is focused on developing transformative gene-based medicines for serious disease in a number of therapeutic areas including blood disorders, cancer, and others. We added to our position in Vipshop as near term price weakness created an attractive reward-to-risk opportunity. We funded the purchases by trimming our positions in Kweichow Moutai and Yum China. We also sold our position in Kuehne & Nagel as it reached our estimate of intrinsic value.[2]

Contributors

Ambev, Roche and Crispr Therapeutics were the three largest contributors to fund performance during the quarter.

- **Ambev SA** is the leading beer brewer and distributor in South America and among the five largest brewers globally. Operating in 18 countries throughout South America, Central America, and the Caribbean, as well as in Canada, Ambev is the market share leader in its three largest markets, including its home market of Brazil, the third-largest market for beer consumption after the US and China. The company owns a number of leading local beer brands, including Skol and Brahma in Brazil and Labatt in Canada, and its access to the brand portfolio of majority-owner Anheuser-Busch Inbev (ABI) gives Ambev a rich portfolio of premium imports as well. The company's scale in manufacturing and distribution enable it to serve as the exclusive bottler and distributor of Pepsi products in Brazil and other Latin American countries.

  A fund holding since inception, Ambev was among the largest contributors during the quarter. The company has seen a "V-shaped" recovery in sales with the reopening of and improvement in the company's "on-premise" channels where Ambev's premium brands enjoy even greater market share. While a resurgence of the virus may yet impact the company's strong recovery, seven of the company's top ten markets have exceeded pre-Covid volume levels from Q1 2019, which suggests that consumers are likely to resume their normal habits as the region moves closer to herd immunity. Despite the still-depressed consumer demand, the company continues to invest in innovation, while major competitors such as Heineken are cutting costs and raising prices, which supports the continued penetration of Ambev's premium products while enabling the company to profitably develop more affordably priced products that compete in the value segment. The company has also been innovating in delivery of cold beer through its Brazil e-commerce platform Ze Delivery. The platform, which enables Ambev to deliver cold beer to its destination in an average of 35 minutes, received over 27 million orders in 2020, up from 1.5 million in 2019. The platform now reaches approximately 50% of the Brazilian population in over 200 cities, including a presence in all Brazilian states, and has been launched in seven additional markets, extending the company's difficult-to-replicate distribution advantage. Another area of innovation is parent company ABI's BEES app which incorporates machine learning to help sales reps and customers optimize their purchases to maximize sales. In Brazil, it is being used by 550,000 customers, or approximately 65% of clients, where it has improved

[2] *Quarter-to-date transactions as of June 30, 2021.*

service levels and facilitated the ability to introduce new offerings. We believe Ambev's strong and sustainable competitive advantages include its portfolio of leading regional and global beer brands, its difficult-to-replicate local scale in manufacturing, and strong distribution capabilities, which contribute to monopoly-like positioning in many of its key markets and attractive financial returns. With its portfolio of regionally dominant brands, Ambev holds the leading market share in seven countries which account for over 90% of its beer volume. In addition to the strength of its brands, Ambev has achieved local scale in manufacturing that would be difficult to profitably replicate given the combination of cost and market sizes. Ambev's local scale and brands also contribute to the strength of its distribution capabilities, which include both direct distribution and exclusive arrangements with third-party distributors. In Brazil alone, Ambev distributes through approximately one million points of sale, requiring an extensive network. Taken individually, each of these sources of competitive advantage would be difficult to replicate. Collectively, they represent a truly rare and difficult-to-replicate competitive advantage.

