LOOMIS | SAYLES

FACT SHEET

December 31 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 equity markets registered positive returns in the fourth quarter as indications of easing inflation buoyed investor sentiment in October and November. While concerns about the growing likelihood of a recession in 2023 turned markets lower in December, the MSCI All Country World Index (Net) finished the period up 4.1% in AUD terms. The majority of sectors registered gains, led by the Energy, Industrials and Materials sectors. The Consumer Discretionary and Communication Services sectors posted declines while the Information Technology and Real Estate sectors underperformed the broader market.

## PORTFOLIO PERFORMANCE

The Loomis Sayles Global Equity Fund returned 4.4%, slightly outperforming the MSCI All Country World Index (Net) return of 4.1% (in AUD terms). Security selection in the Information Technology sector was the largest contributor to relative results. The Financials, Industrials, and Materials sectors also contributed on a relative basis. The Consumer Discretionary sector was the largest detractor from relative returns, followed by the Consumer Staples sector. Not having direct exposure to the Energy sector also detracted from relative performance.

## FUND FACTS

| | |
|---|---|
| Invt Style | Agnostic |
| Assets | $146 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) | 1.4133 |
| Redemption (ex) | 1.4091 |

## QUOTED MANAGED FUND

| | |
|---|---|
| APIR | IML3289AU |
| ASX ticker | LSGE |
| Inception date | 1-Oct-21 |
| NAV | 2.105 |

**Inclusive of the net effect of GST*

## PERFORMANCE AS AT DECEMBER 31, 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 | -7.0% | +4.4% | +4.5% | -21.8% | +0.9% | +3.2% | +8.8% |
| QUOTED MANAGED FUND | -7.0% | +4.4% | +4.6% | -21.6% | - | - | - |
| BENCHMARK*** | -5.1% | +4.1% | +3.7% | -12.5% | +4.9% | +5.3% | +8.6% |

*^% 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.*

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## LEADERS

The three largest contributors to performance were **ASML**, **Linde** and **MasterCard**.

**ASML** is a leader in photolithography, the process in which a light source is used to etch a pattern on a silicon wafer. The company is distinctly positioned in EUV (extreme ultra violet), a next generation technology, which is needed for chipmakers to continue to make chips smaller while maintaining their power (i.e., Moore's law). We believe the barriers to entry are high given the required technical expertise and associated R&D spending. ASML partners with its customers, aligning its product roadmap with theirs; which we believe has led to a symbiotic relationship. ASML is moving toward a value-based service model, which we expect to be more profitable. Currently, the services business account for a little more than a quarter of revenues. We believe the company has sound capital allocation policies, selectively doing bolt-on acquisitions (such as Bernliner Glas) while growing its dividend and opportunistically buying back shares, recently announcing a new €12B program through 2025.

Shares rose in the fourth quarter after the company announced higher 2025 financial targets and introduced firmer targets for 2030 at its investor day. ASML believes it has sufficient backlog to offset the softening semiconductor environment.

Shares of **Linde**, one of the largest industrial gases companies globally, outperformed over the period. Linde's industrial gases are used across industries – from high purity gases in semiconductor production to natural gas liquefaction plants in the energy sector. Industrial gases are critical products in many applications driving pricing power. Contracts are long-term in nature and switching costs are high (particularly for large customers with on-site plants) which provides revenue visibility. We believe the company has meaningful scale, holding the top one or two position in every market globally, where density is a competitive advantage; the market structure is also consolidated creating a disciplined market environment. With regard to ESG, we believe Green House Gas (GHG) emissions reduction is a material opportunity for the company. It continues to lower its carbon footprint internally, and, most importantly, we believe it also has an opportunity externally as the company continues to expand its hydrogen portfolio, which can help lower the carbon footprint of its customers. We expect revenue growth, operating margin expansion and capital allocation to be among the key drivers of intrinsic value growth. Strong free cash flow generation and the appetite to repurchase shares over time further add to our intrinsic value growth outlook.

