THE LOOMIS SAYLES SUSTAINABILITY TEAM

Emerging Thematic Risks



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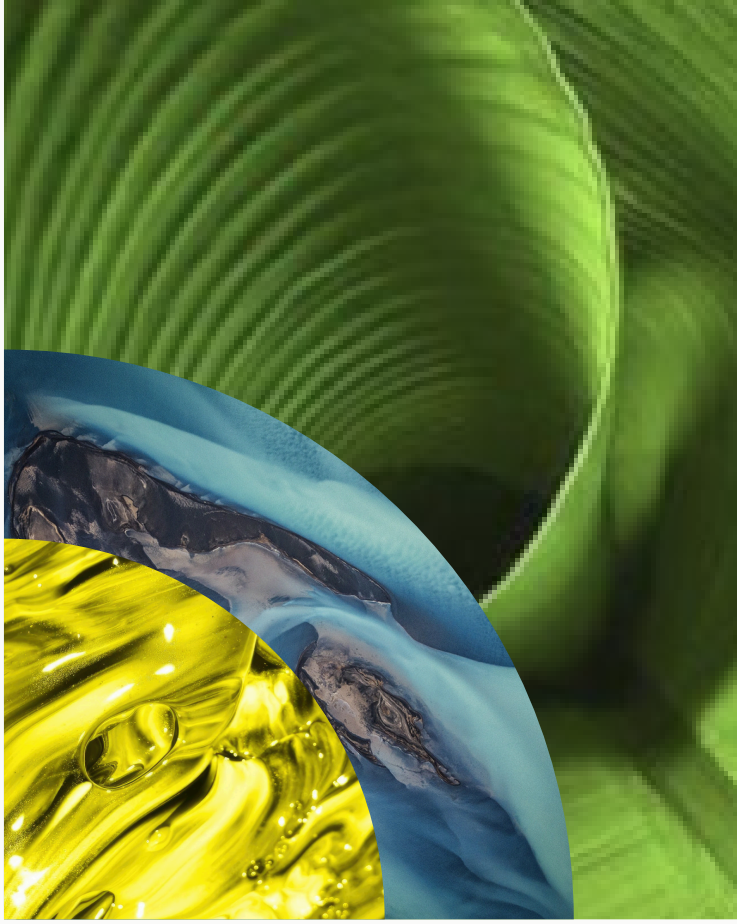


The Loomis Sayles Sustainability Team is building on our longstanding focus on financial materiality by incorporating a more holistic assessment of the systemic and thematic forces shaping markets, economies, and investment outcomes.

We continue to concentrate our efforts on helping our investment teams and fundamental analysts understand opportunities and risks that can drive alpha. This broader perspective is increasingly important as markets confront the convergence of multiple economic, geopolitical, technological, and environmental risks. Many investment themes in the 3- to-10-year time horizon naturally intersect with the original tenets of "ESG" thinking, such as AI's impact on energy systems and the labor market, and what aging demographics portend for economies around the world. This is where we aim to stake our approach: sustainability research focused on thematic and systemic risks across industries, sectors and geographies, combined with robust fundamental analysis from our industry specialists.