For the quarter, total reported revenue of R$16.7 billion rose 12% year over year. Organic sales, which exclude currency impacts, rose 28% on volume increases of 12% and net revenue per hectoliter (HL) rose 14.5%. The company is benefiting from a continuing recovery which started two quarters ago and was evident from market share gains in its three largest beer markets of Brazil, Argentina, and Canada. In Ambev's Brazilian beer segment, which accounts for approximately 50% of revenue and a greater share of profits, volume growth of 16% was well above the industry as a whole, indicating the company increased its market share during the period, and pricing grew 11% year over year. Economic weakness over the past few years has contributed to value-priced offerings taking share relative to the core and core-plus segment where Ambev holds greater market share. However, Ambev is leveraging its unmatched manufacturing and distribution scale to increase its participation in the value segment, and is collaborating with local farmers to leverage locally-sourced ingredients to create affordable offerings. The company's e-commerce initiatives also contributed positively to market share gains. In March alone, the company reported an all-time high of 5.1 million orders which is far more than the 1.5 million orders received in all of 2019. Ambev continues to focus on execution priorities, including enhanced packaging and marketing of its core Skol and Brahma brands, growth in sales of premium brands, including Budweiser, Stella Artois, and Corona, which represent a mid-teens percentage of sales by volume, and increased consumer affordability through greater use of returnable glass bottles.

Ambev's second-largest segment, Latin America South (LAS), which consists primarily of Argentina, contributed 25% of revenue and 27% of profits. LAS organic sales rose 44% year over year on 12.5% growth in volumes and 28% growth in revenue per HL. Cumulative inflation in Argentina has exceeded 100% in recent years and remains very high. Ambev has passed through substantial price increases to reflect its higher input costs, which have also contributed to depressed beer volumes in Argentina. Ambev remains committed to the Argentina market, and across its businesses the company is taking steps to sustain its economics through periods of high inflation, such as use of returnable bottles and creating value brands that utilize less expensive raw materials. Organic sales in Canada, one of Ambev's three largest markets, rose 2% year over year and contributed approximately 12% of revenue and 11% of profits. Volume growth of 2.4% was partially offset by a 0.9% decline in pricing.

Reported operating margins of 24.4% rose 60 basis points year over year on an organic basis due to operating leverage and premiumization. The company also incurred increased

costs to support its Ze Delivery platform and maintain Covid safety protocols, while continuing to invest in marketing spending to sustain its strong brand while competitors are cutting costs. We believe Ambev remains a strongly positioned company in an attractive industry with strong and sustainable competitive advantages. Near-term results have been impacted by Covid-19-related disruptions that have especially impacted the on-premise channels where Ambev's premium products are sold. We believe these issues are temporary in nature, and that long-term beer consumption trends and Ambev's pricing power remain intact and will drive future growth for the company. The company is taking the necessary actions to sustain the economics of its business – including ongoing innovation, brand building, and a greater focus on product affordability – that we believe it is positioned to do as a function of its regional scale in manufacturing and distribution. We believe the current share price underestimates the strength of the company's business model and the long-term, sustainable growth opportunity. As a result, we believe the shares are trading at a significant discount to our estimate of intrinsic value, representing a compelling reward-to-risk opportunity.

- **Roche** is a global biopharmaceutical and diagnostics company and a fund holding since inception. An industry leader in the development and marketing of oncology products, Roche also has a broad product profile with industry-leading therapies and a robust development pipeline across major indications including immunology, infectious disease, ophthalmology, and neuroscience. The company was founded in Basel, Switzerland in 1896 and employs over 90,000 people in more than 100 countries.

  Roche reported quarterly sales results that were slightly ahead of consensus expectations as total revenues grew 3% year over year in constant currency to Swiss franc (CHF) 14.9 billion. The positive topline performance was driven by a CHF 1.4 billion increase in the company's diagnostics division, which benefited from substantial growth in Covid-19 testing demand. This boost in testing helped offset a decrease in pharmaceuticals revenue due to a pandemic-related decline in hospital visits and the ongoing impact of biosimilars on its mature oncology franchise. Pharmaceutical sales declined 9% in constant currency to CHF 10.6 billion and accounted for 71% of revenues. Continued strength in the company's growth products was offset by the ongoing decline in its mature oncology products, as well as pandemic-related stockpiling that inflated sales in the prior-year quarter. Outside of its oncology franchise, Roche showed continued meaningful uptake in a number of growth products. Ocrevus is a highly efficacious, class-leading treatment for multiple sclerosis (MS) that represents the fastest launch in the company's history. Launched in 2017, the MS therapy generated CHF 1.26 billion in quarterly revenue, up 16% year over year, and continued to penetrate the MS market, despite a decline in patient visits to physicians due to Covid-19. Hemlibra, a 2018-launched therapy which could change the quality of life for patients afflicted with hemophilia A, generated CHF 677 million of quarterly revenues, up 33% year over year. The therapy has captured almost 33% share of the US hemophilia A market, and continues to penetrate patient populations with and without inhibitors to standard clotting treatment.

