



# LOOMIS SAYLES GLOBAL ALLOCATION FUND Q&A: A NO-CONSTRAINTS APPROACH TO PURSUING BEST IDEAS THROUGH THE CYCLE



## AUTHORS

THE LOOMIS SAYLES GLOBAL  
ALLOCATION TEAM

THE CURRENT MARKET ENVIRONMENT PROVIDES A HOST OF CHALLENGES FOR INVESTORS: GLOBAL GROWTH HAS PLUMMETED, INTEREST RATES HAVE BEEN SLASHED TO RECORD LOWS, AND EQUITY MARKETS APPEAR TO BE CARRYING ON DESPITE THE UNCERTAIN MACRO ENVIRONMENT.

How can investors help generate returns for their clients in an environment like this? We believe it's possible through an unconstrained, multi-asset, best-ideas approach. The Loomis Sayles Global Allocation Fund is one such approach.



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## KEY TAKEAWAYS

- A truly global opportunity set—one that includes equity and fixed income and isn't constrained by geographic borders—allows bottom-up investors who excel in security selection to seek potentially attractive valuations in any market environment.
- Within equity, we believe that concentrating on our best ideas is a powerful risk-management tool. Put simply, we believe that over-diversification of equity holdings can actually increase portfolio risk.
- In times of volatility, we believe the ability to pursue opportunities up and down the capital structure, without geographic or sector constraints, is especially valuable.

The fund was designed for investors who want concentrated access to a “best ideas” portfolio that spans a truly global opportunity set, including both equities and fixed income.

By expanding the opportunity set—and leveraging the firm's in-depth, fundamental research—we believe the fund offers a turnkey option for investors looking beyond traditional benchmarks.

In this Q&A, we explain the fund's differentiated approach and why we believe that it can potentially deliver attractive returns in any market environment.

## Why invest in a global flexible strategy in today's market environment?

When conditions become more challenging and volatility spikes, the ability to nimbly pursue opportunities wherever they arise can be immensely valuable. But we believe this is true in any market environment.

Having the flexibility to invest across a global opportunity set allows us to invest in our best ideas grown out of Loomis Sayles' deep fundamental research. As portfolio managers, we have the freedom to scour the world for what we see as the most attractive stocks and bonds without style, sector or geographic limitations. Investment decisions are independent of a company's sector classification or geographic location. In an increasingly connected world, we are far more interested in how a company operates than where it is headquartered.



## How is the Loomis Sayles Global Allocation Fund different than a typical macro-driven asset allocation strategy?

Unlike many asset allocation strategies, we don't seek to match a top-down, macro-driven target. In our view, market timing is very difficult to get right on a consistent basis. Instead, the fund's allocation between equities and fixed income is completely dependent on our bottom-up, security-by-security investment process. The fund's breakdown between stocks and bonds is entirely a function of where we are finding our best individual opportunities across the global equity and fixed income universe. We believe this approach aligns our asset allocation decisions with our security selection decisions.

As opposed to many macro-driven strategies, our entire focus is on finding individual securities that we believe are likely to generate the strongest returns over time. Typically, the fund holds between 35 to 65 equity securities and over 300 fixed income securities at any given time. We see our equity holdings as the engine of the portfolio, with our fixed income holdings providing potential alpha and diversification. We generally keep our equity holdings concentrated, putting capital to work only in situations where we have a thorough understanding of the potential risks and opportunities. While it may seem counterintuitive, we believe that over-diversification of equity holdings can actually increase risk in a portfolio. It is nearly impossible to understand the risks of hundreds of companies at an extremely deep level. We believe a portfolio with a concentrated number of carefully researched equity securities can actually reduce risk and prevent watering down gains from the best-performing securities. Typically, our fixed income holdings remain more diversified given the asymmetrical risk/reward profile relative to equities.



## The global opportunity set is vast. How do you find your best ideas?

Our research covers more than 2,000 companies and 90 countries. This is a massive opportunity set. However, we believe deep fundamental research is our core competency. We have a highly experienced team dedicated to uncovering potentially attractive opportunities across the capital structure, supported by significant firmwide resources.

To navigate this broad universe, our team conducts intensive bottom-up research to find what we believe are the most attractive individual securities for the portfolio. In equities, we seek out securities that meet our three alpha drivers: quality, intrinsic value growth and valuation. In fixed income, we seek to capitalize on market dislocations to deliver medium- to long-term performance. We don't let domiciles or benchmarks influence our search. We believe this flexible approach can lead to compelling opportunities that other investment managers may overlook.

Our research of domestic companies often leads to potential opportunities in international companies—and vice versa. Consider two construction equipment manufacturers, one based in the United States, and one based in Japan. For managers that divide research coverage by region, these companies would be covered by different analyst teams even though the companies share the same customer base, global supply chains and other industry dynamics. But we may believe the Japanese company's stock offers significantly stronger growth potential and a more attractive valuation than its American counterpart, making it a potential attractive holding for the fund.



## How are you managing the strategy in the current environment?

Currently, the global economy is in recession. While some investors are finding reasons to be optimistic, many unknowns lie ahead. But because of our bottom-up approach, we believe we can seek opportunities that meet our criteria regardless of the macro climate.

We analyze the valuation of each security we consider in the context of the specific risks and growth opportunities that many companies face. We don't rely on benchmark valuations to drive our decision-making. We believe this approach allows the Loomis Sayles Global Allocation Fund to add value regardless of the prevailing macroeconomic environment.

We continue to have a majority equity allocation. We seek to generate value in equities by targeting two market inefficiencies: mispricings (buying companies trading at a discount) and the "duration effect" (captured through long-term holdings in companies that we believe have the ability to grow their value through the compounding of their free cash flow).

We remain opportunistic in our search for value in fixed income. We have increased our allocation to credit, finding value across the quality spectrum in various geographies and a broad number of industries. We are currently maintaining some "dry powder" should a more attractive valuation opportunity present itself.

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## About Risk

*Equity securities are volatile and can decline significantly in response to broad market and economic conditions. Fixed income securities may carry one or more of the following risks: credit, interest rate (as interest rates rise bond prices usually fall), inflation and liquidity. Foreign and emerging market securities may be subject to greater political, economic, environmental, credit, currency and information risks. Foreign securities may be subject to higher volatility than US securities due to varying degrees of regulation and limited liquidity. These risks are magnified in emerging markets. Below investment grade fixed income securities may be subject to greater risks (including the risk of default) than other fixed income securities. Currency exchange rates between the US dollar and foreign currencies may cause the value of the fund's investments to decline..*

## Disclosure

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*Diversification does not guarantee a profit or protect against a loss.*

*There is no guarantee that the investment objective will be realized or that the strategy will generate positive or excess return.*

*Past performance is no guarantee of future results.*

*Before investing, consider the fund's investment objectives, risks, charges, and expenses. Please visit [www.loomissayles.com](http://www.loomissayles.com) or call 800-225-5478 for a prospectus and a summary prospectus, if available, containing this and other information. Read it carefully.*

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