Large Cap Growth Managed Account

Strategy Facts

The strategy seeks to invest in companies with sustainable competitive advantages, long-term structural growth drivers, attractive cash flow returns on invested capital, and management teams focused on creating long-term value for shareholders. The strategy's portfolio manager also aims to invest in companies when they trade at a significant discount to the estimate of intrinsic value.

Strategy AUM	$64.0 billion
Inception	7/1/2006**
Benchmark	Russell 1000® Growth
Portfolio Manager	Aziz Hamzaogullari
Manager Since	Inception

Portfolio Review

- The strategy posted positive returns of 14.32% (gross) and 13.51% (net wrap fee) vs. 14.16% for the Russell 1000® Growth Index, outperforming the benchmark by 0.16% gross during the quarter. Boeing, Meta Platforms, Netflix, Amazon, and Nvidia were the five largest contributors to performance during the quarter. Yum China, Tesla, Alibaba, Illumina, and Sandoz Group were the five lowest contributors to performance.
- Stock selection in the industrials, communication services, financials, healthcare, and information technology sectors, contributed positively to relative performance. Stock selection in the consumer discretionary sector, as well as our allocations to the information technology, communication services, healthcare, and financials sectors, detracted from relative performance.
- The strategy is actively managed with a long-term, private equity approach to investing. Through our proprietary bottom-up research framework, we look to invest in those few high-quality businesses with sustainable competitive advantages and profitable growth when they trade at a significant discount to intrinsic value (our estimate of the true worth of a business, which we define as the present value of all expected future net cash flows to the company).

Top Ten Holdings (%)

Meta Platforms, Inc.	7.7
NVIDIA Corporation	7.5
Alphabet Inc.	6.2
Boeing Company	5.7
Visa Inc.	5.5
Amazon.com, Inc.	5.5
Tesla, Inc.	5.2
Microsoft Corporation	5.1
Netflix, Inc.	4.4
Oracle Corporation	4.0
Total	56.7

Data is based on total gross assets before any fees are paid; any cash held is included. The portfolio is actively managed and holdings are subject to change. References to specific securities or industries should not be considered a recommendation. Holdings may combine more than one security from the same issuer and related depositary receipts. Portfolio weight calculations include accrued interest. For current holdings, please visit www.loomissayles.com.

Large Cap Growth Managed Account Composite Performance as of December 31, 2023 (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN				
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR	SINCE INCEPTION**
PURE GROSS*	14.32	52.81	52.81	10.08	18.61	15.12	13.95
NET WRAP FEE	13.51	48.50	48.50	6.88	15.19	11.79	10.66
BENCHMARK	14.16	42.68	42.68	8.86	19.50	14.86	12.34

**Pure Gross of fee account returns are time-weighted rates of return that do not reflect the deduction of any trading costs, fees, commissions or expenses. Net of fee account returns are the gross returns less the effective management fee for the measurement period.*

The Large Cap Growth Managed Account Composite's returns were calculated on a total return basis, and assume the reinvestment of dividends, capital gains and other earnings. The effective fee for an account is derived by applying the highest applicable fee based on the current standard fee schedule for the Composite. The fee amount is divided by the assets for an annual effective fee. The monthly effective fee is based on 1/12 of the annual effective fee. Net-of-total-wrap-fee results are calculated by taking the highest applicable fee for a managed account that a sponsor would have charged on an annual basis, and deducting one-twelfth of this annual fee from each monthly gross return. On an annual basis, the wrap fee schedule is 3.00% which includes trading costs, portfolio management, custody, advisory and other administrative fees.

For periods after November 1, 2020, 100% of the accounts are Managed/Bundled fee accounts which do not reflect the deduction of any trading costs, fees, commissions or expenses. Prior to November 1, 2020, 0.00% of the accounts are Managed/Bundled fee accounts which reflect the deduction of transaction costs because performance is from the Large Cap Growth Institutional Composite.

***Composite inception 7/1/2006. The portfolio manager for the Large Cap Growth Managed Account Composite joined Loomis Sayles on May 19, 2010, and performance prior to that date was achieved at his prior firm.*

Benchmark: Russell 1000® Growth Index.

There is no guarantee that the investment objective will be realized or that the strategy will generate positive or excess return. Actual accounts have the potential for loss as well as profit.

Past performance is no guarantee of future results.

Contributors

Boeing, Meta Platforms, Netflix, Amazon, and Nvidia were the five largest contributors to performance during the quarter. We highlight the top three contributors, Boeing, Meta Platforms, and Netflix, below.