  Roche is a leading provider of cancer treatments and we believe its deep knowledge is a strong foundation for developing and marketing future therapies. Roche's mature, category-leading cancer therapies, Herceptin, Rituxan, and Avastin, accounted for just over 20% of pharmaceutical revenues. Year-over-year reported revenue declined by approximately 40% for these products, all of which are facing competition from biosimilars. We anticipate that biosimilars will take substantial share over time and in the long run likely replace these branded drugs. However, we believe Roche is successfully managing the inevitable decline

for its leading off-patent therapies, with growth driven by products launched since 2012 that now account for 50% of pharmaceutical sales and grew 20% year over year. Roche is advancing its next generation cancer therapy franchise through innovative follow-on and combination therapies, and improved administration methods such as subcutaneous formulations. For example, Perjeta, a combination therapy demonstrated to be more effective in treating breast cancer than Herceptin alone, grew revenues 2% year over year to CHF 1 billion. Roche has also launched Phesgo, a single-shot, co-formulation of Perjeta and Herceptin that contributed an additional CHF 30 million; a modest, but positive offset to the biosimilar impact on Herceptin. Kadcyla, a follow-on to Herceptin used in combination with chemotherapy, grew global sales by 17% year over year to CHF 487 million, driven by increased usage in the adjuvant HER2+ breast cancer setting. Tecentriq, Roche's PD-L1 immunotherapy, continues to penetrate its increasing number of approved indications with non-small-cell lung cancer (NSCLC) and hepatocellular cancer driving 26% year-over-year growth to CHF 793 million. Roche continues to expand into new indications with positive phase 3 data for adjuvant NSCLC announced during the quarter.

In addition to its more recently launched growth products, we believe Roche's deep internally developed pipeline, combined with its ability to identify and capitalize on externally developed technologies such as its acquisition of Spark Therapeutics' gene therapy platform, provides a significant platform for future growth. Reflecting over CHF 100 billion invested in research and development over the past decade, the pipeline includes over 80 new molecular entities and a similar number of existing products in trials for new indications. We believe the market is assigning little value to the company's robust pipeline due to near-term concerns over biosimilar competition in the mature oncology franchise.

Roche's diagnostics division accounted for approximately 29% of quarterly revenues and grew 55% year over year to CHF 4.3 billion. Roche's success in rapid development and deployment of COVID-19 testing has highlighted its leadership position in the diagnostics market and has provided a valuable offset to the pandemic pressures in the pharmaceuticals division. While we expect pandemic-related demand to wane in the short-to-medium term, we believe the true long-term value of the business will persist as it resides in its ability to support and differentiate the innovation within the company's pharmaceuticals business.

We believe Roche continues to execute well operationally, redeploying the cash flows from its mature core franchise to support product extensions and ongoing innovation. The company has a strong line-up of marketed biologic therapies, a growing suite of newly introduced products, and significant and robust pipeline assets that can drive significant long-term value for Roche. While the company now faces biosimilar competition in the US for its mature oncology franchise, we believe the current market price for Roche shares embeds 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 intrinsic value and offers a compelling reward-to-risk opportunity.