**MasterCard** is a global credit and debit payments processing technology company. The company's market structure drives our conviction in quality. We believe MasterCard is in an effective duopoly (albeit the smaller player) in global payments processing (excluding China). The company continues to benefit from the structural global payment shift from cash and checks to cards, as well as the expansion into business payments. While there is risk of displacement by new technology, we believe it has declined over the past five years (e.g., given that Apple is using Visa/MasterCard payments processing). The company's business model and intangible assets also support our quality conviction. MasterCard has low capital requirements, and its opportunistic bolt-on acquisition strategy creates additional growth levers while its network effect and global leading brand name reinforce its competitive moat.

Shares of MasterCard rose in the fourth quarter following healthy results, with mid-teens revenue growth driven by resilient consumer spending. Although recession risks have increased, we believe MasterCard has multiple revenue growth drivers including the continued migration to card spending and expansion of business-to-business payments as noted above, as well as open banking, and cyber-security and data intelligence services for its clients.

## LAGGARDS

The three most significant detractors from returns were **Amazon**, **Airbnb** and **Alphabet**.

**Amazon** is well-positioned within e-commerce and Cloud (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. Amazon's scale and network effect create significant barriers to entry for competitors; 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 supports future growth. We also see Advertising emerging as a high margin growth driver. We expect intrinsic value growth will be driven by double-digit top line growth and margin expansion.

Shares of Amazon lagged following its third quarter earnings. While the company's results were largely in-line with our expectations, AWS missed revenue and operating margin forecasts (our expectations and consensus). Management cited softening enterprise demand with customers seeking less expensive options. We believe Amazon's efforts to help its enterprise customers manage costs in the current economic environment, engenders customer loyalty, which should likely benefit the company longer-term. We also note AWS' backlog continues to grow at a robust pace. We remain positive on Amazon shares and believe Amazon's underlying businesses have strong runways. The stock is attractively valued on our discounted cash flow methodology.

**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. We believe 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. We believe Airbnb's platform offers a superior consumer experience for both the host and the guest driven by trust; hosts can access guest profiles, provide feedback on guests, while guests can also provide reviews and ratings on hosts. We believe this experience has created a brand synonymous with seamless private rentals, which is evidenced by the high percentage (over 90%) of direct traffic to Airbnb.com.

Shares of Airbnb lagged as more challenging economic conditions cast doubt on the health of the consumer. Fundamentally, however, Airbnb continues to gain market share. Airbnb has supply growth, average daily rate (ADR) growth, and strong operating leverage. We believe the company has opportunities to grow its top line such as increasing its market share and offering its users ancillary travel services as well as enter new verticals, such as the hotel market. We also expect margins to expand as the company increasingly leverages its technology and other operational costs. The stock is attractively valued on our discounted cash flow methodology.

**Alphabet**, via its Google property, dominates the global search market, with over 90% market share across geographies (outside of China and Russia). The company amasses consumer data from Google search and its other properties - YouTube, GooglePlay, Chrome, and Maps, among others – which increases its value proposition to advertisers. Shares underperformed on growing global recession concerns. We continue to believe Alphabet is well positioned to benefit from growth in digital advertising given its distinct scale and breadth. While challenging macroeconomic trends may affect revenue growth at YouTube and Google Cloud, we believe growth will remain strong at the company's main profit driver Search, which offers its customers a high return on their advertising spending. Further, as vast majority of advertising revenues is derived from auctions, we believe weakness in advertising for consumer goods will likely be offset by a post-pandemic rebound in advertising categories such as travel and dining.

We also believe the company will grow its market share in the cloud business as well as gain traction in devices, where its efforts appear promising. The company is highly cash generative and the chief financial officer (CFO) has instilled a culture that focuses on transparency and cost control. We expect intrinsic value growth to be driven by revenue growth (in its core search business as well as ancillary businesses such as cloud services) and return of capital to shareholders including buy backs.

## 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 heightened market volatility to persist as we head into 2023. Tighter global monetary policies have increased the odds of a recession, and while there are indications inflation may have peaked, the battle has not been won; in the U.S. the Fed is likely to proceed with another rate hike in February, albeit of smaller magnitude. Europe remains a source of risk as it struggles with an energy crisis stemming from the Ukraine-Russia war. China, after months of enforcing a zero-COVID-19 program, is loosening restrictions which will likely result in at least an initial surge of COVID-19 cases.

