Large Cap Growth 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	$76.0 billion
Inception	7/1/2006**
Benchmark	Russell 1000® Growth
Portfolio Manager	Aziz Hamzaogullari
Manager Since	Inception

Portfolio Review

- The strategy posted positive returns of 10.62% (gross) and 9.83% (net wrap fee) vs. 11.93% for the Russell 1000® Growth Index, underperforming the benchmark by 1.31% gross during the second quarter. Nvidia, Alphabet, Facebook, Amazon and Microsoft were the five highest contributors during the quarter. Deere, Boeing, Walt Disney, Workday and Alibaba were the five lowest contributors to performance during the quarter.
- Stock selection in the healthcare and information technology sectors as well as our allocation to the communication services and energy sectors contributed positively to relative return. Stock selection in the industrials, communication services, financials, consumer discretionary and consumer staples sectors as well as our allocation to the information technology 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). 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.

TOP TEN HOLDINGS (%)

Alphabet Inc.	6.8
Amazon.com, Inc.	6.6
Facebook, Inc.	6.3
NVIDIA Corporation	6.2
Visa Inc.	5.4
Autodesk, Inc.	4.4
Microsoft Corporation	4.4
Boeing Company	4.2
Oracle Corporation	4.1
Alibaba Group Holding Ltd.	4.0
Total	52.4

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.

LARGE CAP GROWTH MANAGED ACCOUNT COMPOSITE PERFORMANCE AS OF JUNE 30, 2021 (%)*

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN				
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR	SINCE INCEPTION**
GROSS	10.62	14.10	37.22	23.92	22.38	18.69	15.25
NET WRAP FEE	9.83	12.46	33.32	20.36	18.86	15.27	11.92
BENCHMARK	11.93	12.99	42.50	25.14	23.66	17.87	13.53

**The Large Cap Growth Managed Account Composite's returns were calculated on a total return basis, and assume the reinvestment of dividends, capital gains and other earnings. For periods since November 1, 2020, 100% of the accounts are Managed/Bundled fee accounts. Prior to November 1, 2020, 0.00% of the accounts are Managed/Bundled fee accounts. Gross returns are net of trading costs. Net of total wrap fee results reflect the deduction of an annual fee of 3.00%, the highest applicable fee for a managed account. This managed account fee includes all charges for trading costs, portfolio management, custody and other administrative fees.*

***Composite inception 7/1/2006. The manager for the Large Cap Growth Managed Account Composite joined Loomis Sayles on May 19, 2010, and performance prior to that date was achieved at his prior firm.*

Benchmark: Russell 1000® Growth Index.

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

Nvidia, Alphabet, Facebook, Amazon and Microsoft were the five highest contributors during the quarter. We highlight Nvidia, Alphabet and Facebook, below.

- **Nvidia Corporation** is the world leader in visual computing, which enables computers to produce and utilize highly realistic 3D graphic imagery and models. 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, GPU technology has broad application in computing fields unrelated to graphics. Nvidia has extended its visual computing expertise beyond its legacy gaming market into innovative new and potentially larger markets, including data centers, autos, and professional visualization. In particular, the parallel processing capability is facilitating pattern recognition and machine learning functions that enable artificial intelligence (AI) applications. Today, Nvidia is the market leader in GPUs where it forms a duopoly with competitor Advanced Micro Devices (AMD). Nvidia's legacy gaming market still accounts for almost 50% of revenues, but the company is focused on building out its GPU computing-based ecosystem and is enabling breakthroughs in new fields such as AI, autonomous driving, and virtual reality.