- Founded in 1916, **Boeing** is a global leader in the commercial and defense aerospace industries. The company manufactures commercial aircraft for passenger and cargo traffic as well as manned and unmanned military aircraft, missile and defense systems, satellites and launch systems, and other space and security systems. The company operates primarily through three segments: commercial airplanes (historically around 60% of revenues), defense, space and security (historically 20-25% of revenues), and global services (historically 15-20% of revenues). Along with Airbus, Boeing is part of a global duopoly that accounts for almost all commercial planes sold with greater than 125 seats – the largest market segment. The company serves customers in over 150 countries and non-US sales typically account for greater than 40% of total revenues.

  A strategy holding since March 2020, Boeing's reported quarterly financial results that were below consensus expectations for most key metrics, with the exception of free cash flow, which we view as one of the single most important metrics in measuring the fundamentals and economic performance of a business. The company maintained its guidance for generating $3 billion to $5 billion of free cash flow for the full year, and expects annual free cash flow generation of $10 billion by 2025 or 2026. Results were below expectations in part due to issues with supplier Spirit Aerosystems, which resulted in a pause on deliveries of the 737 MAX, as well as a slowdown in production. While the companies are resolving the issue, it will still result in lower-than-expected deliveries and free cash flow for the year. To assist Spirit in improving its quality standards and output capacity, Boeing is providing financial assistance in return for greater operational control. The arrangement was reached after Spirit replaced its CEO with former Boeing executive and current Spirit board member, Pat Shanahan. Despite the near-term challenges, we do not view the issues as structural and believe the long-term earnings power of the company remain unchanged and significantly underappreciated. Boeing has made significant progress with the 737 MAX, which is now cleared to fly in almost all countries, including China. In December, the company confirmed that 100% of the MAX fleet in China is back in service, and the company also acknowledged it had recently made new deliveries to Chinese customers (models unspecified) for the first time since 2019. Boeing has already remarketed over one-third of planes originally earmarked for Chinese customers to other customers. We estimate that Boeing has approximately $38 billion of aircraft currently in inventory, including 250 MAXs and 75 787s, which we believe will likely generate substantial revenue and cash flow as they are expected to be delivered over the next 12-to-24 months. As of September quarter-end, the backlog of $470 billion, or over 5,000 aircraft, was up 23% year over year. Despite still uneven quarterly results, air traffic recovery is underway and absent further issues with the MAX and 787, we believe the company's long-term earnings power remains intact.

  The company's defense business incurred approximately $1 billion in charges during the quarter, which has been a recurring theme over the past three years. Most charges relate to approximately 15% of the defense segment's portfolio that are fixed cost projects, including the Air Force One project in the current quarter. Some of these programs will soon end or move to production, limiting further risk, but the company has recognized the need to improve execution in parts of its defense portfolio by taking a more disciplined approach in evaluating new projects with a focus on profitability. While the company expects cash flow in the segment to remain negative in 2023, the segment has historically been a strong free cash flow generator. We believe the company's execution in its commercial airplane segment and ability to increase production rates for the 737 and 787 models will be the single largest and most important value driver for the business.

  Boeing's financial results remain impacted by the decline in global air travel due to

Covid-19. At its low point in April 2020, travel demand, as measured by revenue passenger kilometer (RPK), which represents distance flown by paying passengers, had declined 94% from April 2019. And while demand year to date has returned to 92% of pre-pandemic levels, with domestic travel exceeding 2019 levels, international travel remains at 86%, due primarily to China. Since 1980, RPK has grown at a 5.3% compounded annual rate, and had been negative on just three prior occasions: during the 1991 Gulf War, following 9/11, and in 2009 after the financial crisis. Even in those instances it never declined more than 3% year over year. While 2020 represented the fourth and by far the largest such occasion due to Covid-19, RPK has historically grown at approximately 1.5-times global GDP, which we expect will continue, contributing to mid-single-digit growth in global air travel over our long-term investment horizon. We took advantage of this steepest-ever decline in global air travel to initiate our position in Boeing. More importantly, we believe that as with many other cyclical growth businesses we successfully purchased in prior downturns, it is not the exact timing of the recovery, but rather the margin of safety that is created between the expectations embedded by the marketplace and what we believe will happen directionally over the long term that matters. We believe Boeing is one of only two companies globally which possess the requisite expertise and scale to profitably serve the global demand for commercial aircraft, and that its strong and sustainable competitive advantages would be very difficult to replicate. We believe the current market price is embedding expectations for aircraft deliveries, margins, and free cash flow growth that are well below our long term assumptions. As a result, we believe the company is selling at a significant discount to our estimate of intrinsic value and offers a compelling reward-to-risk opportunity.