- Founded in 2013, **CRISPR Therpaeutics ("CRSP")** is a leading gene editing company, based in Switzerland. CRISPR, an acronym for "Clustered Regularly Interspaced Short Palindromic Repeats," is a naturally occurring defense mechanism that protects bacteria against viral infections. Dr. Emmanuelle Charpentier, a CRSP co-founder, elucidated the mechanism and developed a methodology to adapt and simplify its use for human gene therapy – for which she and a collaborator were awarded the 2020 Nobel Prize in Chemistry. The resulting gene editing technology enables precise alteration of DNA that

can "silence" or correct undesirable sequences, potentially enabling a next-generation of curative therapies for genetic diseases. We initiated a new position in CRSP in June 2021. During the month, positive clinical results for another competitor using CRISPR technology served as another proof point and prompted a broad rally in gene editing stocks. We believe CRSP's strong and sustainable competitive advantages relate primarily to its licensed patents and intellectual property (IP). CRSP has an exclusive license from Dr. Charpentier to a portfolio of foundational patents she co-owns, which enable the company to develop human therapeutics employing CRISPR-based methodologies. In addition, the company has internally-developed IP that represents substantial, difficult-to-replicate cumulative knowledge in both targeting and editing the desired genes and the complex manufacturing process. While a few other companies also possess and license CRISPR-related IP, we believe strategic decisions made by CRSP have positioned the company as the leader in the field. The company initially focused on ex-vivo (outside the body) solutions, in which target cells are removed from the body before being reintroduced after the editing process. This approach allowed CRSP to simplify delivery challenges faced by competitors who have focused on in-vivo solutions, and to more quickly demonstrate proof of concept for its approach. The company also internally developed its manufacturing capabilities and has amassed a substantial portfolio of IP related to the manufacturing process. This capability has increased the speed and flexibility with which the company can iterate and improve on its therapies, and we believe contributes to a structural speed advantage versus competitors in bringing the most promising therapies to market. We believe CRISPR represents a transformative and disruptive technology that has the potential to bring high-value, curative therapies that redefine the standard of care in dozens of therapeutic areas and hundreds of diseases, both rare and common. While CRISPR-based therapeutics may someday address all monogenic diseases, disorders caused by variation in a single gene, CRSP's current areas of focus include blood disorders, oncology, and regenerative medicine, which we believe will come to represent 30%, 50%, and 20% of sales over our long-term forecast period. We believe the potential addressable market for CRSP's existing programs represents a $300 billion opportunity. While CRSP has a number of therapies currently undergoing clinical trials, it has not yet commercialized any therapies and remains pre-revenue. However, at scale, we believe the company can attain the economics of a successful biotech company, including operating margins that could exceed 40% and cash flow returns on investment that substantially exceed its cost of capital. We believe the expectations embedded in CRSP's market price substantially underestimate the potential of its curative therapies, its ability to rapidly innovate, and its structural advantages in the development process that should lift its probability of success compared to traditional biopharmaceutical therapies. We believe management is executing on a sound strategy that we expect to eventually generate meaningful free cash flow growth that is not reflected in current expectations. As a result, we believe the company is selling at a substantial discount to our estimate of its intrinsic value and offers a compelling reward to risk opportunity.

Detractors

Vipshop, Trip.com and Tencent were the largest detractors to performance during the quarter.

- **Vipshop** is a specialty internet retailer focused on off-season, off-price apparel and fashion items which it sells via flash sales. Founded in 2008 with the vision of introducing high-quality, branded fashion merchandise to the China market at value prices, the company is by far the largest flash retailer in China, and the largest player in the off-season, off-price category. In 2020, the company generated over $15 billion in net revenues across its core

categories, and today the company is the 5th largest overall retailer in China. We believe that Vipshop creates a strong value proposition for both end customers and vendors alike, which in turn creates a strong network effect that has been difficult to replicate even by the largest e-commerce companies in China.

