



Small Cap Value Fund

Fund Facts

OBJECTIVE

Seeks to produce long-term capital growth

Share class	I
Inception	5/13/1991
Ticker	LSSCX
CUSIP	543495816

Market Conditions

- The US equity market experienced a moderate recovery in the fourth quarter, providing a welcome respite to close a difficult year. Widespread strength in October and November reflected slowing inflation, and investor sentiment rose on renewed expectations of an eventual pause in the Federal Reserve’s efforts to slow economic demand through interest rate hikes. Evidence of slowing economic growth raised the odds of a recession in 2023. As investors refocused on the upcoming year, markets once again turned lower during December, reducing overall gains for the quarter. Gains for domestic equities came across all sizes and styles, with valuation expansion the primary driver behind higher stock prices. Forward earnings forecasts moved lower on prospects for a slower economy in 2023. Nevertheless, consensus forecasts continue to project single-digit earnings growth in the coming year, despite tightening financial conditions and an inverted yield curve that would typically indicate tougher economic times ahead.
- High quality stocks were once again in favor during the quarter, as global economic uncertainty encouraged investors to favor companies with better business models, resilient cash flows, stronger balance sheets and more conservative valuations. Value stocks outperformed growth stocks across all market categories – a reversal from the third quarter, in which growth beat value and lower quality stocks prevailed over higher quality stocks. Materials, energy and industrials were the best performing Russell 2000® Value Index sectors, with health care the only sector to post a decline.
- The broad-based Russell 2000® Index returned 6.2% during the quarter, underperforming the Russell 1000® Index return of 7.2%. Small-cap value stocks, as measured by the Russell 2000® Value Index, advanced 8.4%. Growth stocks lagged value with a 4.1% return for the Russell 2000® Growth Index.

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
FUND	11.94	-11.54	-11.54	5.26	4.02	8.89
BENCHMARK	8.42	-14.48	-14.48	4.70	4.13	8.48

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 0.94% (Class I). Net expense ratio 0.90%. 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 5/13/1991. Class I shares are only available to certain institutional investors only; minimum initial investment of \$100,000.



Top Ten Equity Holdings (%)

Herc Holdings, Inc.	2.0
Weatherford International plc	1.6
Rambus Inc.	1.4
Wintrust Financial Corporation.	1.4
Crocs, Inc.	1.4
Northern Oil and Gas, Inc.	1.4
United Therapeutics Corporation	1.3
AECOM	1.3
Home Bancshares, Inc.	1.3
Kadant Inc.	1.2
Total	14.3

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.

Portfolio Review

- The fund outperformed its benchmark, the Russell 2000® Value Index, due to a market environment that rewarded its high quality approach in addition to strong stock selection metrics across multiple sectors.

Contributors

- The fund benefited from strong positive stock selection in the industrials, information technology and health care sectors, which contributed a majority of its relative outperformance. An overweight to industrials, which was one of the best performing index sectors, also helped relative performance. Among individual stocks, ChampionX Corp., Altra Industrial Motion Corp. and Weatherford International provided the most significant positive contributions to relative performance during the quarter.
- ChampionX provides a variety of products and solutions for oil and gas producers. While energy stocks stood out in 2022 in delivering strong gains in a weak overall equity market, ChampionX's stock price was largely flat through the first three quarters before rising nearly 50% in the final quarter of the year. Key factors behind the fourth quarter rally included a strong earnings reported in late October, with each reporting segment demonstrating sequential and year-over-year growth. Management commentary noted the company's ability to grow at or above overall industry production levels and directly addressed concerns which had previously weighed upon the stock. Finally, strong free cash flow generation has resulted in reduced debt levels, giving the company flexibility to increase return of capital to shareholders through dividend payments or share repurchases.
- Weatherford International provides equipment and services to the oil and natural gas exploration and production industry with a business mix weighted toward geographies outside of North America, including regions where growth rates are accelerating and oil field service capacity remains tight. The fund added the stock in July 2022 after the company's new management had progressed in profitably reorienting the business after its emergence from bankruptcy in late 2019 and working to further recapitalize its balance sheet. The stock's appreciation from a deeply discounted valuation reflected a "rediscovery" of the company by investors after years of being shunned due to subpar financial results and poor sentiment toward prior management. Current oil and gas commodity prices remain supportive of continued exploration and production growth.
- Altra Industrial is a manufacturer of mechanical power transmission and motion control industrial products. Since the fund's purchase of the holding in 2008, the company has evolved through organic investment and merger activity into a high performing, strong return on invested capital business. The stock drifted lower through the first three quarters of 2022 on general economic concerns and overall weakness in industrial stocks. During the quarter, the company accepted a merger proposal at a significant premium over where the stock had traded prior to the offer. The fund reduced its position after the merger announcement.

