Global Investing in a Pandemic

By the Loomis Sayles Global Equity Team

> *We believe that by identifying individual companies through our bottom-up research process, we have created a portfolio that can offer long-term wealth for our clients.*
>
> **LEE ROSENBAUM**, co-portfolio manager of the Loomis Sayles Global Equity Fund.

The response to the coronavirus pandemic has taken centre stage as governments, businesses and citizens around the world respond to this unprecedented health crisis. Economic activity has contracted sharply, a direct result of global shutdowns and travel bans, leaving many industries exposed and creating uncertainty. The equity market highs reached in February are now a distant memory in what has been a rapidly shifting environment.

While uncertainties persist, Loomis Sayles' view is that a portfolio of well-managed, quality companies with strong balance sheets will remain resilient, and this should provide investors with some reassurance.

A BOTTOM-UP APPROACH TO FINDING HIGH QUALITY COMPANIES

With approximately 300 investment staff (including over 170 research analysts) spanning global equity and credit markets, Loomis Sayles is a well-resourced firm with a long history of producing deep insights across asset classes.

The Loomis Sayles Global Equity Fund is managed by a dedicated team, who have the ability to draw on these extensive firm research capabilities. In times such as these, where balance sheet strength is paramount, it can be extremely powerful to work alongside fixed income analysts.

Dramatic sharemarket sell-offs as well as heightened volatility can be disconcerting for investors. A bottom-up approach based on fundamentals allows the team at Loomis Sayles to leverage these periods of heightened volatility, by topping up on high quality companies that are judged as being capable of doing well, after the pandemic has subsided. While difficult to deal with in the short-term, we believe that over the longer-term equity markets will continue to generate potential value for investors.

A PORTFOLIO FOR THE LONG-TERM

Understanding what characteristics enable a global equity portfolio to weather market downturns helps investors stay the course. These attributes include:

- A portfolio constructed on a stock by stock basis formed from a deep understanding of the fundamentals, rather than a specific thematic or style bias

- High quality companies with strong business models, solid balance sheets and long-term competitive advantages

We believe the Loomis Sayles Global Equity Fund portfolio embodies those attributes. The Fund is focused on companies with three alpha drivers: quality characteristics, intrinsic value growth and attractive valuations. The companies in its portfolio have a return on equity (ROE) approximately 700 basis points higher than its MSCI ACWI benchmark with approximately one third less financial leverage (on a net/debt to ebitda basis). This can allow these companies some necessary flexibility to weather this challenging environment, and possibly emerge stronger through opportunistic M&A or share repurchases (which we have witnessed in prior periods of market dislocation).

THE FUND GENERALLY HOLDS 35-65 STOCKS. A SELECTION OF THE HOLDINGS THAT MAY HAVE DIRECT IMPLICATIONS FROM THE VIRUS INCLUDES:

- E-commerce companies **Amazon** and **Alibaba**. As containment efforts increase around the globe many online services are seeing rapidly increased adoption. Online shopping is the most obvious example, although Amazon could also benefit from the move to telecommuting (storage, networking/content delivery, mobile app and digital security usage) and increased demand for entertainment content (delivered via its own portfolio or as a platform for Netflix and other providers).

  Similarly, we believe Alibaba is in a strong position to benefit from China and Southeast Asia's growing digital commerce industry which is supported by consumer disposable income and consumption trends, increasing Internet and mobile adoption rates, and a fragmented brick-and-mortar retail industry.

- US based **Becton, Dickinson and Co** which manufactures and distributes products which are relatively inexpensive but serve essential roles in medical processes. The company is the largest manufacturer of needles and syringes. Its diagnostic business has a large installed base, and its biosciences business has leading positions in flow cytometers (which measure cell characteristics). The company has transitioned to more advanced products in higher growth areas, such as smart medication management systems, injectables and bioscience. Quality attributes include the company's collection of high-barrier-to-entry "franchise" businesses with manageable exposure to reimbursement risks.

- **Danaher Corp** is a technology-focused health care company with a highly durable portfolio, in our view. It holds a strong competitive position in the life sciences and diagnostics which are supported by secular drivers, such as an aging population, growth of chronic disease and rising healthcare costs. We believe the company's suite of differentiated products and technologies are well protected by brands, patents and copyrights and combined with high switching costs solidify its business model.

CONCLUSION

While equity markets are unpredictable, particularly as the coronavirus impacts market sentiment, the Loomis Sayles Global Equity Opportunities team continues to focus on identifying high quality companies trading at likely attractive valuations with the aim of delivering long-term potential returns for clients.

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Past performance is not a reliable indicator of future performance.

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

Characteristics are shown for a representative account as supplemental information. Due to system limitations, it is difficult to analyze this data on a composite basis. This representative account was selected because it closely reflects the Loomis Sayles Global Equity Opportunities 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 Loomis Sayles Global Equity Opportunities investment style. Please request a current Disclosure Statement which displays performance, including dispersion, for the Loomis Sayles Global Equity Opportunities composite.

Examples above are provided to illustrate the investment process for the strategy used by Loomis Sayles and should not be considered recommendations for action by investors. They may not be representative of the strategy's current or future investments and they have not been selected based on performance. Loomis Sayles makes no representation that they have had a positive or negative return during the holding period.

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