LOOMIS | SAYLES

FACT SHEET

September 30 2022

# Global Equity Fund

## THIS FACT SHEET IS FOR THE UNLISTED AND QUOTED CLASS OF UNITS IN THE LOOMIS SAYLES GLOBAL EQUITY FUND ('FUND')

- Loomis Sayles Global Equity Fund is the unlisted class of units
- Loomis Sayles Global Equity Fund (Quoted Managed Fund) is the quoted class of units

## MARKET CONDITIONS

Global markets continued to be volatile in the third quarter, ultimately registering declines. The Fed indeed raised rates twice during the quarter and began the process of quantitative tightening. Many developed-market central banks enacted interest-rate increases of their own, appearing to pressure investor sentiment across the globe.

In the United States, stocks lost ground across nearly all sectors, styles and market capitalizations. European stocks were particularly weak due to intensifying rhetoric surrounding the Russia-Ukraine war and an incipient energy crisis. Concerns about the growing likelihood of a regional recession in 2023, as well as elevated currency-market volatility in the latter half of September, added to the negative tone. The U.S. dollar surged against other major currencies due to differences in economic growth rates and concerns about possible policy errors, notably in the United Kingdom and Japan.

The MSCI All Country World Index ended the period down -0.3% in AUD terms, with the majority of sectors registering declines, led by the Communication Services and Real Estate sectors.

## PORTFOLIO PERFORMANCE

The Loomis Sayles Global Equity Fund and the Loomis Sayles Global Equity Fund (Quoted Managed Fund) returned +0.2% (AUD, net of fees), modestly outperforming the MSCI All Country World Index which declined by -0.3% (also in AUD terms). Security selection in the Consumer Discretionary sector was the largest contributor to relative results. The Industrials, Communication Services and Health Care sectors also contributed on a relative basis. The Information Technology sector was the largest detractor from relative performance, followed by the Financials sector. The Fund's lack of direct exposure to the Energy sector also detracted on a relative basis.

## FUND FACTS

| | |
|---|---|
| Invt Style | Agnostic |
| Assets | $140.4 M |
| Investment Horizon | 4-5 years |
| Distributions | Generally annually |
| Mgt fee* | 0.99% |
| Performance fee | N/A |

## GLOBAL EQUITY FUND

| | |
|---|---|
| APIR | IML0341AU |
| Inception date | 1-Nov-18 |
| Application (ex) | 1.3542 |
| Redemption (ex) | 1.3502 |

## QUOTED MANAGED FUND

| | |
|---|---|
| APIR | IML3289AU |
| ASX ticker | LSGE |
| Inception date | 1-Oct-21 |
| NAV | 2.0159 |

**Inclusive of the net effect of GST*

## PERFORMANCE AS AT SEPTEMBER 30, 2022

**BENCHMARK** MSCI AC World Index

| TOTAL RETURN** | 1-MTH | 3-MTHS | 6-MTHS | 1-YR | 2-YR^ | 3-YR^ | SINCE INCEPTION^* |
|---|---|---|---|---|---|---|---|
| GLOBAL EQUITY FUND | -4.5% | +0.2% | -11.4% | -19.0% | -0.1% | +3.3% | +8.3% |
| QUOTED MANAGED FUND | -4.5% | +0.2% | -11.3% | - | - | - | - |
| BENCHMARK*** | -3.6% | -0.3% | -8.2% | -10.9% | +6.2% | +5.5% | +8.1% |

*^% Performance per annum.*

**Since inception returns calculated from November 1, 2018 (Global Equity Fund); October 1, 2021 (Quoted Managed Fund).**Fund returns are calculated using the net asset value per unit at the start and end of the relevant period in AUD, net of management fees, and assuming all distributions are re-invested. Investors should be aware that past performance is not a reliable indicator of future performance. Returns can be volatile, reflecting rises and falls in the value of underlying investments.*