  A strategy holding since the first quarter of 2019, Nvidia reported quarterly financial results that were strong and above management guidance and consensus expectations. Total revenues in the company's gaming, data center, and professional visualization businesses all set quarterly records. However, the company indicated that a portion of sales could be attributed to cryptocurrency miners, who use the chips to accelerate the mining of cryptocurrencies. A similar phenomenon occurred at the prior peak of cryptocurrency pricing in 2018 as high prices drove elevated short-term demand for GPUs that quickly evaporated when cryptocurrency prices sharply declined, leaving elevated GPU inventories that took approximately one year to normalize. Management believes it is now better prepared to manage any short-term demand spike. The company is installing software on many new gaming GPU cards that will cause them to operate at half speed if it senses they are being used for mining. Separately, the company is launching some cryptocurrency-specific GPUs that lack display functionality but have other functionalities geared towards crypto-mining. The company believes that if crypto volumes continue to grow, ASIC (application specific integrated circuit) chip manufacturers will enter the market, preventing Nvidia's crypto-specific offerings from becoming too large a portion of its business. Nvidia's involvement in cryptocurrency is not a part of our investment thesis for the company, and the market's overreaction to the prior short-term demand spike helped create the opportunity to initiate our position. While cryptocurrency may contribute to some short term "noise" and underperformance, we believe the company is strongly positioned to benefit from secular growth in PC gaming and remains in the early stages of growth in its potentially much larger data center business in the long term.

  Total quarterly revenue of $5.7 billion rose 84% year over year, due in part to the recent acquisition of networking equipment provider Mellanox Technologies, which was not included in the prior-year quarterly results. Excluding the acquisition, revenue grew 64% year over year. Gaming revenue of $2.8 billion represented 49% of total sales and rose 106% year over year. The gaming industry appears to have fully recovered and demand has remained strong across all geographies and channels. Nvidia is benefitting from record sales of PCs and gaming laptops, and strong adoption of its RTX 30 graphics cards, where the company recently announced its new RTX 3060 GPU that is bringing the RTX 30 series to the mass-market gaming segment. Nvidia estimates only 15% of its installed base has adopted RTX, and we expect adoption will be strong as an increasing number of games such as Minecraft, Battlefield V, Fortnite, Call of Duty, and 30 other major games are being upgraded and launched to leverage RTX. We believe Nvidia's growing global ecosystem of over two million software developers has created a sustainable platform advantage and it will be hard for the less-focused AMD to keep up with Nvidia's pace of innovation. The company expects sales of its new chips to grow as an increasing number of new games embed its latest technology, which is becoming the industry norm for the latest blockbuster titles. Over our long-term investment horizon, we believe the company's commanding market leadership, ongoing innovation, and pricing power can enable it to generate low-double-digit sales growth in its gaming segment.

Quarterly data center revenue of $2.1 billion represented 36% of total sales and rose 79% year over year. Excluding the contribution from recently acquired Mellanox, data center revenue grew 26% year over year. Growth was led by a pickup in demand from hyperscale data center customers, while industry verticals such as industrials and enterprise clients continue to be up strongly. In the nascent AI market in which chips are used for machine learning tasks of training and inferencing, Nvidia has seen strong initial results for its latest architecture, Ampere. Launched in 2020, Ampere unifies Nvidia's deep learning offerings, enabling clients to address both training and inferencing through a single architecture for the first time. Importantly, Ampere provides clients with flexibility as they expand their data centers that is no longer limited by their initial choice of architecture, while providing performance that surpasses that of their already leading T4 inferencing and V100 training products. As well, Nvidia remains very focused on software, which is a key factor in the success of its acceleration products, and its recently released 7th generation inferencing software continues to differentiate its products from peers. As a result, Ampere's A100 product line represents Nvidia's fastest product launch in the company's history and is still expanding at a record pace. We believe the Ampere technology will further extend Nvidia's data center leadership. Over our long-term investment horizon, we believe the desire for advanced computing capabilities and the AI-driven demand for increasing computing power will drive long-term secular growth in the data center market from approximately $5 billion today to greater than $75 billion. Nvidia is the market leader in this emerging business and is continuing to invest to increase its offerings and the sub-markets in which it competes. We believe the company can grow its data center revenues in excess of 20% annualized over our investment horizon.