- **Meta Platforms** operates online social networking platforms that allow people to connect, share, and interact with friends and communities. The company's Facebook platform allows message exchange, photo and video sharing, and common-interest user groups, and Meta's family of apps also includes leading global social and messaging applications Instagram, Messenger, and WhatsApp.

  A strategy holding since its initial public offering (IPO) in the second quarter of 2012, Meta reported strong quarterly financial results that were above expectations for revenue, operating income, earnings per share, and free cash flow. The company also provided guidance for 2024 expenses and capital expenditures that were better than consensus expectations. Over the past two years, Meta's growth has faced headwinds from privacy restrictions implemented by Apple in 2021, a transition to a new product format that lowered monetization as it cannibalized older, higher-monetizing products, and more recently, macro weakness that impacted advertising demand among clients in certain industries. Apple's changes and macroeconomic weakness impact not just Facebook, but the broader mobile advertising ecosystem. As a function of its competitive advantages, we believe the company remains well positioned relative to its peers, and there are no changes to our assessment of Meta's quality or secular growth opportunities.

  While the company is focused on driving efficient and profitable growth, Meta also remains in an elevated investment cycle. The company is prioritizing investment spending on artificial intelligence (AI) initiatives, followed by investments in infrastructure, reality labs, product monetization, and regulatory and compliance initiatives. The company is also in the midst of a transition to a new product format – short term video (Reels) – where monetization was initially lower. During our ownership of Meta, Facebook has successfully navigated several product transitions. Each such transition first requires capital expenditures followed by a gradual revenue ramp-up, creating pressures on topline, margins, and earnings. Over time, the required investment decreases and revenues increase. We believe this is a necessary cycle for maintaining sustainable competitive advantages and long-term growth. In the most recent quarter, management estimated that Reels had driven a 40% increase in time spent on Instagram and had reached breakeven from a revenue impact earlier than expected. Finally, the company continues to invest significantly in its early-stage Reality Labs segment, which includes augmented- and virtual-reality (VR) products that the company views as building its long-term vision for the metaverse. While

the company incurred year-to-date operating expenses of $11.4 billion in its Reality Labs segment, Meta's core family of apps generated strong operating profits in excess of $41 billion over the same period on operating margins of over 44%. As a result, the investment represented just over 25% of the operating profit generated by the company's highly profitable core business. We believe Mark Zuckerberg has always managed the company with a long-term focus and strong strategic vision. Over the past ten years, Meta has spent over $125 billion on research and development and $110 billion on capital expenditures, including over $100 billion and over $90 billion, respectively, in the last five years. This represents a level of investment that few firms can match and creates high barriers to entry for competitors that are further compounded by Meta's growth of cumulative knowledge over time. The successful development of a metaverse is not an explicit part of our investment thesis for Meta. However, given the potential size of the opportunity, which we estimate could impact over $1 trillion of spending over the long term, and Meta's positioning with billions of users and hundreds of millions of businesses, we believe Meta's current balanced approach to its forward looking investments make sense. We believe Meta continues to have significant advantages arising from its network of over 3 billion daily users of its family of apps, over 200 million businesses that use its platforms and tools every month, and approximately 10 million advertisers who have consistently paid more per user for access to its rare network. We expect that businesses and decision makers in all sectors will continue to allocate an increasing proportion of their advertising spending online, and Meta remains one of very few platforms where advertisers can reach consumers at such scale in such a targeted and effective fashion.