****The benchmark for this Fund is the MSCI All Country World Index NR (MSCI AC World)*

*Global Equity Fund performance is the performance of the unlisted class of units and may be a useful reference point for the newer quoted class of units in the Fund. However, you should be aware that the quoted class of units in the Fund is has limited performance history. The past performance for the unlisted class of units in the Global Equity Fund is NOT the past performance of the Quoted Managed Fund.*

*Ratings issued by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421 445 (assigned February 2022); Zenith Investment Partners AFSL 226872 (assigned November 2021); SQM Research Pty Ltd ABN 93 122 592 036.* *All rights reserved by each research house.*

## LEADERS

**The three largest contributors to returns were Airbnb, Amazon, and Cummins.**

**Airbnb** is an online marketplace for short-term stays and vacation rentals. Over the last decade, Airbnb has disrupted the lodging industry by creating a medium where home owners can offer their properties for rent, introducing significantly more choice for consumers. Our investment thesis on Airbnb is driven by its leadership position within this large addressable market. Airbnb's capital-lite platform, where it collects commissions for each rental, benefits from a powerful network effect. The more property owners who list their properties, the more renters it attracts and vice versa. It is our opinion that Airbnb's platform offers a superior consumer experience for both the host and the guest driven by trust; hosts can access guest profiles and provide feedback on guests, while guests can also provide reviews and ratings on hosts. We believe this experience has created a brand associated with ease of private rentals.

Airbnb shares rose following second quarter results; the company reported growth in room nights, solid Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) margins and strong free cash flow generation. Management also announced a $2 billion share buyback and highlighted a positive trajectory for the travel recovery. We expect intrinsic value growth for Airbnb to be driven by revenue growth and margin expansion. We believe the company has a number of opportunities to grow its top line through increasing its share and offering its users ancillary travel services, as well as entering new verticals, such as the hotel market. We expect margins to grow as the company is able to increasingly leverage its technology and other operational costs.

Shares of **Amazon** performed well over the period; the company reported solid revenue and operating profit. Amazon Web Services (AWS) continued to be the growth engine of the company registering revenue growth of over 30%. Retail revenue (70% of overall revenue) remained resilient and management noted they do not foresee a slowdown in consumer demand. Amazon also contained costs despite continued inflationary pressures in fuel, energy, and transportation.

We believe the company is well positioned within e-commerce and Cloud (via AWS), two large growth markets. In retail, we believe it will continue to benefit from the secular shift from brick-and-mortar stores to on-line, which is still in the early stages at about 20% penetration in the United States (which we ultimately expect to be much higher). In our view, Amazon's scale and network effect create significant barriers to entry for competitors and the company continues to gain market share by improving its selection, product availability and customer service. In Cloud, AWS is one of the three dominant players and, as such, we believe it is well positioned to continue to capture industry growth. The company also continues to invest heavily in digital content and infrastructure which we believe supports future growth. We also see Advertising emerging as a high margin growth driver for Amazon, with significant room for future growth. We expect intrinsic value growth will be driven by double digit top line growth and margin expansion over time.

It is our opinion that **Cummins** is one of the top leader’s in designing, manufacturing and selling engines, related components and power systems for trucks and machinery. The company is one of the only engine pure plays, as its principal competitors (who are also customers) are large truck and equipment manufacturers with vertically integrated product lines. The company also has a distribution segment where it owns and partners with independent distributors to sell its products and provide services. Generally speaking, we believe the Cummins brand is known for its reliability based on its leading position in the class 8 truck market.

Shares of Cummins were up following its second quarter earnings report. Accounting for one-off costs, such as leaving the Russian market, we believe Cummins is performing better than results suggest. Outside of China, demand was strong; North America saw improved pricing, higher volumes and stronger after market demand. In China, COVID-19 lock downs and pre-buying (due to stricter emissions regulations) dampened demand. We found that Cummins management presented appropriately conservative guidance given elevated costs, ongoing supply chain challenges and a depressed China market.