Nvidia's professional visualization and automotive segments collectively represented approximately 9% of revenues. Automotive revenues of $154 million declined 1% year over year but rose 6% versus the prior quarter as auto production recovered from the earlier impacts of Covid-19. The company has been de-emphasizing its infotainment business, which represents greater than 50% of segment sales, in favor of more attractive autonomous vehicle offerings, which continues to represent one of the fastest growing long-term growth areas for Nvidia. Much of Nvidia's auto-driven sales will ultimately be reflected in data center revenue as those ecosystems build out their capabilities in preparation for semi- and fully autonomous car deployments. Professional visualization revenue of $372 million rose 21% year over year, driven by strong demand for notebook workstation GPUs. Despite being a more mature market, Nvidia has been able to drive greater adoption of its professional visualization products through its ongoing innovation. Legacy businesses including sales to original equipment manufacturers and intellectual property licensing, as well as the company's new dedicated crypto mining processor, accounted for approximately 6% of quarterly revenues and rose 137% year over year. We do not expect these businesses to be significant value drivers for the company.

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. For the quarter, adjusted operating income of $2.6 billion rose 112% year over year while operating margins of 45.2% expanded by 600 basis points. The company continued to invest through cyclical weakness and operating expenses grew 45% year over year, which also reflects the addition of Mellanox and hiring of additional employees.

In September 2020, Nvidia announced that it had reached a definitive agreement to acquire ARM Limited from SoftBank for $40 billion. ARM is the leading semiconductor intellectual property (IP) provider, and was a holding in our large cap and all cap strategies prior to being acquired by SoftBank in 2016. We believe ARM possesses strong and sustainable competitive advantages, including: a strong brand that dominates industry market share and "mindshare;" a large, complex and well-established business ecosystem that creates high switching costs for partners; difficult-to-replicate technological leadership; a strong value proposition for customers to outsource processor design, research, and development; and a strong patent portfolio. We believe the proposed acquisition will prospectively enable Nvidia to compete in the large market for data center server processors that is dominated by Intel. While Nvidia is a leading competitor in the fast-growing market for data center acceleration products, this represents a small portion of the overall data center server market. For context, Intel generates approximately seven-times as much data center revenue as Nvidia. We believe the proposed acquisition is consistent with Nvidia's recent acquisitions of data center networking concerns Mellanox Technologies and Cumulus Networks, and positions the company to be more competitive in both the broader data center market as well as opportunities within the Internet of Things (IoT). The consideration includes $12 billion in cash, 44.3 million shares of Nvidia common stock valued at $21.5 billion at the time of the announcement, which could result in a higher or lower purchase price based on Nvidia's share price performance, a $5 billion earn-out tied to ARM achieving specific financial targets, and $1.5 billion in equity to ARM employees. The deal remains subject to the approval of regulators in numerous jurisdictions, including the US, China, and Japan, which could take months or years with no guarantee of ultimate approval. As always, we will continue to monitor the situation for any structural changes to long-term investment thesis.

Over our investment horizon, we believe low-double-digit growth in gaming revenues and substantially faster growth in its data center markets will enable Nvidia to sustain high-teens total revenue growth over our long-term investment horizon. As the business shifts increasingly towards its more profitable data center business and pricing in the gaming business continues to rise, we believe operating profits will grow faster than revenues. With low capital intensity and high cash flow returns on invested capital, we believe the company can generate strong double-digit growth in free cash flow. We believe Nvidia's strong 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.

- **Alphabet** is a holding company which owns a collection of businesses, the largest and most important of which by far is Google. Google is the global leader in online search and advertising and also offers cloud solutions to businesses and consumers globally, with a goal of organizing the world's information and making it universally accessible and useful. Non-Google businesses comprise approximately 1% of Alphabet revenues and are held in the company's Other Bets segment.

A holding in the portfolio since inception, Alphabet reported strong quarterly financial results that reflected accelerated revenue growth, expanded adjusted operating margins, and EPS (earnings per share) that more than doubled, all of which were better than consensus expectations. For the quarter, total revenue of $55.3 billion represented a 34% increase year over year in constant currency and was 7% above consensus expectations. Beginning last quarter, the company began presenting results in three segments: Google Services, Google Cloud, and Other Bets. Google Services reported quarterly revenue of $51.2 billion, which rose 32% year over year and represented 93% of total revenue. Advertising revenue accounted for 87% of Google Services revenue and also grew 32% compared with the year-ago quarter, powered by the secular shift of advertising to online and mobile platforms. With growth well above that of traditional advertising, Google continued to take market share. Advertising revenue growth was driven by a solid recovery in the search business, which grew 30% year over year, and 49% growth in YouTube. Both businesses benefited from strong growth in direct response ads, particularly for YouTube, where direct response ads have grown to become what we believe to be one of the largest advertising businesses on YouTube after contributing almost nothing three years earlier. YouTube has also benefited from strong demand from brand advertisers due to its reach and engagement with 2 billion monthly users who spend over 1 billion hours daily on the platform. Non-advertising revenue, which includes Google Play, hardware, and YouTube non-advertising revenues such as subscriptions, represented 13% of Google Services revenues and grew 46% year over year. Growth was driven by YouTube and Google Play.

