



# Small Cap Growth Fund

## Fund Facts

### OBJECTIVE

Seeks long-term capital growth from investments in common stocks or other equity securities

|             |            |
|-------------|------------|
| Share class | I          |
| Inception   | 12/31/1996 |
| Ticker      | LSSIX      |
| CUSIP       | 543487854  |

## Market Conditions

- Although the Russell 2000 Growth index was up 4.13% during the quarter, the index was still down 26.4% in 2022, with significant volatility in both directions persisting throughout the year.
- Volatility during the quarter was quite evident with 10 extreme up days (absolute return of +2% or higher) and 7 extreme down days (absolute return of -2% or lower).
- Such volatile and rapidly changing market conditions can be particularly challenging for investors to navigate.
- Against this backdrop, the fund outperformed during the quarter and remains well ahead of its Russell 2000 Growth benchmark on trailing 1-yr, 3-yr, 5-yr and 10-yr periods as of December 30, 2022.

## Portfolio Review

- The fund outperformed its benchmark, the Russell 2000 Growth Index, primarily due to positive stock selection in the Healthcare, Information Technology, Consumer Discretionary and Financials sectors.
- Overall, security selection in six out of eight sectors in which the fund had exposure contributed positively to excess returns during the quarter.

## Contributors

- On an individual stock level, Halozyme Therapeutics, Rambus and Weatherford International were top contributors to the fund's performance.

### Class I Performance as of December 31, 2022 (%)

|                  | CUMULATIVE TOTAL RETURN |        | AVERAGE ANNUALIZED RETURN |        |        |         |
|------------------|-------------------------|--------|---------------------------|--------|--------|---------|
|                  | 3 MONTH                 | YTD    | 1 YEAR                    | 3 YEAR | 5 YEAR | 10 YEAR |
| <b>FUND</b>      | 7.90                    | -22.92 | -22.92                    | 4.40   | 7.65   | 11.34   |
| <b>BENCHMARK</b> | 4.13                    | -26.36 | -26.36                    | 0.65   | 3.51   | 9.20    |

*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](http://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 0.92% (Class I). Net expense ratio 0.92%. As of the most recent prospectus, the investment advisor has contractually agreed to waive fees and/or reimburse expenses once the expense cap of the fund has been exceeded. This arrangement is set to expire on 1/31/2023. When an expense cap has not been exceeded, the fund may have similar expense ratios.*

*The Class I inception date is 12/31/1996. Class I shares are only available to certain institutional investors only; minimum initial investment of \$100,000.*



**TOP TEN EQUITY HOLDINGS (%)**

|                                     |             |
|-------------------------------------|-------------|
| Halozyme Therapeutics, Inc.         | 2.1         |
| WillScot Mobile Mini Holdings Corp. | 2.0         |
| Casella Waste Systems, Inc.         | 2.0         |
| Inspire Medical Systems, Inc.       | 1.9         |
| Rambus, Inc.                        | 1.9         |
| KBR, Inc.                           | 1.8         |
| Option Care Health, Inc.            | 1.8         |
| WNS (Holdings) Limited              | 1.7         |
| Axonics, Inc.                       | 1.7         |
| Albany International Corp.          | 1.6         |
| <b>Total</b>                        | <b>18.5</b> |

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

- Halozyme is a biotech company focused on developing and commercializing oncology therapeutics. The company performed well during the quarter as its partnered commercial products continued to show strong growth. In particular, Darzalex Faspro has benefited from users switching from intravenous infusion of earlier versions of the drug to subcutaneous administration.
- Rambus is a leading developer of high speed memory interface IP that it licenses to users. The company also supplies buffer chips, which go into memory modules for servers. The company has executed well of late, consistently beating projected results and raising future guidance in a semiconductor environment that has remained challenging for most of its peers, leading to the stock’s outperformance.
- Weatherford is a diversified energy services company that gets the majority of its revenue from international sources. New management has successfully refocused the company on profitable product lines and services. This has led to better execution, which has drawn investor attention that in turn has helped close the valuation gap with its peers.

**Detractors**

- Among the most significant detractors at the individual level were Advanced Drainage Systems, Evolent Health and Pacira Biosciences.
- Advanced Drainage Systems, a leading manufacturer and provider of plastic pipe for the commercial and residential waste water market, has dominant market share and solid growth trends in the markets it serves. However, the company saw a slowdown in its residential business as distributors drastically cut orders in order to work down their inventory. This prompted the company to slightly lower guidance for the remainder of the year, introducing a level of uncertainty going forward. The stock sold off strongly as a result.
- Evolent Health provides technology and services to healthcare providers and payers to help them manage their businesses and implement value based care. While the business continues to grow very well, the most recent quarter showed some margin volatility to which the stock reacted negatively.
- Pacira is a pharmaceutical company, with its main franchise being a non-opioid pain killer used after surgical procedures. Surgery volumes have remained sluggish even as the industry recovers from the pandemic, and that has caused several downward revisions to earnings estimates to which the stock has reacted negatively.

**Outlook**

- With the market having gone through another quarter with meaningful volatility and little progress, it may be the right way to think about the market going forward into 2023.
- While the Fed may be approaching the end of its rate hikes, which would ease some concerns among investors, the central bank is clearly intending to keep rates at higher levels than it has in the last few cycles, raising other worries. Most traditional tools used to predict recessions, such as an inverted yield curve, etc. are pointing in that direction, but the economy continues to chug along and likely will for the first half of 2023. This pattern of half full/half empty seems to be running rampant through the financial markets and appears to be settling in, which would lead to further volatility.
- The shift in leadership we referenced in our last letter continues to take shape, with energy and industrials continuing to show strength in the 4th quarter. The narrative to explain



this is certainly digestible. With continued geopolitical uncertainty, the world continuing to open up post the pandemic, the de-globalization of the economy, the United States' fully depreciated capital equipment base, and the need for substantial infrastructure investments, investors can expect sustainable demand for industrial, energy, and material companies. While technology performed reasonably well in the 4th quarter, there are signs of oversupply and valuations are still rich, particularly given that the sector tends to be more sensitive to higher interest rates.

- Regardless of which sector they reside in, we think high quality companies with the best secular growth stories and attractive valuations will likely have the most resilient estimates and be best positioned to take advantage of an improving economy when that time comes.

## About Risk

**Equity securities** are volatile and can decline significantly in response to broad market and economic conditions. **Smaller company** investments can be more volatile than those of larger companies. **Growth stocks** may be more sensitive to market conditions than other equities, as their prices strongly reflect future expectations. **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.

***Russell 2000® Growth Index** measures the performance of the small cap growth segment of the US equity universe. It includes those Russell 2000 companies with higher price-to-value ratios and higher forecasted growth values. The Russell 2000 Growth Index is constructed to provide a comprehensive and unbiased barometer for the small cap growth segment. Indexes are unmanaged and do not incur fees. It is not possible to invest directly in an index. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Russell Investment Group.*

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

***Before investing, consider the fund's investment objectives, risks, charges, and expenses. Please visit [www.loomissayles.com](http://www.loomissayles.com) or call 800-633-3330 for a prospectus and a summary prospectus, if available, containing this and other information. Read it carefully.***

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