We believe Cummins will continue to be a leader in its industry with its ability to focus its R&D and capital spending on newer technologies and more energy efficient engines to comport with the latest regulations. The company rates highly on ESG aspects with its fuel-efficient engines; the company is also developing hydrogen and battery electric technology to contribute to a greener product line. While the company's business is cyclical (demand is driven by the movement of goods and construction), we believe the company has demonstrated resilience over the last several cycles as its value as a stand-alone R&D and manufacturer of critical components has become more well known. To further its geographic reach, the company has partnered with local companies in each targeted market in either a joint venture, or to a lesser extent, acquisitions. We believe the company has a strong capital allocation program balanced among dividends, repurchases, and growth opportunities.

## LAGGARDS

**The three most significant detractors from returns were IQVIA, Nvidia, and Adobe.**

**IQVIA Holdings** provides solutions in the areas of information technology and clinical research for the health care industry. The company was formed by the merging of IMS Health, an information technology services company serving the pharmaceutical industry, and Quntiles, a contract research organization (CRO) providing clinical trial support to biopharma clients. The combined company has vast data and analytic resources and distinct capabilities, offering a one-stop shop for many components of the life sciences industry. IQVIA rates highly across our quality criteria; we found it to have a strong management team with CEO Ari Bousbib, the previous CEO of IMS Health, as the architect of the IMS-Quntiles merger and corporate strategy, and low turnover in the executive rank post-merger. We believe it has a favourable market structure, with a high degree of recurring revenue from subscription-based products and a durable client base, as well as attractive end markets as pharmaceutical companies increase spending on drug development and outsource more of their clinical development work.

IQVIA shares underperformed on concerns surrounding the biotech funding environment. We believe IQVIA will be resilient given its diverse revenue streams (nearly half of its revenue is derived from its data and analytics business) and a slowdown in biotech funding would be against historically high levels. In addition, we believe that CROs, with their clinical trials expertise, play a key role in creating future revenue streams for their clients; which insulates them from budgets cuts should there be an industry downturn. Going forward, we expect intrinsic value growth to be driven by revenue growth, primarily through the R&D Solutions segment, margin expansion, and capital allocation.

**Nvidia's** origins are in hardware and the gaming end market; it created the world's first discrete graphics processing unit (GPU) in 1999. The company has since evolved into a larger ecosystem of products with the GPU at its core; its accelerators are used in the gaming, professional visualization, data center and automotive markets. The company created a singular platform across all products and updates are fully compatible making for generally smooth transitions for their customers. Nvidia has historically only had one GPU competitor, though Intel is attempting to enter the market, with Nvidia holding 70%+ market share (depending on which end market). The company has continued growing by creating new uses for its hardware and software, specifically, the recent artificial intelligence (AI) renaissance - increasingly leveraging GPUs rather than CPUs - has led to new and larger opportunities in the data center and automotive markets. The company has started to explore its options to monetize its software (currently it is "free" with its hardware) via licensing and subscription models. Gross margin has been on an upward trajectory over the last decade as its mix is shifting towards the more profitable data center business; we expect this to continue as standalone software sales and new markets provide a lift. We found its capital allocation is strong with an emphasis on repurchases and dividends, while maintaining a net cash position.

Nvidia stock declined in early August following pre-announced fiscal quarter results, which revealed a revenue shortfall across its gaming, data center and professional visualization segments. During the subsequent earnings call, management attempted to quantify what they believed underlying gaming demand to be excluding the impact from Ethereum (a cryptocurrency). Ethereum miners previously used GPUs, however stopped using them in August as a result of a change to its coding. This change resulted in a significant increase in secondary market supply, impacting Nvidia's sales. Management has put out its own estimates for the baseline demand for gaming revenue, which although below the prior peak has not reset expectations. Additionally, inventory was written off to help clear the channel (primarily data center) ahead of a product launch in the fourth quarter. Management also alerted investors to a slowdown in the company's Chinese "hyperscaler clients" (big data center service providers, e.g., Alibaba) during the quarter, which was unexpected. Although demand was replaced by a strong North America market, it could cause headwinds in the near term. Overall, the fiscal third quarter guide was disappointing as well.