Google Cloud reported quarterly revenue of $4 billion, which rose 46% year over year and represented 7% of total revenue. Google's cloud business includes Google Cloud Platform (GCP), the company's infrastructure and platform-as-a-service offerings, and G Suite, which includes the company's software-as-a-service offerings such as Gmail, Docs, Drive, and Calendar. Cloud growth was led by GCP, which grew well above the overall cloud business. The segment generated an operating loss of $974 billion on EBIT (earnings before interest and taxes) margins of -24%, which improved from -62% in the prior-year period. The operating loss reflects massive up-front investments that the company is making to drive long-term growth in advance of revenue. Significant areas of investment include a direct sales force that has tripled over the past few years and substantial expansion of distribution via partners, large investments in its product offerings that are being tailored for six industry verticals, and expansion of network computing capacity to serve customers around the world. We believe Google's key revenue drivers of mobile search, YouTube, programmatic advertising, and an emerging cloud business that is growing approximately three-times faster than the core search business, each continue to benefit from secular drivers including increased mobility, video advertising, better use of advertising technology to drive performance, and increased penetration of public cloud services. Alphabet's Other Bets segment reported revenue of $198 million that increased 47% in the quarter and represented 0.4% of total revenues. Many of these businesses are still early stage and results are volatile on a quarterly basis. Revenue in this segment is currently driven by Fiber and Verily.

Alphabet continues to have a high-quality financial profile and strong financial position. The company reported gross margins of 56% that rose 250 basis points year over year, due to improvement in traffic acquisition costs and lower other cost of goods sold. Adjusted operating margins of 36% rose approximately 1,200 basis points compared with the year-ago quarter, benefiting from operating leverage in all expense items. Google's attractive financial model generates strong free cash flow and earns high returns on invested capital, enabling it to reinvest significantly in its business. Over the past five years, Google has invested over $100 billion in R&D, an amount very few other companies could replicate. In the quarter, Alphabet generated free cash flow of $13 billion that rose 145% and represented 24% of gross revenue. Capital expenditures decreased by 1% year over year to $6 billion and represented 11% of gross revenue. The company's capital expenditures continue to focus on infrastructure spending required to support growth, including servers, data centers, and office facilities.

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

- **Facebook** is an online social networking platform that allows people to connect, share, and interact with friends and communities. The Facebook platform allows message exchange, photo and video sharing, and common-interest user groups, and the company also owns leading global social and messaging applications Instagram, Messenger, and WhatsApp. A strategy holding since its initial public offering (IPO) in the second quarter of 2012, Facebook reported quarterly financials that were strong and above consensus expectations for revenue, EBIT (earnings before interest and taxes), and EPS (earnings per share). In late June, the company also won dismissal of lawsuits brought by the Federal Trade Commission (FTC) and over 40 states alleging anti-competitive practices that included the company's 2012 and 2014 acquisitions of Instagram and WhatsApp. The FTC still has the opportunity to refile an amended complaint within 30 days. We continue to monitor these and other regulatory changes for any potential structural impact to our investment thesis or Facebook's market share or growth prospects. We continue to believe management's decisions and actions illustrate its commitment to preserve platform integrity and to sustain Facebook's leadership and long-term growth through ongoing innovation and its focus on the future of social media through secure and private messaging.