A holding in the fund since inception, Vipshop reported quarterly financial results that were strong and slightly above consensus expectations for both revenues and adjusted net income, and reflected continued growth in active customers. However, shares reacted negatively to revenue guidance for the coming quarter of 20%-to-25% growth, which was lower than consensus expectations for 27% growth. Shares were also pressured earlier in the quarter due to the forced liquidation of Archegos Capital Management, which had Vipshop among its holdings. We took advantage of near-term price weakness to add to our position during the period. For the quarter, net revenues of renminbi (RMB) 28.4 billion grew 51% over the prior-year quarter. Sales growth was driven by 55% growth in the number of active customers during the quarter to 46 million, which benefited from increased spending on marketing as well as products and merchandising. Growth was offset in part by lower average revenue per user (ARPU) due to the mix of new customers which included younger customers from lower tier cities that tend to spend less, as well as the 2019 decision to lower the purchase threshold for free shipping, but to a lesser extent than in recent quarters. As customer cohorts age, the company has observed a substantial increase in spending, with second-year customers tending to spend twice what they spent in year one, while customers that enter the Super VIP loyalty program tend to spend eight-to-nine times more on average. As a result, management expects both purchasing frequency and ARPU will improve over time.

As a result of its growing scale and cost savings from fulfillment initiatives, Vipshop has been reinvesting in customer experience through free returns and lower free shipping thresholds, contributing to improved retention of both new and existing users, and growth in its Super VIP loyalty customers. The company is also benefiting from its 2019 decision to refocus on its more-profitable core discounted apparel category (versus non-apparel items), where its ability to procure merchandise at deep discounts provides better differentiation from competitors and has continued to drive improved sales. During the quarter, apparel gross merchandise volumes rose 70% year-over-year. The company also reported that its maturing professional procurement team was attracting more brands to the platform, increasing share with existing brands, and creating more "made-for" Vipshop opportunities through greater collaboration with suppliers which continues to differentiate the platform.

Vipshop reported adjusted operating profit of RMB 1.5 billion which rose 93% year over year. Operating margins of 5.3% rose 110 basis points from the prior-year quarter, due to gross margin expansion, operating expense leverage, and lowered cost of fulfillment due to outsourcing to a third-party courier. As previously announced in November 2019, the company discontinued its in-house delivery business in favor of fully outsourcing delivery through an agreement with SF Holding. While Vipshop initially viewed its proprietary delivery services as a competitive advantage, it was a lower-margin business that was not the company's core competency and represented the most commoditized portion of the company's logistics capabilities. We believe that Vipshop is a high-quality and highly differentiated business. While the Covid-19 outbreak pressured growth over the past year, especially in the company's smaller physical retail footprint, we believe the company's reported growth rates reflect the resilience of the business, and that Vipshop will continue to benefit from structural growth in China e-commerce where it has a strong and defensible position in the off-season, off-price niche in which it competes. We believe the current

market price embeds expectations for free cash flow growth that are well below our long-term assumptions. With its shares trading at a significant discount to our estimate of intrinsic value, we believe Vipshop offers a compelling reward-to-risk opportunity.

- China-based **Trip.com (TCOM)**, formerly known as Ctrip, is the world's largest global travel platform. Founded in 1999, the company offers a comprehensive, integrated platform on which travelers can make arrangements for lodging, transportation, packaged tours and other related services, as well as providing corporate travel management services. The company provides its services in China through its Ctrip and Qunar platforms and serves non-Chinese customers primarily thorough Trip.com and Skyscanner. China-related travel accounts for over 90% of revenue, but the company also operates in 27 markets and supports 20 different languages. Trip.com also holds equity interest in other leading travel sites, including Tongcheng-Elong, China's third largest online travel agent (OTA), and MakeMyTrip, the largest OTA in India.

