



# Small/Mid Cap Growth Fund

## Fund Facts

### OBJECTIVE

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

Share class	I
Inception	6/30/2015
Ticker	LSMIX
CUSIP	543488779

## Market Conditions

- Although the Russell 2500 Growth index was up 4.72% during the quarter, the index was still down 26.2% in 2022, with significant volatility in both directions persisting throughout the year.
- Volatility during the quarter was quite evident with 7 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 2500 Growth benchmark on trailing 3-yr and 5-yr periods as of December 30, 2022.

## Portfolio Review

- The fund outperformed its benchmark, the Russell 2500 Growth Index, primarily due to positive stock selection in the Consumer Discretionary and Energy sectors.

## Contributors

- On an individual stock level, Axon Enterprise, ChampionX and Halozyme were top contributors to the fund's performance.
- Axon is the dominant provider of conducted energy weapons (Tasers) to law enforcement agencies and has little to no competition. Over the past few years, management has expanded the portfolio both organically and via M&A to cameras (body and vehicle), software applications, and a cloud-based network for storing data generated by its devices

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

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	SINCE INCEPTION
<b>FUND</b>	5.22	-27.08	-27.08	4.06	6.90	8.49
<b>BENCHMARK</b>	4.72	-26.21	-26.21	2.88	5.97	7.21

*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 0.99% (Class I). Net expense ratio 0.85%. 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 6/30/2015. Class I shares are only available to certain institutional investors only; minimum initial investment of \$1,000,000.*



### TOP TEN EQUITY HOLDINGS (%)

Axon Enterprise, Inc.	2.2
HEICO Corporation	2.2
BJ's Wholesale Club Holdings, Inc.	2.1
Acadia Healthcare Company, Inc.	2.0
Halozyme Therapeutics, Inc.	2.0
Pure Storage, Inc.	2.0
ChampionX Corporation	2.0
Deckers Outdoor Corporation	1.9
KBR, Inc.	1.9
WillScot Mobile Mini Holdings Corp.	1.9
<b>Total</b>	<b>20.2</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.*

(evidence.com). The stock had a strong quarter, with all business segments performing ahead of expectations, and Axon raised its full-year guidance.

- ChampionX is a unique small/mid cap play in the oilfield services industry in that it is primarily international and production focused. Investor appreciation of its international prospects driving long-term performance has helped boost the stock, in addition to management overcoming some supply chain challenges to regain margin expansion.
- 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.

### Detractors

- Amongst the most significant detractors at the individual level were R1 RCM, Advanced Drainage Systems and AngioDynamics.
- R1 is a healthcare outsourcing company that will take over the revenue cycle component of provider businesses. The business is growing rapidly, and this high growth led to poor execution for a couple of clients that hurt its profitability and caused the stock to retreat.
- Advanced Drainage Systems, a leading manufacturer and provider of plastic pipes 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.
- AngioDynamics is a medical device company with exposure to endovascular procedures. The company posted weaker than expected performance in the quarter and saw cash flow hurt by inventory build. In addition, some smaller customers became delinquent on their payables during the quarter. The Fund exited the position.

### 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. Investments in small and mid-size companies 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 2500™ Growth Index measures the performance of the small to mid cap growth segment of the US equity universe. It includes those Russell 2500™ companies with higher growth earning potential as defined by Russell's leading style methodology. The Russell 2500™ Growth Index is constructed to provide a comprehensive and unbiased barometer of the small to mid cap growth market. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small to mid cap opportunity set and that the represented companies continue to reflect growth characteristics.*

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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](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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