For the quarter, revenue from Meta's family of apps, which is primarily advertising revenue, accounted for 99% of the company's $34 billion in total revenue and accelerated to 23% year-over-year growth in constant currency. User data, coupled with the scale and frequency of engagement, allows Meta an unprecedented ability to specifically target direct marketing. The ability of advertisers to deliver relevant content, in turn, increases user engagement, and contributes to growth in the overall ecosystem. Year over year the number of Facebook users rose 3% to 3.05 billion global users, with daily active users growing 5% to 2.1 billion. As a result, engagement, as measured by the percentage of daily active users, increased to 68%. Across its family of apps – Facebook, Messenger, WhatsApp, and Instagram – Meta now reaches 3.96 billion consumers monthly, over 3 billion of which, or approximately 79%, are daily users. Users outside of North America account for 2.78 billion or 91% of Facebook's global user base, while the US and Canada accounted for 9%, or 271 million users. As users grow, more advertisers come to the platform. Meta now has over 200 million businesses that use its platforms or tools every month, and the company recently reported the number of advertisers grew to over 10 million, up from over 8 million at the end of 2019 and over 7 million at the end of 2018. Total average revenue per user (ARPU) for the quarter of $11.23 rose 19% year over year. Quarterly ARPU ranged from $56 per user in North America to approximately $4 per user in the ROW category. Since 2012, annual monetization per user has increased globally from $5 per user to approximately $40 in 2022, a compounded annual growth rate of 23%, which we believe is a secular trend that reflects Facebook's strong pricing power and ability to monetize its global user base. The company's reality labs segment, which includes augmented- and virtual-reality consumer hardware, software, and content, accounted for 1% of total revenues, which decreased 26% year over year due primarily to lower sales of its Quest 2 VR headset.

Despite the impact of elevated investment spending, we believe Meta continues to have an attractive financial profile. Quarterly earnings before interest and taxes (EBIT) of $13.7 billion rose 143% year over year on margins of 40% that doubled year over year. The company's family of apps generated $17.5 billion of EBIT on operating margins of 51.5%. Meta continues to invest heavily in new growth drivers, such as Reality Labs, which is the division that focuses on VR and augmented reality hardware and software. Reality Labs revenue increased from around $500 million in 2019 to $2.2 billion in 2022. During the quarter, the reality labs segment generated an operating loss of $3.7 billion, which was in line with both the prior-year period and the previous quarter. Meta's total free cash flow of

$13.6 billion rose significantly from $173 million in the prior-year quarter due in part to a 29% decline in capital expenditures to a still elevated $6.8 billion.

We believe Meta remains a high-quality company, benefiting from the secular shift from traditional advertising to online advertising and positioned for strong and sustainable growth over our investment time horizon. We believe Meta benefits from the competitive advantages of its network, scale, strong brands, platform strategy, and a targeting advantage. With 3.96 billion monthly users and over 200 million businesses worldwide using its family of apps, the scale and reach of Meta's network is unrivaled. When excluding China, where Meta is not currently operating, we estimate that Facebook's monthly user base represents approximately 75% of the world's internet population while is Family of Apps unique users exceed 80% of the world's internet population outside of China. We expect that businesses will continue to allocate an increasing proportion of their advertising spending online, and Facebook remains one of very few platforms where advertisers can reach consumers at such scale in such a targeted and effective fashion. We believe Facebook's brand, network, and targeting advantage position the company to take increasing share of the industry's profit pool and grow the company's market share from approximately 6% currently to over 10% of the estimated over $1.8 trillion total global advertising market over our investment time horizon. We also believe that the expectations embedded in Meta's current share price show a lack of appreciation for the company's growth opportunities and the sustainability of its business model. We believe the consensus expectations and current market price reflect assumptions for free cash flow growth that are well below our long-term expectations of strong double-digit cash flow growth. As a result, we believe the shares trade at a significant discount to our estimate of intrinsic value, creating a compelling reward-to-risk opportunity. We trimmed our position during the quarter because it exceeded our maximum allowable position size.

- Founded in 1997, **Netflix** is one of the world's leading internet entertainment platforms and a pioneer of subscription video on demand (SVOD), which it first launched in 2007. Today the company is a global leader with over 200 million paid subscribers who access TV series, movies, mobile games, and other entertainment content across a wide variety of genres, languages, and devices. The company has subscribers in over 190 countries, and generates approximately 55% of its revenue from outside of North America.

  We believe Netflix's strong and sustainable competitive advantages include its focus, scale, brand, and a large installed base of clients that are protected by high barriers to entry. As a pioneer in SVOD, Netflix has amassed a subscriber base of 247 million subscribers that we estimate to represent just under 40% of all SVOD subscribers globally and approximately 50% of the industry revenue share. The company's strong brand is reflected in both its premium pricing versus peers and mid-single-digit growth in average revenue per user over the past five years. Over the past decade, Netflix has invested approximately $100 billion in content and amassed over 10,000 hours of original content, which is estimated to represent just under two times the next five largest streaming competitors combined. Of course, it is not just the quantity, but quality of the content that matters. Over this same period, Netflix received 970 Emmy nominations and had 184 wins. The company has captured the first or second spot in total Emmy Awards during the past five years, which we believe reflects the quality of its content. We believe the ability to create and acquire high quality content, based on cumulative knowledge and insights attained from its large installed base of subscribers, contributes to very high barriers to entry.

