Loomis Sayles Full Discretion Team

Extra Credit

Nothing Artificial About Our AI Investment Process

Artificial intelligence (AI) has the potential to simultaneously *enhance* and *disrupt* many facets of daily life, from the employment landscape to the companies in which we invest.

The Full Discretion Team believes AI will both create change and require a substantial investment in infrastructure. We expect that capital investment in AI will exceed approximately $2.5T over the next three years with half of that amount funded in the debt markets.

In preparing for this period of change and investment, we have been evaluating the various forms of AI risk through the lens of our disciplined credit framework. Our process remains underpinned by conviction in the enterprise value of the firm, or what we think the business is worth. This disciplined and repeatable process allows us to appropriately assess the credit risk of each investment against its market price to uncover potential opportunities. We are working closely with our credit research team to leverage our analysts' industry expertise to identify emerging risks as well as attractive investments.

More specifically, there are two analytical tracks we are focused on:

1. Investing in the AI ecosystem, including funding new data center construction

2. Assessing the disruption risk from AI advances.

We expand upon these in this paper.

Investing in the AI Ecosystem

The key question is: will the return on investment (ROI) justify the large sums of money spent on data centers and AI infrastructure? We believe AI will have profound impacts on the broader economy, though we acknowledge our limited ability to quantify its impact today. We believe that AI can drive a productivity boom, generating a higher growth paradigm for many industries and companies that we believe will filter through to the broader economy through increased GDP. This productivity boom will create "winners" and "losers," but we seek to mitigate this risk by leaning heavily on our existing investment framework and selectively leaning into the theme.

What does this look like in practice? We focus on three keys areas:

1. **Valuation**: understanding the value of the core business, not just how AI could transform that business

2. **Structure**: understanding how the deal is structured, including distinct debtholder protections

3. **Downside risk mitigation**: a focus on the project completion timeline and the quality of the end customer for the project

Assessing Industry & Issuer AI-related Disruption

Our credit research team's deep industry expertise is integral in assessing industry and issuer disruption risk. For example, the software industry has been a clear area of market focus since the start of 2026, with AI concerns driving negative investor sentiment. As a result, we have observed some indiscriminate selling across the entire software industry. Alongside our credit research team, Full Discretion has established a framework for identifying risks to software models.

We believe software models most at risk:

1. **Have low-context, repeatable processes**

2. **Are single purpose point solutions that work with other applications**

3. **Contain minimal differentiation or proprietary data**

4. **Sell on a per headcount basis as end-user companies may face headcount reductions**

We believe software models least at risk:

1. **Have system-of-record data and/or valuable, proprietary datasets**

2. **Perform regulatory functions like trust, data security, and governance**

3. **Ensure reliability where perfection is required**

4. **Have sales distribution and scale through a large installed user base and/or a well-capitalized distribution process**

5. **Are considered "mission critical" with hard to replace embedded or integrated workflows**

Using this top-down framework in conjunction with our bottom-up enterprise value framework, we can screen for opportunities and risks in both direct AI-related investments as well as other opportunities that will be impacted by AI.

The result is a *consistent* and *repeatable* approach to all industries and asset classes in times of dispersion. In short, we believe *credit selection is as important as ever.*

Meet the Team

MATT EAGAN, CFA
Head of Full Discretion, Portfolio Manager

BRIAN KENNEDY
Portfolio Manager

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Portfolio Manager, Credit Strategist

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Investment Director

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Associate Investment Director

MATTHEW GREEN
Associate Investment Director

Important Disclosure:

About the Team

The Full Discretion team brings decades of expertise and collaboration to create tailored solutions for their clients.

27 — Investment Professionals

23+ — Years of Industry Experience
(Portfolio Management Team)

$85.6 — Team Assets Under Management
(Billion USD)

Team Philosophy

We have a legacy of independent thinking and leaning into the market when others may be pulling away. We take a deep-value, equity-like approach to credit selection across global fixed income markets. Our disciplined process helps gives us confidence in seeking to identify macro trends, formulate a clear view on market sectors, and invest throughout the credit cycle.

For more than 40 years, we have been applying our distinctive style of bond picking to deliver portfolios designed to provide excess yield potential and have low correlations to traditional benchmark-focused fixed income strategies.