For the quarter, revenue grew 48% year over year in constant currency to $26 billion, with advertising revenue accounting for 97% of total revenue. User data, coupled with the scale and frequency of engagement, allows Facebook 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 10% to 2.85 billion global users, while daily active users grew 8% to 1.9 billion. As a result, engagement, as measured by the percentage of daily active users, declined 80 basis points year over year to 66.0%. Across its family of apps – Facebook, Messenger, WhatsApp and Instagram – Facebook now reaches over 3.45 billion consumers monthly, approximately 2.7 billion of which are daily users. Users outside of North America account for 2.5 billion or 91% of Facebook's global user base, while the US and Canada accounted for 9%, or 259 million users. As users grow, more advertisers come to the platform. Facebook now has 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 $9.30 rose 33% year over year, led by 40% growth in monetization in North America and 46% growth in Europe. Quarterly ARPU ranged from $48 per user in North America to approximately $3 per user in the company's rest of world (ROW) category. Since 2012, annual monetization per user has increased globally from $5 per user to over $32 in 2020, a compounded annual growth rate of 26%, which we believe is a secular trend that reflects Facebook's strong pricing power and ability to monetize its global user base.

We believe Facebook continues to have an attractive financial profile. Quarterly EBIT of $11.4 billion rose 93% year over year and was 42% above consensus expectations. EBIT margins of 43% expanded 100 basis points year over year as the company benefited from operating leverage in R&D, sales and marketing, and general and administrative expenses. Free cash flow of $7.8 billion rose 30% versus the prior-year quarter and represented 31% of revenue. Capex of $4.4 billion moderated but remained elevated at 17% of revenue. Capex continues to be focused on investments in servers and data centers that should support future growth for the company, as well as office facilities and network infrastructure. During the year Facebook repurchased $1.4 billion of its shares.

We believe Facebook is 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. While management previously expressed some uncertainty for growth in the second half of 2021 stemming from anticipated privacy restrictions from Apple and potential regulatory restrictions in Europe, 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 its market share from 5% currently to approximately 10% of the total global advertising market over our investment time horizon. We also believe that the expectations embedded in Facebook'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 high-teens 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.

Detractors

Deere, Boeing, Walt Disney, Workday and Alibaba were the five lowest contributors to performance during the quarter. We highlight Deere, Boeing and Walt Disney, below.

- **Deere & Company**, founded over 100 years ago, manufactures and distributes worldwide a full line of equipment used in agriculture, construction, forestry, and turf care. The company also manufactures value-added components such as engines and precision agriculture tools and provides credit services to finance sales and leases of Deere equipment. A portfolio holding since the third quarter of 2016, Deere was among the biggest detractors from performance during the quarter, after being among the top contributors in the first quarter and for the prior twelve months. The company reported quarterly financial results that were substantially above consensus expectations and raised its outlook for the remainder of the year. Results reflected strong global agricultural fundamentals, including grain prices that are at their highest levels since the prior cycle peak around 2012, and the company posted strong pricing gains and record margins. Pressure on the share price may reflect investors' fear that the company is delivering peak results. However, we believe they represent the beginning of a multi-year up cycle. While agricultural equipment is expected to see strong growth in demand in 2021, volumes have been near trough levels for the last five years. Compared to the prior peak, average equipment age is at its highest in over 20 years, new and used inventories are near all-time lows, farmer incomes are expected to be higher, land values are also higher, and large agricultural equipment demand remains significantly below peak levels – all of which are conducive to above-average volume growth. The company's order book is already full for 2021, and Deere intends to open its 2022 order book earlier than usual. We believe Deere's market leadership, superior technology, and demonstrated pricing power leave it well positioned over our long-term investment horizon, and we believe continued adoption of its growing precision agricultural offerings, including subscription-based offerings, will lower cyclicality and enable the company to realize sustainably higher margins.

Deere's brand is synonymous with high quality among generations of North American farmers where the company has consistently captured in excess of 50% market share and is approximately twice the size of its next largest competitor. Scale allows the company to invest more in research and development than any other competitor, enabling it to bring innovative and high-quality products to markets across a number of mission critical functions. With approximately 1,500 exclusive dealers of its agricultural equipment, which also tend to be larger, better capitalized, and more sophisticated than peers, Deere's distribution network in North America is unmatched, a difficult-to-replicate advantage that enables it to ensure equipment uptime during the small windows for planting and harvesting. Deere is also among the leaders in Europe, the world's largest agricultural market, as well as in the faster-growing Latin American market. The company's secular growth driver is the global growth in agricultural equipment demand, fueled by the steady, long-term increase in global demand for grains from a growing population with increasing affluence. The global population is expected to increase by approximately one-third by 2050, with demand for food expected to double over the same period. With no meaningful increase in arable land expected over this period, improved farm utilization through consolidation and technology and mechanization of the sort provided by Deere will be critical to meeting global demand.