  A portfolio holding since the first quarter of 2022, Netflix reported solid quarterly financial results that were above management guidance for revenue and included operating margins, earnings per share (EPS), and free cash flow that exceeded consensus expectations. In its third-quarter call, the company also increased its target for 2023 operating margins and announced its plans to increase pricing in certain geographies. 2023 operating margin guidance was increased to 20%, the high end of the prior range, while the company provided an initial outlook of 22% to 23% for 2024. Quarterly revenue of $8.5 billion rose

8% in constant currency, driven by a 9% increase in average paid memberships that was offset in part by a 1% decrease in average revenue per membership (ARM). The decline in ARM was attributable to pricing adjustments the company made in preparation for its launch of paid sharing, which has been rolled out in all regions, as well as a greater number of membership additions in countries with lower ARM. Paid subscribers increased by 9 million in the quarter, which was higher than consensus expectations for 6 million adds and well above the 2.4 million increase in the prior-year quarter. User engagement also remains strong, with the company's share of TV viewing in the US estimated by Nielsen at approximately 8% in September, consistent with year-to-date trends and second only to YouTube at 9%. The company believes that paid sharing and its ad-supported pricing plan, which was initially rolled out in 12 markets in November 2022, will further broaden its addressable subscriber base and contribute to accelerating revenue growth and greater monetization per user. The company commented that the paid-sharing initiative was resulting in better-than-expected retention and conversion of borrowing households into full paying members. The company also reported 70% growth in advertising-supported memberships versus the prior quarter and such pricing plans now represent 30% of all new sign-ups in the 12 countries in which it is available.

Netflix has an attractive and improving financial model. Operating income of $1.9 billion rose 25% year over year on margins of 22.4% that expanded by approximately 10 basis points. Free cash flow of $1.9 billion increased substantially from $472 million in the prior-year quarter and represented 22% of total revenue. The company's balance sheet continues to improve, with long-term debt to equity of 63% that has declined from over 200% in 2019. The company repurchased $2.5 billion of shares during the quarter, and the board authorized an incremental $10 billion on top of the $1 billion remaining from its prior authorization.

We believe SVOD will continue to benefit from a secular shift from linear television to streaming entertainment due to growing global penetration of broadband internet connections, the proliferation of internet-connected devices, and consumers' desire for on-demand personalized entertainment at prices that are generally significantly below paid TV. As a leading provider of SVOD, we believe Netflix will take its share of global consumer entertainment spending from about 3% today to approximately 5% over our long-term investment horizon, contributing to low-double digit growth in revenue. We expect substantial recent investments in content will moderate, and we believe the company will benefit from higher gross margins as its content library is leveraged over a growing global subscriber base. Similarly, with its continued increase in scale, we expect the company to benefit from operating leverage that will enable operating margins to expand from the low-20% range to the upper-20% range. As a result, we expect both operating profits and free cash flow will grow faster than revenues, in the mid and high teens, respectively. We believe current market expectations substantially underestimate the strength of Netflix's business model and its ability to generate sustainable growth in free cash flow over our long-term investment horizon. As a result we believe the shares trade at a substantial discount to our estimate of intrinsic value and offer a compelling reward-to-risk opportunity.

Detractors

Yum China, Tesla, Alibaba, Illumina, and Sandoz Group were the five lowest contributors to performance. We highlight the top three detractors, Yum China, Tesla, and Alibaba, below.

- **Yum China** is the largest restaurant company in China, operating over 14,000 restaurants primarily under the KFC and Pizza Hut brands. A portfolio holding since the fourth quarter of 2016 when it was spun off from existing portfolio holding Yum! Brands, Yum China reported quarterly financial results that that were below consensus expectations, despite including record revenues, operating profits, and net new store openings. The company observed a noticeable slowdown in consumer traffic in September that continued into the fourth quarter as consumer spending softened and more local competitors have

returned to the market as China continues to normalize post Covid-19. We believe the financial and operating results reflect the company's continued success in navigating a challenging consumer spending environment. Yum China continues to expand into lower-tier cities while consistently innovating to sustain consumer purchases – especially among its over 460 million loyalty members. We also believe the company has the products and scale to offer increasingly value conscious consumers attractive food options at all price points. With its iconic brands, large and complex supply-chain infrastructure, and real estate procurement expertise, we believe Yum China remains well positioned to benefit from the secular growth of consumer spending on restaurants in China.

