Small/Mid Cap Managed Account

Quarterly Review

- Second quarter returns showed divergence between US equity markets as the large cap Russell 1000® Index continued to significantly outperform smaller cap stocks, continuing a trend that has been in place now for over a year. Small cap equity markets declined for the quarter and was driven by a recent trend of softer economic data and investor concerns regarding mounting headwinds to future economic growth.
- Within the small/mid cap segment as well as the market overall, the quality fundamental theme maintained market leadership. Larger market capitalization stocks within the small/mid cap universe and the most profitable companies in terms of return on equity topped performance, while the smallest, least profitable lagged behind.
- The Small/Mid Cap strategy outperformed during the quarter as the market leadership structure matched well to our portfolio positioning entering the quarter, and portfolio outperformance was driven by stock selection, indicative of our style still remaining in favor. The primary driver of performance over time has been stock selection, and this was once again the case in Q2 2024. Portfolio stock selection was best across health care, utilities and energy, where several of the quarter's top stock performers were found. These more than offset select underperformers in the financial services sector, and a handful of laggards spread throughout the portfolio.
- Strong stock selection metrics within the health care, utilities and energy sectors provided positive relative performance. During the quarter positions in Tenet Healthcare Corporation, Vistra Corp. and United States Cellular Corp. added the most to performance.
- Tenet is an owner and operator of healthcare facilities throughout the United States including hospitals, surgery centers, and various special care facilities. During the COVID-19 pandemic, healthcare facilities came under weakness due to a slowdown in utilization, elevated labor cost pressures, and extended duration stays from COVID-19 patients. Since the pandemic, elevated labor expenses have declined for temporary staffing and elective procedures rebounded above pre-pandemic levels. As a result, the share price has positively responded as utilization of healthcare facilities and services increased. In addition, the company has also strategically improved their profitability through investment and growth of higher margin ambulatory surgery centers as well as selling several Tenet hospitals at attractive multiples using the proceeds to pay down debt. We are confident utilization remains stable and the company can benefit from structural shifts to outpatient sites of care for elective surgeries.
- Vistra Corp. is a leading unregulated generator of power from nuclear, renewable and fossil sources. During the quarter, the company closed on a pending acquisition which both expands and diversifies its nuclear exposure and increases the perceived duration and quality of the business. In addition, demand for electricity is growing based on broad based electrification trends with a heavy contribution from data center growth. This has resulted in higher power prices and a valuation increase for the stock. Given the long lead times and permitting challenges around new fossil fuel and nuclear generation, Vistra is likely to be a long-term beneficiary of this trend and valuation remains reasonable.
- US Cellular is the fourth largest provider of cellular phone service in the United States focusing primarily on rural geographies. During the quarter the company provided a positive update to an ongoing strategic review with the announcement that US Cellular has agreed to sell its wireless operations to T-Mobile, unlocking significant value in the share price. Aside from the sale of its wireless unit, US Cellular continues to holds valuable assets including cellular towers, partnerships that pay annual dividends and wireless spectrum. The stock remains in the portfolio as the share price may still represent value versus the estimate of the remaining businesses.

- Detracting from relative return was an underweight position in real estate, and lagging stock selection in the financials and materials sectors. During the quarter positions in WEX, Inc., Alight, Inc. and Liberty Media Corp. Liberty SiriusXM detracted the most to performance.
- WEX provides payment processing and information management to commercial, government and consumers worldwide. For example, WEX provides a SaaS platform to manage fuel expense management for the trucking industry, as well as Health Savings Accounts and employee benefits. The company underperformed during the quarter as lower fuel prices and a freight recession in the transportation industry impacted investor sentiment. The company remains well positioned for intermediate term growth with an undemanding stock valuation and a strong management team.
- Alight is a leading human capital solutions company servicing very large institutions and their global workforce and is transitioning to a recurring revenue, higher margin business model through both organic growth and the divestiture of its Payroll and Professional Services segment. The stock underperformed in the quarter due to both a disappointment to first quarter financial performance and a change in the Chief Financial Officer. While an increased urgency for the company to improve execution and earnings forecasting on a quarterly basis exists, we believe the long-term business model is strong and is not reflected in the current discounted valuation. The near-term closing of a divestiture along with recent activist involvement in the company should be two positive catalysts for the share price.
- Liberty Media Liberty SiriusXM, a tracker stock within the Liberty Media universe of media, entertainment and communications companies. The primary asset of the company is a large ownership stake of the outstanding shares of SiriusXM, the subscription-based satellite radio company. In December 2023, Liberty Sirius entered into a definitive agreement to merge with Sirius XM. Although the merger was widely anticipated, the Liberty Sirius tracker had traded at a significant discount to the market value of its ownership stake in SiriusXM. Our investment thesis assumed the discount would close following the merger, with the Liberty Sirius stock rising to the existing market value of SiriusXM. Quite unexpectedly, the near opposite occurred, and instead, the value of SiriusXM declined following the merger announcement. While the difference in value between Liberty Sirius and Sirius XM has indeed narrowed, the discount in Liberty Sirius shares was no match for the magnitude of the decline in Sirius XM's stock price. The underlying asset now trades at a very attractive valuation and we modestly increased our position in Liberty Sirius on price weakness.

Outlook

- We remain committed to identify inefficiencies in the small/mid cap market resulting in stock prices and valuations not accurately reflecting 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 a willingness to solve 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.
- 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.

Important Disclosure

Key Risks: *Equity Risk, Market Risk, Non-US Securities Risk, Liquidity Risk. Investing involves risk including possible loss of principal.*

This marketing communication is provided for informational purposes only and should not be construed as investment advice. Any opinions or forecasts contained herein reflect the subjective judgments and assumptions of the authors only and do not necessarily reflect the views of Loomis, Sayles & Company, L.P. Investment recommendations may be inconsistent with these opinions. There is no assurance that developments will transpire as forecasted and actual results will be different. Data and analysis does not represent the actual or expected future performance of any investment product. Information, including that obtained from outside sources, is believed to be correct, but Loomis Sayles cannot guarantee its accuracy. This information is subject to change at any time without notice.

Indices are unmanaged and do not incur fees. It is not possible to invest directly in an index.

Market conditions are extremely fluid and change frequently.

Commodity interest and derivative trading involves substantial risk of loss.

Top two and bottom two holdings may not be representative of current or future holdings and will evolve over time. The examples above do not represent all securities purchased, sold or recommended for client accounts. They should not be considered specific investment recommendations or representative of other investments made by Loomis Sayles. A list showing the contribution of each holding to the overall performance of the representative account during the measurement period is available upon request.

Holdings analysis is shown for a representative account as supplemental information. Due to systems limitations it is difficult to analyze sector distribution on a composite basis. This representative account was selected because it closely reflects the Loomis Sayles Small/Mid Cap investment strategy. Due to guideline restrictions and other factors, there is some dispersion between the returns of this account and other accounts managed in the Small/Mid Cap investment style.

Diversification does not ensure a profit or guarantee against a loss.

Any investment that has the possibility for profits also has the possibility of losses, including the loss of principal.

There is no guarantee that the investment objective will be realized or that the strategy will generate positive or excess return.

Past performance is no guarantee of future results.