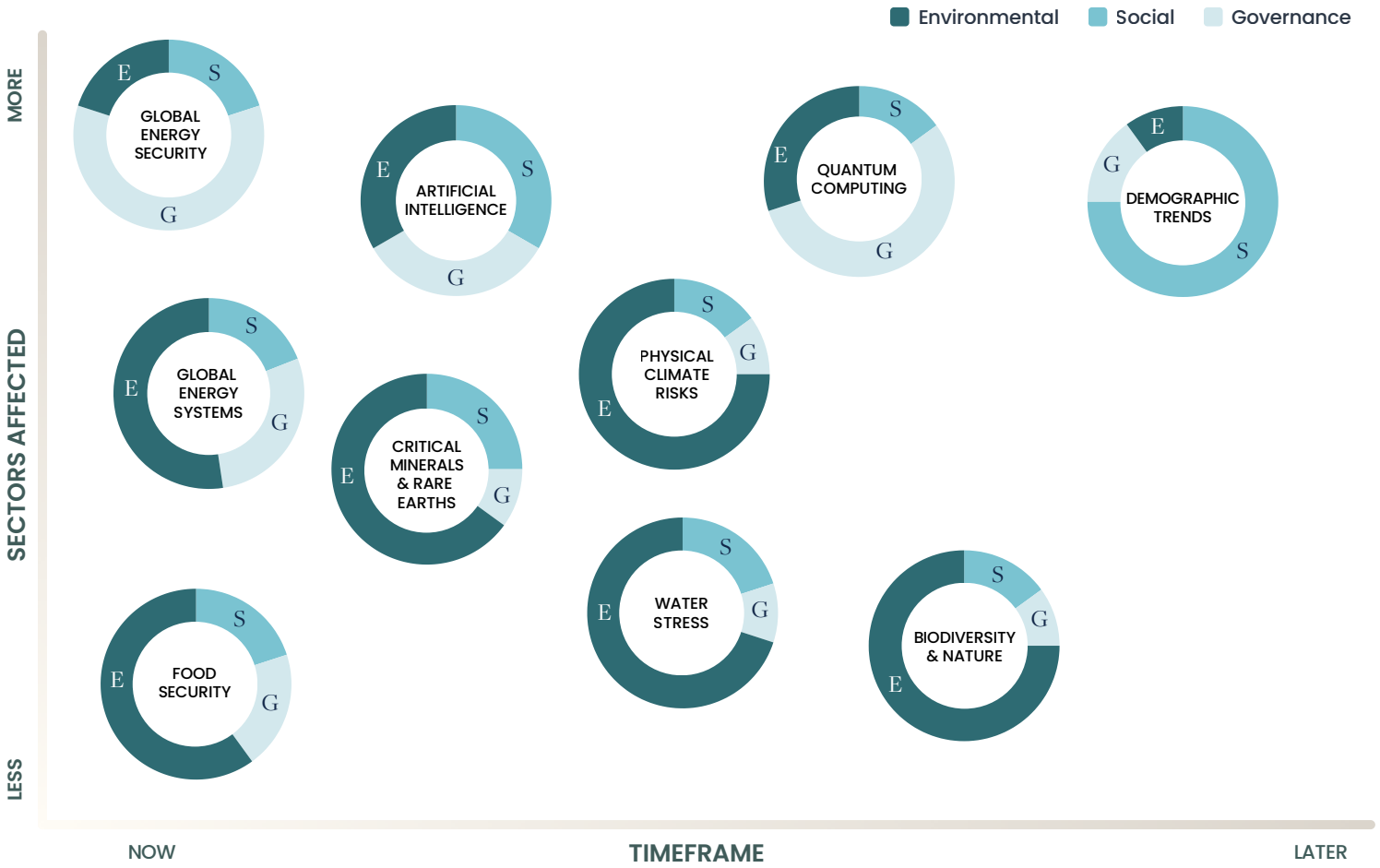
We have the resources, dexterity, and conviction to deliver on this approach. At its core, Loomis Sayles is a fundamental asset manager. One key beneficial aspect of this is that it facilitates a collaborative exchange of ideas between the Sustainability Team and our fundamental analysts. While we focus on medium-term (3–10 year) risks and opportunities, our fundamental analysts bring deep, bottom-up industry insight into their near-term financial implications. We believe this collaboration strengthens relationships and supports the integration of investment decisions, ultimately benefiting client portfolios.

This paper highlights emerging themes the team is researching to provide tangible financial insights to our investment teams and analysts. We have done some initial exploration of these themes, like geopolitics, energy security, and AI, and plan to revisit them as they unfold real-time and impact markets.

The graphic below represents the themes we are currently researching. Each theme connects to environmental, social, or governance risks, with the potential to impact a range of sectors, over varying time horizons.