Total sales of $2.9 billion reflected system sales that rose 15% year over year. At the company's larger, more-profitable KFC segment, system sales rose 15% in constant currency. KFC same-store sales grew by 4%, in line with our long-run expectation for mid-single-digit same-store-sales growth. The company also continued to open new units, with 355 net new KFC units in the quarter, while maintaining attractive cash payback periods of approximately two years. As of September 30, 2023, KFC operated in approximately 1,900 cities out of more than 3,000 suitable cities and continues to have a long runway for continued expansion.

After a multi-year recovery, Pizza Hut continues to show positive signs, with system sales, same-store sales, and new store openings all growing year over year as a result of strong execution on steps to revitalize the brand. Despite the ongoing impact from Covid on in-restaurant dining, Pizza Hut's economics have improved, and the payback period for its redesigned new units is an attractive three years – which has led to an acceleration of new store openings. During the quarter, system sales rose 13% in constant currency, and same-store sales grew 2%. The company opened 130 net new stores during the quarter, which contributed to 14% year-over-year growth in new units. Pizza Hut currently operates in approximately 700 to 800 cities and also has a substantial growth runway for new store openings in our view.

Yum China continues to have success with its loyalty programs and its delivery initiatives, although delivery has been normalizing of late as the economy moves into the post-pandemic era. The company's loyalty programs grew to over 460 million members from approximately 400 million one year ago. In comparison, Starbucks, considered one of the pioneers in loyalty programs, has approximately 31 million members in North America. Members of Yum China loyalty programs tend to visit more frequently, have larger average ticket sizes, and provide ongoing customer feedback. Yum China estimated that its loyalty members accounted for 65% of sales in the quarter.

Restaurant margins declined quarter over quarter to approximately 17%, management's goal for the full year, due in part to Covid relief benefits in the prior-year quarter as well as increased promotional activities. However, year-to-date margins expanded by almost 300 basis points over the prior-year period and we believe margins may approach 20% over time driven by growing scale and business efficiencies. Overall, we believe the long-term secular growth driver remains intact as food options such as Pizza Hut and KFC become increasingly affordable to an emerging middle class with rising levels of disposable income. We expect this demand will, in turn, drive unit growth in China for both restaurant brands where the per capita penetration is much lower than in developed countries. Beyond its core brands, the company remains focused on addressing new meal occasions and testing new restaurant concepts, including Lavazza which is focused on premium coffee, hotpot chains Little Sheep and Huang Ji Huang, and Taco Bell, which collectively have over 950 locations. We believe current market expectations do not reflect the company's long-term opportunity for increased sales due to unit growth and consumer recovery, as well as the resulting improvement in margins and free cash flow. As a result, we believe the company is selling at a significant discount to our estimate of intrinsic value and offers a compelling reward-to-risk opportunity.

- Founded in 2003, **Tesla** is a global leader in the design, manufacturing, and sales of high-

performance fully electric (battery) vehicles (EVs). The company's automotive unit sells its products directly to customers through its website and retail locations and continues to grow its customer-facing infrastructure through a global network of vehicle service centers, mobile service technicians, body shops, Supercharger stations, and Destination Chargers to accelerate widespread adoption of its products. Tesla also designs, manufactures, sells, and installs solar energy generation and energy storage products to residential, commercial, and industrial clients through its energy generation and storage unit. The company generates approximately 95% of its sales from its automotive segment and 5% from its energy generation and storage segment. From a geographic standpoint, the US and China are the company's two largest markets, accounting for approximately 50% and 25% of sales, respectively, while the rest of the world collectively accounts for approximately 25%.