**Adobe** is one of the largest and diversified software companies globally; it is best known for its suite of front-office products that enable creativity (Creative Cloud), and a suite of document creation and consumption software built around the Portable Document Format (PDF) standard. The majority of its business is subscription based, providing significant revenue visibility. We believe Adobe has the ability to increase its pricing over time as it has delivered more functionality without meaningfully increasing its rates to date. It also has compelling suite pricing, whereby additional applications are included for only a modest increase in price, incentivizing its customers to use more Adobe products. The business is efficient, generating the majority of its sales through the Adobe.com website which requires little or no sales involvement. We expect Adobe to continue to take market share in this ~$200B secular growth industry, underpinned by social media and the 'creator economy' (be it on Instagram, YouTube or TikTok). We believe the company will continue to grow intrinsic value at mid-teens or better annual rate driven by revenue growth, and to a lesser extent, margin expansion.

## LAGGARDS (CONT…)

In the period, shares of Adobe underperformed after the company announced it would acquire Figma, a collaborative web-based design application. Investors' concerns centered on the deal's valuation and the effect on Figma's product operating under the Adobe umbrella. While we acknowledge valuation concerns, we view the deal as a strategic move to expand Adobe's competitive positioning which we believe extends the company's competitive advantage period. In terms of Figma's product, we believe Adobe management will provide Figma co-founder Dylan Field and his team with independence to continue to develop products and services which provide value to users. We believe Adobe's core moat around digital creative and document tools, exemplified by the ubiquity of Photoshop and PDF, remains intact.

## PHILOSPHY & OUTLOOK

Our investment philosophy is predicated on the belief that investing in companies with multiple alpha drivers, where the risks can be quantified, can help deliver outperformance. We follow a disciplined and repeatable process, investing only in opportunities that meet our three alpha drivers: quality, intrinsic value growth and attractive valuation. This bottom-up approach results in a concentrated portfolio of businesses where we fully understand and have quantified the risks associated with each investment. Our scenario analysis, under which we determine a range of business values, is an integral part of this process. Through this framework, we determine the relative attractiveness of our investments to assist in constructing an optimal portfolio.

We expect the market volatility we have experienced thus far in 2022 to persist. Tighter global monetary policies have increased the odds of a recession and recent data suggest inflation may be sticky; in the U.S., the markets are pricing in an aggressive rate hike path. Europe remains a source of risk as it struggles with an energy crisis stemming from the Ukraine-Russia war. China, whom we believe to be an important indicator for global risk appetite, continues to respond to COVID-19 breakouts with strict lockdowns at the expense of economic growth; while it doesn't appear that the Chinese property market is receiving the same level of attention as it used to, we believe it still remains a risk.

In our opinion, the fundamental picture, however, is more balanced. Market expectations for corporate profit growth have held up well; while margins may be pressured moving forward, they are starting from perceivably high levels. We believe corporate and consumer health remain solid and labor markets continue to be tight, serving as a counterbalance to a more material slowdown. Our focus remains on investing in companies we believe have the ability to manage the current environment and generate value over the longer-term. Periods of volatility can provide us with the opportunity to build positions in high quality companies at more attractive valuations.

We currently hold a diverse group of technology names spanning semiconductor manufacturing and equipment, software, and consulting companies. We have select exposure to consumer names that we believe are uniquely positioned; companies capturing e-commerce demand, physical retailers with a differentiated value offering, and companies with valuable brands. We have focused our healthcare exposure toward what tend to be higher growth areas in the industry, and away from areas which are exposed to reimbursement risk. In financials, our holdings generally have leading market positions in retail banking, asset management and investment banking. We believe our holdings have sustainable competitive advantages and strong balance sheets, evidenced by the portfolio's return on equity (ROE), which is higher than the MSCI ACWI benchmark, and financial leverage which is less than the benchmark (on a net/debt to EBITDA basis). We believe these characteristics allow our companies the flexibility to weather uncertain environments.