Physical risks, for instance, can impact a broad range of sectors. While primarily viewed as an environmental risk, we consider the potential investment implications of physical risks through multiple lenses: how social risks—such as migration and unrest—as well as governance risks might materialize as second-order effects.

Current Themes



Current
Themes & Focus



Geopolitics/Energy Security

The growing intersection of geopolitics, food and energy security, and all things supply chain related represents an entwined macro risk rather than isolated themes. The war in Iran has underscored the connectivity between supply chain security and national security. We have, for example, already argued that renewables can act as a "geopolitical shield"; issuers across asset classes will seek out additional ways to "shield" operations against geopolitical volatility.

In isolation, these risks may be manageable. However, we believe these risks materializing simultaneously could exacerbate underlying fundamental vulnerabilities across asset classes. The legacy of the Strait of Hormuz closure and the upcoming El Niño phenomenon will keep us diligent in monitoring the likelihood of this convergence taking place over the next 6 to 18 months.





ALEX SCHOBER
Sustainability Analyst

The energy transition is now an economic necessity.
The transition is akin to energy security, paramount to the here and now.

Artificial Intelligence (AI)



The AI revolution is expected to unlock significant value creation across sectors, with broad commercial applications and a diverse set of potential alpha-generating opportunities throughout the technology ecosystem and beyond. Artificial Intelligence is not only a story of technological advancement, but also one of water and energy use, labor scarcity, local pushback, and politics. While there are numerous investment opportunities from the commercial adoption of this technology, certain stakeholders are inherently opposed to AI and data center buildouts. For economic growth and national security, the US government largely favors a swift buildout—particularly in an AI arms race against China. Meanwhile, communities, and therefore their elected officials, are questioning the net benefits to the end user. There is a real risk of coordinated backlash bubbling up at the state level, which could have serious implications for data center delays.

Resource inputs are also a limiting factor to AI expansion in the US —grid infrastructure is outdated and not built to meet the rate at which energy demand is increasing today, permitting for new projects is slow, and skilled labor is not always readily available. Tech companies increasingly rely on speed to power as a measure of success for their AI bets. While this technology may bring a range of benefits to companies and individuals, many uncertainties are at play with this story, and we are deeply focused on the nuances within each subtopic.



JUSTINE GEARIN
Sustainability Analyst

The AI story is not just about software. It's also a story about power, labor and grid infrastructure.

Physical Risks

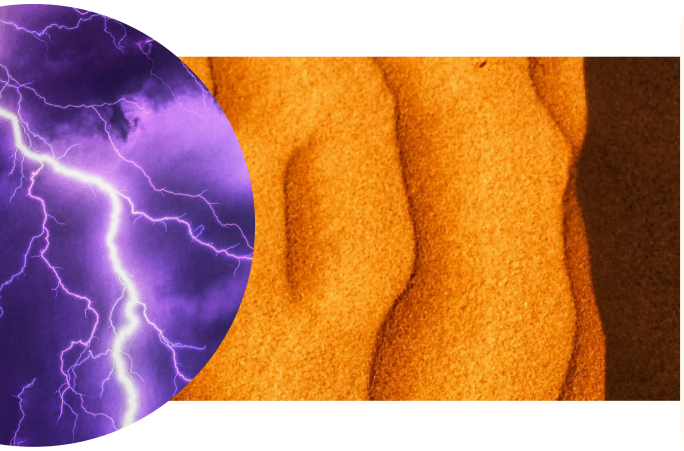
Physical climate risks are increasing in both frequency and severity, yet are often mispriced by financial markets. Hazards such as wildfires and severe storms are already driving material impacts—often amplified through supply chains and business interruption—but have not triggered broad repricing. In our view, this stems from two factors: the absence of clear market catalysts and persistent measurement challenges. Together, these dynamics delay price adjustments until losses materialize or insurance markets force reassessment. As a result, risk remains underappreciated in valuations, leaving investors exposed to unexpected losses.