A portfolio holding since the first quarter of 2022, Tesla reported quarterly financial results that were below consensus expectations for revenues and profitability, but reflected strong execution and continued market share gains. Given that affordability in the auto industry is being impacted by multi-decade-high interest rates and lingering materials and logistics cost inflation, we believe Tesla has been prudently managing the business. Revenue of $23 billion rose 9% year over year and represented the second highest total in corporate history after the previous quarter. Despite working to lower the price of its vehicles to increase affordability, higher interest rates have impacted the core mass market customer Tesla ultimately seeks to win over. Tesla has a pricing strategy where they price their vehicles to maximize overall profit dollars. Historically the company had reduced price annually as it leveraged its growing scale to lower the total cost of ownership for potential buyers and drive EV adoption. The company is focused on penetrating mass-market buyers, where pricing sensitivity is a greater factor, and rising rates effectively increased the price of Tesla's cars by 10% over the past two years. We believe this is the correct strategy as long as Tesla continues to protect its brand equity, which is one of the company's most important intangible assets. Given that Tesla manufacturing factories have high fixed costs that benefit from scale, increasing EV sales from current levels would improve production utilization and generate higher profit per vehicle. We believe that increased volumes will offset near-term margin pressure over time. Further, unlike traditional auto manufacturers, Tesla has the ability to sell software to car owners after the initial sale, providing incentive to grow an installed base that can later be monetized through software sales. Despite a substantial year-over-year decline in operating margins due to lower average selling prices, new factories that are not yet operating at full efficiency, higher raw materials and logistics costs, and strong investments in research and development to support the Cybertruck and its AI robot, Tesla's operating margin trails only Ferrari and exceeds all other scaled auto manufacturers. We believe these impacts are temporary and that over the long-term Tesla can generate operating margins in the mid-20% range. Despite an automotive industry slowdown, Tesla has continued to show market share gains as a percentage of total light duty vehicles. We believe that Tesla is a structural share gainer in the overall auto industry and will continue to gain share and grow faster than the industry as a whole.

We believe the secular growth driver for Tesla is increasing penetration of electric vehicles as a share of global automotive sales. Around the world, EVs accounted for almost 10% of new light vehicle sales in 2022, with penetration rates ranging from mid-single digits in North America to low double-digits in Western Europe and almost 20% in China. We believe the pace of EV adoption will accelerate, driven by advances in battery technology that will drive cost parity, lower ongoing cost of ownership for consumers, government incentives, and numerous global initiatives to phase out internal combustion engine sales over the next two decades. Tesla is the global leader in battery EV sales, with approximately 20% unit share, 25% revenue share, and a much higher share of industry profitability in 2022. While we expect competition to increase substantially, we believe Tesla's superior brand, focus, technology leadership, and strong ongoing consumer demand will enable the company to maintain a leading global market position. Tesla recently announced an enhanced autopilot feature for customers who only want self-driving functionality on highways. While we believe most consumers will adopt full self-driving (FSD) functionality

over the long term, at 50% of the cost of FSD, we believe the enhanced autopilot option will accelerate uptake of its software offerings, and the company now has over 400,000 customers in its FSD beta program who have driven greater than 500 million miles cumulatively. Both software offerings carry profit margins that are significantly greater than the current company average and we believe they will drive strong profit growth. Over time, we believe uptake of high-margin software capabilities, which we believe can increase from 0% of profits today to approximately 25%, will contribute to expanding the company's already leading operating margins. We believe the assumptions embedded in Tesla's share price underestimate the company's significant long-term growth opportunities and the sustainability of its global market share. We believe the company's shares currently sell at a significant discount to our estimate of intrinsic value and thereby offer a compelling reward-to-risk opportunity.

- **Alibaba Group** is a leading China e-commerce and consumer-engagement platform provider, operating several businesses across commerce, technology, advertising, digital media and entertainment, logistics, payments, and local services. With over 50% of China's e-commerce transactions estimated to take place through its Taobao and Tmall marketplaces, we believe Alibaba's scale and brand would be difficult-to-replicate.

  A strategy holding since its initial public offering in the third quarter of 2014, Alibaba reported solid quarterly financial results that were modestly ahead of consensus expectations for revenue, operating profit, and earnings per share. We believe the results showed evidence of improved growth from its collection of businesses, as well as margin and free cash flow improvement. However, shares may have responded negatively to the announcement that the company would not proceed with an anticipated 2024 spin-off of its cloud business in light of uncertainties arising from recent US export restrictions on advanced computing chips. In March 2023, Alibaba announced its intention to reorganize the company into six independent business units, each of which would have its own CEO and Board of Directors and could seek to raise outside capital and potentially pursue its own initial public offering (IPO). The company continues to anticipate an IPO of its Cainiao Smart Logistics business in Hong Kong in 2024, but also decided to postpone a planned IPO for its Freshippo grocery chain while it waits for stronger market conditions.