The fundamental picture, however, is more balanced. Corporate fundamentals remain in decent shape with earnings growth still positive in most regions. The consumer also has remained in good health; we have seen only a marginal move higher in global unemployment rates, 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 potentially generate value over the longer-term. Periods of volatility can potentially 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 distinctly positioned; companies possessing strong brands with direct-to-consumer opportunities, physical retailers with a differentiated value offering, and e-commerce companies capturing growing demand. We have focused our healthcare exposure toward higher growth areas in the industry, and away from areas which are exposed to reimbursement risk. In financials, our holdings have leading market positions in retail and commercial 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 meaningfully 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, and quite possibly emerge stronger.

# GLOBAL EQUITY FUND

## Portfolio Data as of December 31, 2022

## SECTOR ALLOCATION (%)

| | Fund | Index |
|---|---|---|
| Information Technology | 31.0 | 20.0 |
| Consumer Discretionary | 15.3 | 10.4 |
| Health Care | 13.6 | 13.4 |
| Financials | 12.9 | 15.2 |
| Industrials | 10.5 | 10.2 |
| Materials | 6.8 | 5.0 |
| Consumer Staples | 5.1 | 7.7 |
| Communication Services | 3.7 | 6.8 |
| Energy | -- | 5.6 |
| Real Estate | -- | 2.6 |
| Utilities | -- | 3.2 |
| Cash | 1.1 | -- |

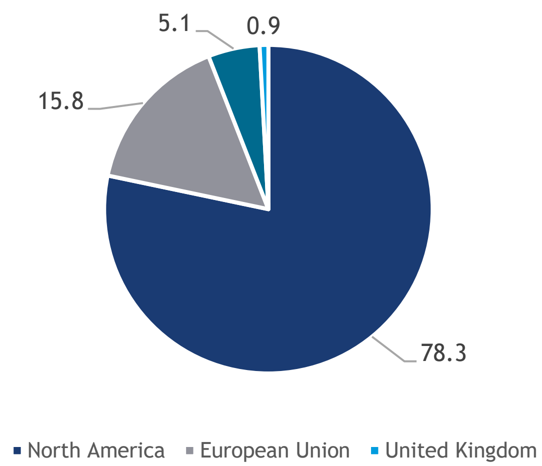
## TOP 10 HOLDINGS (%)

| | Fund |
|---|---|
| ASML | 4.5 |
| Linde | 4.4 |
| Mastercard | 4.3 |
| S&P Global | 4.3 |
| Cummins | 4.1 |
| Home Depot | 4.0 |
| Danaher | 3.9 |
| Accenture | 3.9 |
| LVMH | 3.8 |
| Alphabet | 3.7 |
| **Total** | **41.0** |

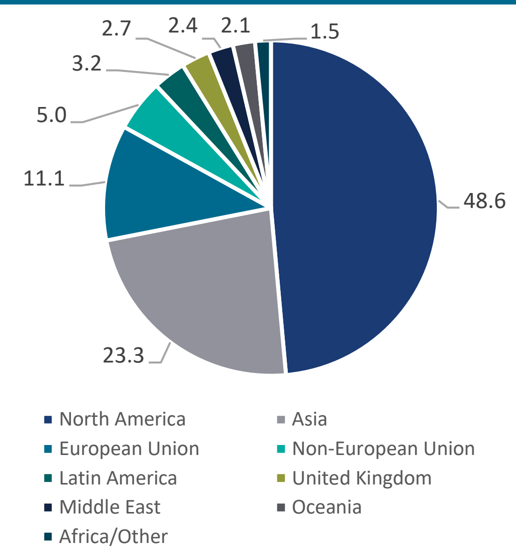
## PORTFOLIO CHANGES*

| | |
|---|---|
| New holdings: | Schneider Electric and Nike |
| Sold holdings | AIA Group. |

## 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 $278 billion, as of 30 September 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*