Detractors

- From a sector perspective, the fund's overweight position in information technology had a slight negative impact on relative performance. Unfavorable stock selection in the financials sector also negatively impacted relative performance. From a stock perspective, Lantheus Holdings, Inc., Pacira Biosciences, Inc. and Viavi Solutions, Inc., detracted the most from performance among individual companies.
- Lantheus is a global leader in the development, manufacture and commercialization of diagnostic medical imaging agents and products for the diagnosis and treatment of cardiovascular and other diseases. The fund acquired its position in July 2020 after a period of significant stock price weakness, primarily due to investor angst over initial dilution from an acquisition, masking the strong and steady profitability of the core imaging



agent business. In May 2021, the company gained FDA approval for PYLARIFY, one of the previously acquired products and a first-of-its-kind imaging agent used to identify suspected metastasis or recurrence of prostate cancer. One year after approval, initial sales of PYLARIFY were well ahead of prior estimates, and the company had raised its estimates on the size of its addressable market on multiple occasions. Following gains in the stock driven by these fundamental developments, we reduced the position in the fund during the third quarter of 2022. However, the shares subsequently declined in the most recent quarter, attributable in part to an expected slowing in sales and earnings growth after significant progress in 2021 and 2022. The potential of competing products to PYLARIFY on the horizon also weighed on the stock. We believe the shares have an attractive valuation and solid earnings growth prospects, and we are maintaining an average portfolio weighting in the stock.

- Pacira Biosciences is a pharmaceutical company with an industry leading, non-opioid pain management product primarily used in post-operative care. Performance of Pacira's leading product EXPAREL has seen negative impacts throughout 2022 as elective procedures continue to lag pre-pandemic levels. COVID-19 related issues have hurt patient volumes, and challenges in hospital staffing have persisted. These seemingly temporary headwinds and their negative impact on the stock price gave the fund an entry point for a new investment in the third quarter of 2022. However, the stock continued to decline into year-end, as these headwinds remained and certain pricing actions were taken by the company. We remain confident surgical procedure volumes will normalize in time. In addition, company initiatives around manufacturing improvements, new treatment indications for EXPAREL, and recently passed legislation promoting adoption of non-opioid pain management solutions in hospital outpatient settings should drive momentum and growth for the company in the years to come.
- Viavi Solutions provides instrumentation that tests telecommunications networks worldwide. During the quarter, higher interest rates and supply chain disruptions caused a slowdown in the pace of network deployments that reduced demand for network test equipment. Longer term, the company is well positioned for the continued build-out of 5G broadband cellular networks and continued investment into fiber optic.

Outlook

- We remain committed to identifying inefficiencies in the small-cap market that result in stock prices and valuations that do not accurately reflect our assessment of the underlying value of corporate enterprises. This approach is applied consistently over time, regardless of the current market environment.
- While many forms of inefficiency may exist, we focus on companies that are misunderstood, underfollowed or in the midst of a "special situation" where we believe we can use our strengths in the form of our time horizon, resource deployment or a willingness to solve complex situations. We require fundamentally sound business models, capable management teams and financial stability. Key to our process is identifying distinct, company-specific catalysts on the horizon to sustain, enhance or highlight the fundamental outlook.
- Our goal is to achieve an attractive total return for our investors, while managing to an appropriate level of risk over a market cycle.



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. Value investing carries the risk that a security can continue to be undervalued by the market for long periods of time. 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® Value Index measures the performance of the small cap value segment of the US equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2000 Value Index is constructed to provide a comprehensive and unbiased barometer for the small cap value segment.

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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 800-633-3330 for a prospectus and a summary prospectus, if available, containing this and other information. Read it carefully.

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