

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

- US equities remained in a fairly tight trading range during the third quarter of 2021, with slight gains achieved in large cap stocks and modest losses in small caps. Positive contributors such as robust earnings growth and ample liquidity from central banks began to give way late in the quarter to heightened uncertainty over worsening supply chain disruptions, inflationary pressures, potential tapering by the Federal Reserve, and ongoing waves of new COVID-19 outbreaks. Leadership shifted between cyclical and defensive stocks, growth versus value, and large cap versus small. While growth stocks slightly outperformed in large caps during the quarter, small value stocks held a modest lead over small growth stocks.
- Within the small cap value universe, leading sectors within the benchmark included financials and energy. Financials traded at a large discount relative to the market and were seen as potential beneficiaries of rising interest rates, while energy stocks rallied on higher oil and gas commodity prices. Lagging sectors within the benchmark included the communication services and health care sectors. Communication services included several “meme” stocks that surged higher during the second quarter of 2021 before retracing some of the gain in the third quarter. Small cap health care stocks were strong performers from the pandemic driven lows of 2020 through February 2021, but they have since lagged as valuations became elevated.
- The broad-based Russell 2000® Index returned -4.4% during the quarter, materially lower than the Russell 1000® Index return of 0.2%. Small-cap value trailed all larger-cap segments, with a return of -3.0% for the Russell 2000® Value Index. Small-cap growth was the worst performing domestic market style with a -5.7% return for the Russell 2000® Growth Index.

CLASS I PERFORMANCE AS OF SEPTEMBER 30, 2021 (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
FUND	-0.71	21.63	55.05	7.98	9.86	13.03
BENCHMARK	-2.98	22.92	63.92	8.58	11.03	13.22

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 0.90%. 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 1/31/2022. 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.	2.4
InMode Ltd.	1.8
Triumph Bancorp, Inc.	1.7
Concentrix Corporation	1.5
Popular, Inc.	1.4
Kadant Inc.	1.3
Genco Shipping & Trading Limited	1.3
ChampionX Corporation	1.3
Wintrust Financial Corporation	1.3
Meta Financial Group, Inc.	1.3
Total	15.4

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 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 favorable stock selection.

Contributors

- The fund significantly benefitted from favorable stock selection within most sectors. Higher-quality stocks generally returned to favor during the quarter after lagging during the initial reopening of the economy and provided an additional tailwind for the fund's relative performance.
- At the sector level, an underweight position in the health care sector contributed to the fund's relative performance. Strongly positive stock selection in the industrials and health care sectors aided performance. Among individual stocks, InMode Ltd., Herc Holdings, Inc. and Triumph Bancorp, Inc., provided the most significant positive contributions to relative performance for the quarter.
- InMode produces minimally-invasive medical aesthetic surgery platforms for fat reduction, skin tightening and tissue remodeling applications. The company has had strong demand for its proprietary systems due to pent-up demand from physicians, the expansion of its sales force in the US, and continued momentum of hands-free technologies. Earnings continued to exceed investor expectations, driven by the continued opening of the economy, both within the US and internationally. Also, InMode's introductions of two new platforms (women's health & ophthalmology), increases in research and development activity, and expanding its international distribution capability helped produce strong returns for shareholders. On price strength, we modestly reduced our position in InMode during the quarter as the stock was a top performer last quarter as well.
- Herc Holdings is one of the leading equipment rental suppliers in North America, specializing in industrial products such as aerial platforms, earthmoving equipment, and tele-handlers. Herc had been a turnaround story prior to our taking an initial position in the stock in late 2019, and the market was slow to recognize significant improvement in its business. Late in the third quarter, the company announced ambitious new targets for growth and profitability for the next three to four years and initiated a common dividend for the first time.
- Triumph Bancorp, a Texas-based niche bank with a focus in freight payment factoring, continues to transform its business model from a traditional bank structure into a digital freight payments business. This strategic pivot has increased its market opportunity and outlook for growth substantially. Recently, its TriumphPay division announced that annualized payments volume for the third quarter of 2021 will make it the largest payor in brokered freight. The division's goal is to "own" the payment channel for freight brokers and then move on to shippers. As the company continues to reach payments milestones, investors have reassessed the company's future earnings outlook and have increased the valuation of the company.

Detractors

- From a sector perspective, the most significant detractors from performance were the fund's underweight positions in energy and financials. Unfavorable stock selection in the energy sector also hurt relative performance. Allscripts Healthcare Solutions Inc., DMC Global, Inc. and Urban Outfitters, Inc. detracted the most from performance among individual companies.
- Allscripts develops and markets health care information technology solutions, including electronic health records and management systems for physicians, hospital care units, and emergency room facilities. The company had included some slower growing yet highly

profitable business lines along with a handful of small but highly promising niche products. Prior to the period, two of these small, emerging business lines were sold to strategic buyers, raising over \$1.7 billion in gross proceeds. With the proceeds from the divestitures directed at substantial debt pay-down and share repurchases, the stock responded well in the first half of 2021 before shares pulled back during the third quarter. No particular news accounted for the sell-off other than investors once again focusing on the more mature, slow growth business mix.

- DMC Global is a diversified, niche holding company with two principal business lines: DynaEnergetics, an energy products business providing perforation solutions for oil and gas wells, and NobleClad, a producer of explosion-welded clad plates for industrial production applications. An extended period of weakness in oil and gas capital spending has weighed on results for the company in recent quarters, although the business remains marginally profitable with positive cash flow. Prior secondary stock offerings have raised net cash on the balance sheet of nearly 25% of the market cap, and the highly proprietary, unique product line remains well positioned for the potential recovery in capital spending.
- Urban Outfitters sells fashion apparel, accessories, and household merchandise under the Anthropologie, Free People, and Urban Outfitters brands. The stock performed very well during the first part of 2021 as investors anticipated the re-opening of the economy and increased consumer demand for apparel to refresh wardrobes. More recently, however, a stressed supply chain limited how much new merchandise the company will receive in advance of the important holiday retail selling season. This, along with concerns that elevated margins due to limited discounting are unsustainable, put pressure on shares of Urban Outfitters during the period, along with many of its retail peers.

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. These principles are applied consistently over time, regardless of the current market environment. 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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