  A fund holding since inception, Trip.com was among the biggest detractors from performance for the quarter. The company reported solid quarterly financial results that were above consensus expectations for revenues and operating profit, but results were negatively impacted by Chinese travel restrictions in early January and February before rebounding in March. Total quarterly revenue of renminbi (RMB) 4.1 billion declined 13% over the prior-year period, but declined less sharply than the prior quarter and reflected continuing recovery in its China domestic market. In particular, hotel and air ticketing both recovered during March and increased by double digits during the month, while corporate travel revenues increased over 100% versus the prior-year quarter. The company reported that the rebound continued during April and May and that both short distance and long-haul travel within China had fully recovered. However, a rise in Covid-19 cases in Guangdong province resulted in further travel restrictions in June that pressured the share price and will negatively impact second quarter results. While China domestic travel had been showing signs of recovery, the company's international business and domestic packaged trips remained depressed due to Covid-19-related weakness. The company is no longer providing guidance, but management commented that second quarter revenue to date had been up more than 80% year over year at the time of its late-May earnings release, and that accommodations and air bookings in China were up more than 20% versus the same pre-pandemic period in 2019 – which supports our belief that structural growth will resume when the impact of Covid-19 abates.

  Despite the decline in revenues, Trip.com was able to expand gross margins by 70 basis points to 75%. Adjusted operating profit of RMB -495 million improved substantially from RMB -1.2 billion in the prior-year quarter on margins of -12% which rose from -25% in the prior-year period. Despite the substantial impact of Covid-19 on the travel industry, the company continues to have a solid financial position that includes cash and both short and long-term investments of RMB 102 billion, which substantially exceed the company's RMB 65 billion of outstanding debt.

  As the leading global travel platform and largest in China, we believe Trip.com is well positioned to benefit from long-term growth in travel expenditures by consumers and business travelers in China. We believe the impact of Covid-19 on travel is temporary, and that the structural drivers of growth remain intact. Apart from the near-term impact of Covid-19, the company has been reinvesting significantly in the business, depressing operating margins relative to history. As these investments moderate, we believe the company can generate structural operating margins in the low-20% range. We believe the company's share price embeds expectations for key revenue and cash flow metrics that are

substantially below our long-term assumptions. As a result, we believe the company's shares are trading at a significant discount to our estimate of intrinsic value and offer a compelling reward-to-risk opportunity.

- **Tencent Holdings** is one of the largest internet services companies in China and globally, offering a wide array of value-added services that span social networking and communication, gaming, media and entertainment, and e-commerce and local services. The company also offers online advertising, cloud services, FinTech solutions that include payment and wealth management offerings, and has investments in other related businesses. Founded in 1998, the company's mission is to improve the quality of human life through internet services, and through its platform and ecosystem the company has become a leader in most segments of the internet industry in China.

  A fund holding since inception, Tencent reported fundamentally strong quarterly financial results that were above consensus expectations for revenue but modestly below for earnings per share (EPS). The company also reported that it would increase strategic investments in 2021, which would lower reported profitability for the year. Shares were further pressured by concerns over increasing Chinese regulatory pressure in both the internet and fintech industries. In particular, there has been increased media speculation that China's State Administration for Market Regulation (SAMR) may be reviewing Tencent for anti-competitive concerns related to practices within its streaming music business, as well as failures to properly report past acquisitions and investments for anti-trust review – which could carry a potential fine. In fintech, we believe regulatory changes are likely to result in increased licensing requirements and restrictions over consumer and micro lending, information sharing, and disclosures – all of which are focused on reducing systematic risk and promoting healthy market development. We believe Tencent is generally compliant with most of the proposed changes and we do not expect these developments to impact its competitive position. As we do with any legislative or regulatory developments, we continue to monitor and assess any potential structural impact to our investment thesis for Tencent and all the companies within our portfolios and investment library.

  For the quarter, total revenue of renminbi (RMB) 135 billion rose 25% year over year. Tencent reports in four segments; value added services (VAS) (54% of quarterly revenue), fintech and business services (29% of revenue), online advertising (16% of quarterly revenue), and other revenue (1% of quarterly revenue). VAS includes the company's gaming and social networking businesses, which accounted for 60% and 40% of VAS revenues, respectively. VAS total revenues of RMB 72 billion rose 16% over the prior-year quarter, led by solid growth in both businesses. Online games grew 17% versus the prior-year quarter, benefiting from mobile games in China and in international markets; growth decelerated from recent quarters which had been elevated due to Covid-19. PC-based games increased by 1%. Social network revenue increased 15%, driven by moderate growth in digital content revenue from live streaming, music and video subscriptions, and in-game item sales. The company now has 226 million fee-based subscribers to its video and music services, up 14% year over year.