For the quarter, Deere reported total revenue of $12.1 billion that rose 30% year-over-year and was strong relative to expectations. Equipment sales were $11 billion for the quarter, up 34% year over year, while financial services and other revenue of $1.1 billion rose 3%. The company's agriculture and turf segment constituted approximately 72% of equipment sales and reported quarterly revenue of $7.9 billion, up 33% year over year. In 2020, the company launched a new operating model centered around production systems as opposed to products. As part of that initiative, the company separated its agriculture and turf business into two divisions; the production & precision agriculture division is focused on its large agricultural products and vertically integrated precision agriculture solutions, while the other division includes small agriculture & turf products. Production and precision agriculture accounted for 57% of segment revenues and rose 35% year over year. In the company's primary market for large agricultural equipment, the segment benefited from 33% industry-wide growth in demand for larger tractors (over 100 horsepower) in North America, and strong 9% growth in pricing. Demand for its smaller agricultural equipment remained strong as the pandemic drove an increase in projects for homeowners and hobby farmers, leading to tighter inventory levels. On an industry-wide basis, North American demand for smaller tractors (under 100 horsepower) rose by an estimated 45% year over year. Collectively, the segment realized 8% growth in pricing due to currency-related price adjustments in international markets, higher pricing on new product launches, and lowered need for Deere to conduct promotional activity. With agricultural fundamentals improving across the world, the company again raised its 2021 guidance across all regions. Segment operating profit of $1.7 billion rose over 100% year over year and operating margins expanded 7.6 percentage points to a record 20.9%. Margins benefited primarily from pricing gains, but also product volume and mix.

The company's construction and forestry segment constituted approximately 28% of equipment sales and reported quarterly revenue of $3.1 billion, up 36.5% year over year. Strength in the housing market and a recovery in the oil and gas sector contributed to volume growth and a 4.5% gain in pricing. Segment operating profit of $489 million rose 174% year over year and quarterly operating margins expanded by 800 basis points to 15.9%, due to the increase in volume, positive product mix, pricing gains, and $85 million of restructuring charges in the prior-year quarter. Overall, Deere reported a 103% year-over-year increase in EBIT (earnings before interest and taxes) to $2.6 billion, and record margins of 21.4% that expanded 770 basis points versus the prior-year quarter.

Deere has continued to execute well in what has been a challenging environment for its primary end market. The company has dominant market share in major markets, a significant technology lead and, while there are greater efficiencies yet to be achieved, the benefits of its productivity initiatives over the past few years have become visible despite volumes for large agricultural equipment that until recently have remained below mid-cycle levels. We believe the current market price embeds expectations for key revenue and cash flow growth drivers that are below our long-term assumptions. As a result, we believe the company is selling at a discount to our estimate of intrinsic value.

- Founded in 1916, **Boeing** is a global leader in the commercial and defense aerospace industries. The company manufactures commercial aircraft for passenger and cargo traffic as well as manned and unmanned military aircraft, missile and defense systems, satellites and launch systems, and other space and security systems. The company operates primarily through three segments: commercial airplanes (historically around 60% of revenues), defense, space and security (historically 20-25% of revenues), and global services (historically 15-20% of revenues). Along with Airbus, Boeing is part of a global duopoly that accounts for almost all commercial planes sold with greater than 125 seats – the largest market segment. The company serves customers in over 150 countries and non-US sales typically account for greater than 40% of total revenues.