We are focused on understanding this exposure to both assess risk and uncover alpha opportunities. As physical climate risks become more pronounced, spending on resilience and adaptation is accelerating across both the public and private sectors. Yet a significant funding shortfall persists, particularly at the municipal level, where infrastructure requirements often exceed available resources. Against this backdrop, investors are increasingly identifying climate adaptation as a compelling investment theme. Companies providing resilience-focused solutions, from infrastructure and power systems to cooling and grid technologies, are positioned to address a growing need while benefiting from rising capital expenditure and increased strategic relevance.



JUSTINE GEARIN
Sustainability Analyst

The risk goes beyond single hazard exposure. Correlated shocks can hit concentrated infrastructure, compounding stress on critical assets.



The team has developed a proprietary tool, **Physical Hazard Investment Risk Exposure (PHIRE™)** to quantify the potential investment implications of physical climate risks across corporate and sovereign debt portfolios. By combining geospatial asset data with climate and loss datasets, PHIRE™ assesses exposure to both acute and chronic hazards.

PHIRE™ is a trademark of Loomis Sayles & Company, L.P.

Water Stress

We are analyzing water stress as a growing physical and financial constraint on industrial activity, energy production, and credit, including how drought-driven supply volatility translates into economic risk. The core issue is the interaction between increasingly severe and persistent drought conditions—amplified by rising temperatures and shifting climate patterns—and fixed, water-intensive infrastructure that cannot easily adjust consumption.

While near-term disruption remains limited due to alternative water sourcing and recent rainfall, these are temporary buffers against a backdrop of declining freshwater availability. Over time, drought conditions are likely to trend worse and intensifying water stress will force industrials to shift operations or invest capital in new innovative technology. For investors, water stress is emerging as a channel through which physical climate risk is priced into credit, infrastructure viability, and long-dated asset values.





STEPHANIE MITTAZ
Sustainability
Senior Associate

Short-term improvements in drought conditions mask a longer-term trend of worsening water stress.

Quantum Computing (QC)

We could be on the cusp of a second computing revolution. Quantum computing represents a fundamental leap beyond traditional computing. Unlike traditional computers, which process information as either 0 or 1, quantum systems can evaluate multiple possibilities simultaneously, akin to running thousands of Monte Carlo[1] simulations simultaneously, rather than sequentially. The advantage is not raw speed in everyday tasks, but efficiency in navigating extremely complex solution spaces. This dramatically expands computing power, enabling breakthroughs in areas once considered computationally impossible—from accelerating complex simulations and drug discovery to transforming cybersecurity and optimization.

By solving exponentially more complex problems at unprecedented speed, quantum computing has the potential to reshape industries and unlock entirely new frontiers of innovation.



The investment implications extend beyond the technology itself. As quantum capabilities mature, they could reshape industry cost structures, create new competitive advantages, and drive significant capital spending requirements—particularly in cybersecurity and digital infrastructure. While timelines remain uncertain (for now) due to technical constraints like error correction, the investment relevance today lies in asymmetric optionality, emerging capex requirements (notably in cybersecurity), and second-order effects that could dramatically reshape competitive dynamics in industries such as pharma, AI, and infrastructure.



