

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

- Stocks recorded modest gains during the second quarter of 2019 continuing the strong equity market move of the first quarter, as stocks recover from the late December 2018 market lows. US stocks finished higher for the period across all market-cap ranges and investment styles.
- After a remarkable rally during the first nine weeks of 2019, US stocks had trended flat-to-down through late May, reflecting softening global economic data, concerns over the US Federal Reserve (the Fed) having “over tightened” in 2018, and heightened activity and rhetoric in regard to international trade and tariffs. By early June, expectations for future Fed easing became the prevailing consensus, resulting in a downward shift in interest rates, a re-steepening of the yield curve and a healthy recovery in stock prices to finish the quarter.
- Given the modestly weaker economic data points and the continued uncertainty over trade, market leadership was more defined by market cap and quality, as well as secular growth and earnings visibility, as opposed to specific themes across sectors and industries.
- Most notable was the outperformance of large-cap stocks relative to small caps, with the Russell 1000® Index up 4.25% for the period versus a 2.09% return of the small-cap Russell 2000® Index. Loss-generating companies produced negative returns during the quarter. Growth stocks continued their winning streak versus value, with the Russell 2000® Growth Index up 2.75% versus a 1.37% return for the Russell 2000® Value Index.

CLASS I PERFORMANCE (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
FUND	3.72	18.55	-2.06	9.11	6.01	12.98
BENCHMARK	1.38	13.47	-6.24	9.81	5.39	12.40

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 0.95% (Class I). Net expense ratio 0.93%. 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 1/31/2020. 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 (%)

Viad Corp	1.4
ALLETE, Inc	1.4
Churchill Downs Inc	1.3
Aerojet Rocketdyne Holdings Inc	1.2
Littelfuse, Inc	1.2
Nomad Foods Ltd	1.2
Harsco Corp	1.2
GCI Liberty Inc	1.2
Euronet Worldwide, Inc	1.1
Genpact Ltd	1.1
Total	12.2

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, primarily due to its positioning in larger market capitalization and higher quality stocks, and favorable stock selection across the majority of economic sectors.

Contributors

- Relative performance was aided by an underweight to the energy sector (the worst performing sector in the benchmark index) and an overweight to the industrials sector (the best performing index sector).
- In addition to favorable sector weighting, the fund benefitted from positive stock selection across most economic sectors, in particular consumer discretionary, industrials and health care. Among individual stocks, Harsco Corporation, KAR Auction Services, Inc. and Churchill Downs Incorporated had the largest contributions to performance for the quarter.
- Harsco is an industrial services and engineered products company, with a core business providing steel factories various mill services, including scrap management and metal reclamation. During the quarter, the company announced it was selling its heat exchanger manufacturing business, while simultaneously acquiring a new specialty waste services line of business. While the transaction is largely financially neutral on a near term basis, the strategic implications are quite positive as the company becomes less economically sensitive, less capital intensive and materially expands its total available market in environmental and industrial services.
- KAR Auction wholesales used vehicles, conducts salvage auto auctions and provides funding to used car dealers. KAR successfully completed a corporate spin-off on the last day of the quarter – effectively separating the company’s salvage vehicle auction business from the remaining wholesale used car auction business and creating a new public entity. As the spin-off date approached, the stock was revalued sharply higher to better reflect the value of the salvage vehicle business relative to publicly traded peers.
- Churchill Downs Incorporated owns and operates Churchill Downs property, host of the Kentucky Derby, as well as other gaming, racing and online gaming properties. In addition to the company’s continued growth and profitability, the shares responded positively to the announcement of new gaming legislation in Illinois, which should enable the company to expand its Rivers Casino investment and monetize the Arlington racetrack property.

Detractors

- An underweight to the financials sector hampered performance as the sector was one of the better performing segments within the benchmark index for the quarter.
- In addition, stock selection was weak within the utilities sector. During the quarter, Gray Television, Inc., Conduent, Inc. and Apergy Corp. detracted the most from performance.
- Gray Television operates dozens of local broadcast TV stations around the country. After an excellent start to the year including incorporating the Raycom Media acquisition, the stock fell in the second quarter largely due to investor concerns regarding macro and industry uncertainties around a slowing economy, reduced advertising spending and the trend toward “unplugging” from traditional television content providers.

- Conduent is a leading service company specializing in transaction intensive services including health savings account administration and toll processing. The company was spun-off from Xerox Corporation in 2016 and has made progress in reducing its cost structure. However, it has been burdened by legacy technology systems issues and has been unable to grow new business booking as quickly as originally anticipated.
- Apergy provides equipment and services in the drilling and production of oil and gas wells. The stock was quite strong to start the year, given its high quality characteristics including high margins, low capital intensity and solid free cash flow, which are largely the exception in the oil field services and equipment industries. However, the stock suffered as oil prices weakened during the quarter and sentiment toward energy stocks deteriorated further.

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 the corporate enterprise. 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 willingness to analyze complex situations. We require fundamentally sound business models, capable management teams and financial stability. Fundamental to our process are unique, company-specific catalysts on the horizon to sustain, enhance or highlight the fundamental outlook.
- With a margin of safety and a proper time horizon, our goal is to achieve an attractive total return for our investors, while managing to an appropriate level of risk.

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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