  As currently constructed, Alibaba meets each of our quality, growth, and valuation criteria and trades at a meaningful discount to our estimate of intrinsic value. We will continue to evaluate whether the current business and any potential spin-offs meet each of our quality, growth, and valuation criteria as more details become available. In the interim, we expect the company to continue to benefit from improving growth and margin expansion as China consumption growth and cloud spending eventually improves.

  For the quarter, revenue growth of 9% year over year was driven by the company's international commerce retail business, which represented 8% of revenue and grew 73%, as well as logistics and local services, which collectively represented 15% of revenues and grew 25% and 16%, respectively. Despite a modest year-over-year decline in gross merchandise volumes on Taobao and Tmall, the core China commerce business grew 4%, benefiting from faster growth in advertising and first-party sales, but below our estimate for overall China e-commerce growth. In recent quarters the company has emphasized its focus on pursuing healthy, high-quality revenue growth and optimizing its cost structure to improve and sustain strong operating profit and cash flow. During the quarter the company demonstrated the benefits of its efficiency focus through adjusted operating margins that expanded by 260 basis points to 19%. The company announced its intention to continue to increase capital returns to shareholders with the initiation of an annual dividend, as well as $4.7 billion of year-to-date stock repurchases with a further $15 billion of authorized purchases remaining.

Outlook

- Our investment process is characterized by bottom-up, fundamental research and a long-term investment time horizon. The nature of the process has led to a lower-turnover portfolio in which sector positioning is the result of stock selection.

- At quarter end, we were overweight in the communication services, financials, healthcare, and industrials sectors. We were underweight in the information technology, consumer staples, and consumer discretionary sectors. We held no positions in the real estate, materials, energy, or utilities sectors.

- We remain committed to our long-term investment approach to invest in those few high quality businesses with sustainable competitive advantages and profitable growth when they trade at a significant discount to intrinsic value. Though we have no stated portfolio turnover target, as a result of our long-term investment horizon, our estimated annualized portfolio turnover is approximately 12.2% since the inception of the strategy on July 1, 2006. The overall portfolio discount to intrinsic value was approximately 47.8% as of December 31, 2023.

Important Disclosure

Loomis, Sayles & Co., L.P. ("Loomis Sayles") acts as a discretionary investment manager or non-discretionary model provider in a variety of separately managed account or wrap fee programs (each, an "SMA Program") sponsored by a third party investment adviser, broker-dealer or other financial services firm (a "Sponsor"). When acting as a discretionary investment manager, Loomis Sayles is responsible for implementing trades in SMA Program accounts. When acting as a non-discretionary model provider, Loomis Sayles' responsibility is limited to providing non-discretionary investment recommendations (in the form of a model portfolio) to the SMA Program Sponsor or overlay manager, and the Sponsor or overlay manager may utilize such recommendations in connection with its management of its clients' SMA Program accounts. In such "model-based" SMA Programs ("Model-Based Programs"), it is the Sponsor or overlay manager, and not Loomis Sayles, which serves as the investment manager to, and has trade implementation responsibility for, the Model-Based Program accounts, and may customize each client account according to the reasonable restrictions or customization that a client may request.

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

Gross returns are net of trading costs. Net returns are gross returns less wrap fees.

The portfolio manager for the Large Cap Growth Managed Account Composite joined Loomis Sayles on May 19, 2010, and performance prior to that date was achieved at his prior firm.

Top and bottom 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 holdings on a composite basis. This representative account was selected because it closely reflects the Loomis Sayles Large Cap Growth 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 Large Cap Growth investment style.

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. Information, including that obtained from outside sources, is believed to be correct, but Loomis cannot guarantee its accuracy. This information is subject to change at any time without notice.

The Large Cap Growth Managed Account Composite includes all discretionary Managed Accounts with market values greater than $100 thousand managed by Loomis Sayles that seek to produce long-term excess returns at or below benchmark risk over a full market cycle relative to the Russell 1000 Growth Index and generally within the market capitalization range of the Index. As of November 1, 2020, the Composite was redefined to include only Managed Accounts. Prior to the redefinition, the Composite included separate and commingled accounts. Performance results prior to November 1, 2020 are those of the Large Cap Growth Composite. The Composite inception date is July 1, 2006. The Composite was created in 2019.For additional information on this and other Loomis Sayles strategies, please visit our web site at www.loomissayles.com.

Market conditions are extremely fluid and change frequently.

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. Actual accounts have the potential for loss as well as profit.

Past performance is no guarantee of future results.