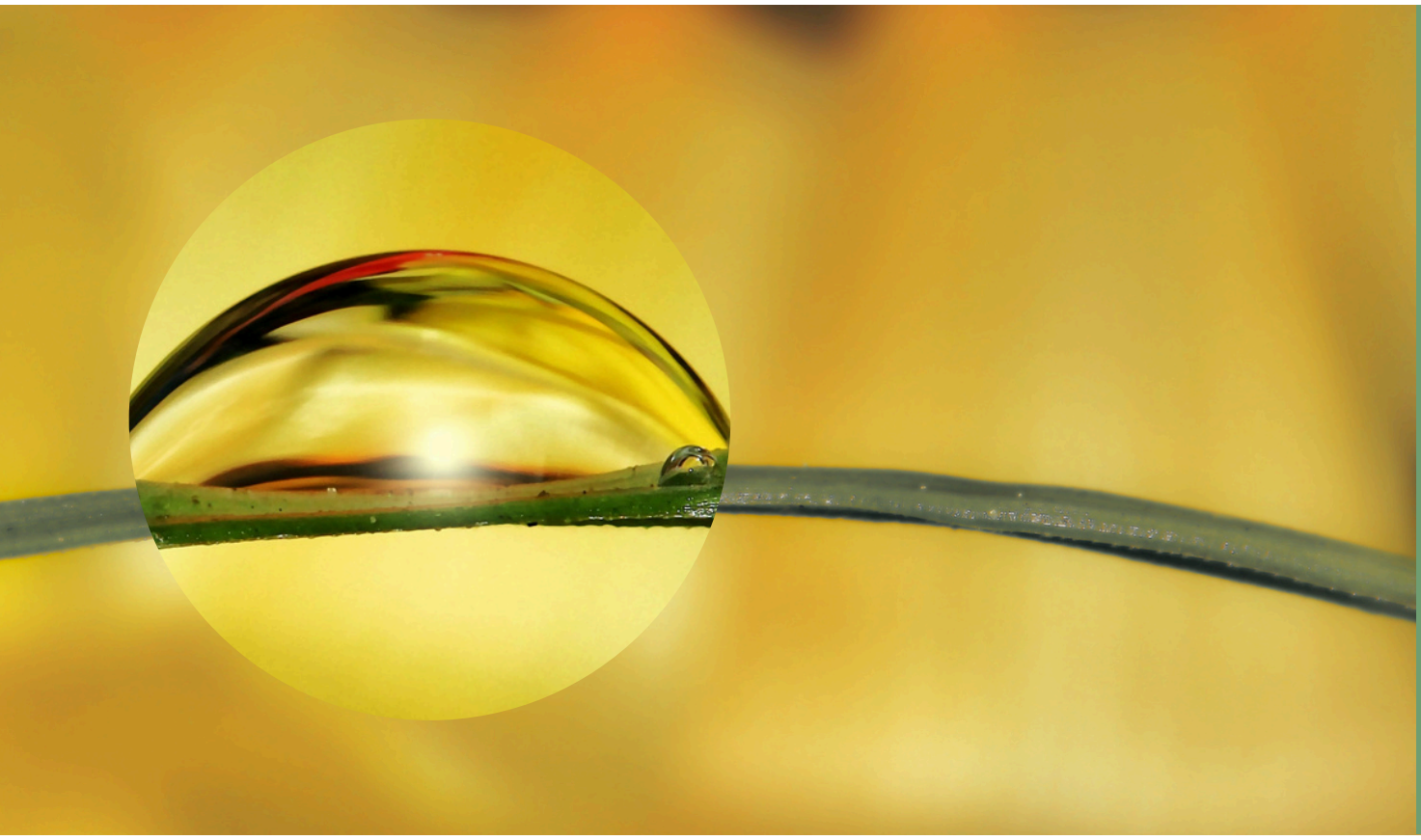
COLLEEN DENZLER, CFA
Chief Sustainability Officer

Quantum computing won't replace today's systems—it will make previously unsolvable problems economically actionable.

[1] Monte Carlo refers to simulations that model a range of potential outcomes using randomized inputs and assumptions. Results are hypothetical, subject to uncertainty, and should not be considered a prediction or guarantee of actual future performance.

The Sustainability Team is *focused* on investigating the implications of these rising thematic and systemic risks, in collaboration with analysts and investment teams across Loomis Sayles.

We will continue to evaluate the financial implications of these themes, and others that may emerge in the years to come, to identify their potential to influence markets. This insight will help inform our investment teams, as they work to navigate these markets on behalf of our clients.



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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.

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Meet the Team



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