A new purchase in March of 2020, Boeing reported quarterly financial results that were disappointing and missed expectations on several key metrics. Boeing's financial results remain significantly impacted by the decline in global air travel due to Covid-19. As an indicator, travel demand in February 2021, measured by revenue passenger kilometer (RPK), which represents distance flown by paying passengers, remained 75% below the same month in 2019. While domestic travel had begun to improve in the second half of 2020, a rise in Covid-19 cases around the world has dampened the recovery, and international travel, which accounted for approximately two-thirds of RPK in 2019, remains down almost 90%. Execution issues also continue to create near-term headwinds for the company. In December, Boeing received an airworthiness certificate from the FAA, allowing the 737 MAX to fly again in the US after being grounded globally in March of 2019. A few other countries followed suit within days of the FAA's decision, and in late-January the company received approval to fly in Europe. The company has now been approved to return to service in most major western regions, and the company expected more global approvals during the first half of 2021. However, in April, the company identified issues with electrical wiring that again grounded part of the fleet and halted deliveries. We believe these types of developments are fairly common in the industry for both Boeing and Airbus and do not believe they have any material impact on long-term fundamentals. The fix was simple and flights have since resumed, along with deliveries of the estimated 400 737 MAX planes in inventory. However, the issue may have contributed to near-term investor uncertainty around execution. The company also has approximately

100 787s for which deliveries were halted in October to address a micro fracture in the body of the aircraft, before resuming in February. Boeing expects to deliver about half of the 737s in inventory during 2021, and a majority of the 787s. We estimate that Boeing has approximately $44 billion of aircraft currently in inventory, which will generate substantial revenue and cash flow as they are likely delivered over the next 12-to-24 months. As of March quarter-end, the backlog of $364 billion, or approximately 4,100 aircraft, was down 17% year over year, but rose sequentially for the first time in over two years with notable orders from Southwest, United Airlines, and Alaska Airlines. At the end of June, United Airlines announced its largest-ever order, including 200 737 MAX planes, which we believe represents a strong endorsement of the plane's value.

During its annual general meeting in April, Boeing announced that it was extending the mandatory retirement age for CEO Dave Calhoun (age 64) to 70 from 65, which otherwise would have forced his retirement after only two years. Calhoun, a member of Boeing's Board of Directors since 2009 and Chairman since 2019, was appointed CEO in January 2020 following the missteps surrounding the grounding of the 737 MAX. The company also announced that Greg Smith, who served as CFO since 2012, would be retiring from the company. While the timing of Mr. Smith's departure is not ideal, we believe Boeing has taken prudent measures to ensure necessary liquidity even if travel demand takes longer to recover, and we don't view his departure as cause for further concern. The company also adopted a new compensation scheme for the CEO, which we view very favorably and is consistent with suggestions we have made to the board. Recognizing the long product cycles inherent in the business, starting in 2021, the RSU (restricted stock unit) component of Mr. Calhoun's long-term compensation will be paid over 10 years following his departure as CEO, while the balance of long-term compensation will consist of premium-priced stock options which the CEO may exercise but not sell while he remains as CEO.

The Covid-19 outbreak has prompted a record decline in air travel, the growth of which is the biggest driver of demand for new aircraft, and materially impacted Boeing's airline industry customers. Travel demand, measured by RPK, is estimated to have declined by approximately two-thirds in 2020 vs. 2019. We believe the impact of Covid-19, along with the 2019 grounding of the 737 MAX, the fourth generation of its most profitable airplane model, represent temporary, not structural, issues that created the opportunity to initiate our position. Since 1980, RPK has grown at a 5.3% compounded annual rate, and had been negative on just three prior occasions: during the 1991 Gulf War, following 9/11, and in 2009 after the financial crisis. While 2020 represented the fourth, and by far the largest, such occasion due to Covid-19, RPK has historically grown at approximately 1.5-times global GDP, which we expect will continue. While it may be at least a few years before travel returns to 2019 levels, over our long-term investment horizon we believe demand for global air travel will continue to grow at a mid-single-digit rate. More importantly, we believe that, as with many other cyclical growth businesses we successfully purchased in prior downturns, it is not the exact timing of the recovery but rather the margin of safety that is created between the expectations embedded by the marketplace and what we believe will happen directionally over the long term that matters. Despite recent issues with Covid-19 and the grounding of the 737 MAX, we believe Boeing is one of only two companies globally which possess the requisite expertise and scale to profitably serve the global demand for commercial aircraft, and that its strong and sustainable competitive advantages would be very difficult to replicate.