  Fintech and business services, which consists primarily of payments and cloud services, rose 47% year over year to RMB 39 billion. Tencent has been seeing increasing adoption of its payments services by consumers, merchants, and wealth management partners. The company has been working closely with regulators and industry partners and has focused on risk management over scale. As a result, management expressed confidence that it remains compliant and would not be adversely impacted by new industry regulations.

For the quarter, growth was driven by mobile payment usage, which was depressed in the prior-year quarter due to Covid-19. Cloud revenue benefited from a resumption in project deployment and rising demand from enterprise software and online video customers. Online advertising revenues of RMB 22 billion grew 23% year over year, led by 27% growth in the company's "social and other" segment, and benefited from increased e-commerce platform spending, as well as education and consumer goods advertisers. The company's Weixin/WeChat platform ended the quarter with 1.24 billion monthly active users, up 3% year over year. Tencent's media advertising business also recovered from macro weakness and reduced spending in several verticals over the past several quarters to grow 7% year over year.

Adjusted operating profit of RMB 43 billion grew 20% year over year on margins that declined 120 basis points to 32%. The company announced that it would be increasing investments in four areas where it could benefit from an early-mover advantage. In businesses services, the company is adding headcount in product development, sales, and infrastructure to assist different industries in digitizing their businesses. In gaming, the company is investing in more high-production-value, large-scale games that can attract users globally, as well as other innovative and cross-platform games. In social networks, the company is investing in short-form video content by building more ecosystems to match user demand for unique content, and providing tools to attract diverse content creators and improve algorithmic recommendations. Finally, the company is investing to increase the sustainable social value of its products and to elevate sustainability in its decision making. These investments are anticipated to support long-term growth, but will decrease near-term profitability. For the quarter, adjusted EPS of RMB 3.42 rose 21% year over year. Free cash flow of RMB 33 billion declined 15% year over year and represented 25% of revenue. We believe Tencent is one of the best-positioned companies in the China internet services industry. We believe the structural expansion of internet users in China will continue to position Tencent to benefit from multiple growth drivers, including gaming, media, advertising, payments, and cloud-computing. We believe the company's strong growth prospects are not currently reflected in its share price. As a result, we believe the company's shares are trading at a significant discount to our estimate of intrinsic value, offering a compelling reward-to-risk opportunity.

Outlook

- Our investment process is characterized by bottom-up, fundamental research and a long-term investment time horizon. The nature of the process has led to a lower-turnover portfolio in which sector positioning is the result of stock selection.

- The fund ended the quarter with overweight positions in the consumer staples, consumer discretionary, healthcare, communication services, and information technology sectors and underweight positions in the industrials and energy sectors. We did not own positions in the financials, 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 portfolio turnover since the inception of the fund is approximately 8.8%. As of June 30, 2021, the overall portfolio discount to intrinsic value was approximately 41.0%.

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. **Growth stocks** may be more sensitive to market conditions than other equities as their prices strongly reflect future expectations. **Investments in small and mid-size companies** can be more volatile than those of larger companies. **Currency** exchange rates between the US dollar and foreign currencies may cause the value of the fund's investments to decline.

MSCI ACWI ex USA Index (Net) *is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed (excluding the USA) and emerging markets. The index is shown with minimum dividend reinvested after deduction of withholding tax.*

Outlook as presented in this material reflects subjective judgments and assumptions of the portfolio team and does not necessarily reflect the views of Loomis, Sayles & Company, L.P. There is no assurance that developments will transpire as stated. Opinions expressed will evolve as future events unfold.

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

Natixis Distribution, L.P. (fund distributor, member FINRA|SIPC) and Loomis, Sayles & Company L.P. are affiliated.

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