# GLOBAL EQUITY FUND

## Portfolio Data as of September 30, 2022

## SECTOR ALLOCATION (%)

| | Fund | Index |
|---|---|---|
| Information Technology | 31.0 | 20.7 |
| Consumer Discretionary | 15.8 | 11.5 |
| Health Care | 14.0 | 13.0 |
| Financials | 12.7 | 14.6 |
| Industrials | 9.0 | 9.5 |
| Materials | 6.4 | 4.7 |
| Consumer Staples | 5.5 | 7.7 |
| Communication Services | 4.4 | 7.4 |
| Cash | 1.0 | -- |
| Energy | -- | 5.2 |
| Real Estate | -- | 2.7 |
| Utilities | -- | 3.1 |

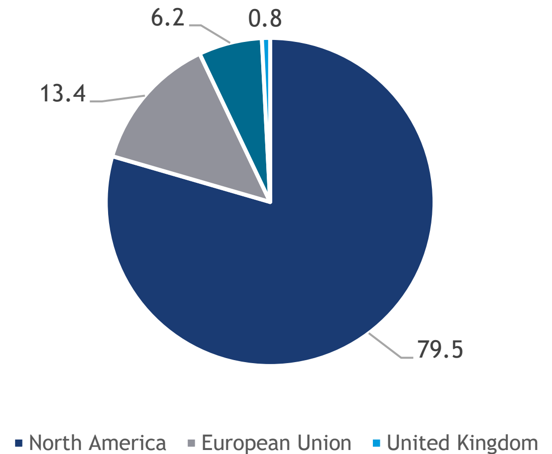
## TOP 10 HOLDINGS (%)

| | Fund |
|---|---|
| Amazon.com, Inc. | 4.7 |
| Danaher Corporation | 4.5 |
| Alphabet Inc. | 4.4 |
| S&P Global, Inc. | 4.3 |
| Linde plc | 4.2 |
| Cummins Inc. | 4.1 |
| Accenture plc | 4.1 |
| Salesforce, Inc. | 4.1 |
| Airbnb, Inc. | 4.1 |
| ASML Holding NV | 4.0 |
| **Total** | **42.5** |

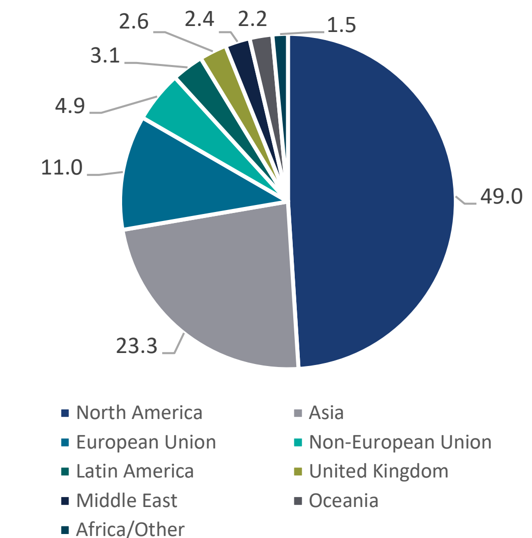
## PORTFOLIO CHANGES*

| | |
|---|---|
| New holdings: | Blackrock |
| Sold holdings | Azenta, HDFC Bank, Dropbox |

## REGIONAL ALLOCATION BY DOMICILE (%)




## REGIONAL ALLOCATION BY REVENUE (%)




### ABOUT LOOMIS, SAYLES & COMPANY

Boston-based Loomis Sayles has been managing money for investors since 1926. The firm currently manages US $335 billion, as of 31 March 2022, on behalf of clients worldwide. With extensive resources across the US, Europe and Asia, Loomis Sayles is well positioned to manage global equities and deliver attractive risk-adjusted returns for clients.

### PLATFORMS

| | |
|---|---|
| AMP | Netwealth |
| Asgard | Powerwrap |
| BT Wrap | MLC Wrap |
| BT Panorama | MLC Navigator |
| CFS | Macquarie Wrap |
| Hub24 | uXchange |

** There is a 30 day lag on portfolio changes*

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