Cyclical businesses often give rise to investor overreaction during the inevitable peaks and troughs. We believe the current market price is embedding expectations that the company will not return to its 2018 level of deliveries in the next ten years and that margins are structurally impaired – both of which we believe are overly pessimistic versus our long-term expectations. 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 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, and parks, experiences and products. 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 37% of revenues and 52% of profits as of fiscal year (FY) 2019. 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 19% of revenues and 13% of profits in FY2019. DTC includes Disney's streaming services such as Disney+, ESPN+, and Hulu. DTC accounted for 5% of revenues and -15% of profits in FY2019 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 38% of sales and 49% of profit in FY2019.

  A holding since the second quarter of 2020, Disney's financial results continue to reflect the negative impact of Covid-19, which has substantially disrupted some of Disney's largest profit drivers – in particular through theme park closures and capacity constraints, suspension of its cruise ships, and theater closures which have led to shortened or cancelled theatrical releases. This has been offset in part by resilience in the company's linear media networks business and very strong growth in DTC. For the quarter, Disney reported revenue of $15.6 billion that declined 13% year over year and was slightly below consensus expectations. However, operating profit of $2.5 billion rose 2% and exceeded consensus expectations, benefiting from better-than-expected results in DTC, lower programming costs in linear TV, and higher per capita spending coupled with cost controls in its Parks and Experiences business. The company also reported that subscribers to its DTC streaming services rose 59% year over year to reach 159 million subscribers globally, led by 104 million subscribers to the company's Disney+ service which was launched in November 2019. While Disney+ subscriber growth of 9% decelerated from 29% in the previous quarter, it was up over 200% year over year, and all of its platforms grew faster than Netflix over the same period as it grew market share in the streaming market. The company attributed the deceleration of Disney+ subscriber growth in part to the cancellation of the cricket season in India as well as the lack of any major new market launches in the period. The importance of DTC to Disney's long-term strategy led the company to announce in October 2020 a reorganization of its media, studio entertainment, and DTC business units into content creation and distribution segments, with distribution having profit and loss responsibility to optimize the distribution of content across mediums. The company further highlighted its content and distribution strategy during its December investor day. Disney showcased the breadth of content in its brand library and shared its plan to produce over 100 new original films and series annually, approximately 80% of which will be distributed through its DTC platforms. The company also elaborated on its international

DTC strategy, which includes the launch of "Star" as a general entertainment brand, analogous to an international Hulu. Star will be integrated with the Disney+ platform in Europe and most of Asia, and offered as a standalone service in Latin America where the brand is already home to rich sports content. In aggregate, in December 2020 the company substantially increased its estimate for global subscribers to over 300 million by 2024, up from its prior-year estimate of approximately 130 million and well above consensus expectations, and also announced its intention to increase pricing for certain offerings, including Disney+. In summary, the company achieved its five-year goal of attaining 130 million subscribers in just 12 months, underscoring the global appeal of its unique content and brands.

We believe that Covid-19 will continue to have a near-term impact, but will ultimately be transient and provided an attractive entry point to initiate our position. 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 its 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.

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 portfolio ended the quarter with overweight positions in the healthcare, industrials, communication services, energy, consumer staples and financials sectors and underweight positions in the information technology and consumer discretionary sectors. We did not own positions in the real estate, materials 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 the strategy's inception was approximately 12.6%. As of June 30, 2021, the overall portfolio discount to intrinsic value was approximately 39.2%.

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.

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

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

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

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The Large Cap Growth Managed Account Composite includes all discretionary Managed Accounts with market values greater than $100 thousand 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 Russell 1000 Growth Index and generally within the market capitalization range of the Index. As of November 1, 2020, the Composite was redefined to include only Managed Accounts. Prior to the redefinition, the Composite included separate and commingled accounts. Performance results prior to November 1, 2020 are those of the Large Cap Growth Composite. The Composite inception date is July 1, 2006. The Composite was created in 2019. For additional information on this and other Loomis Sayles strategies, please visit our web site at www.loomissayles.com.