Focusing on global companies that meet three alpha drivers

By the Loomis Sayles Global Equity Team

> *We continue to have the same philosophy and strategy that we've had over the last seven plus years and continue to execute the same disciplined process which is buying quality businesses that we believe can grow their intrinsic value over time and that are attractively valued today.*
>
> **LEE ROSENBAUM**, Co-Portfolio Manager of the Loomis Sayles Global Equity Fund.

Finding Opportunities In An Uncertain World

Global equity markets, and the world in general, are struggling to find a new equilibrium as we work through the COVID-19 pandemic and economies slowly reopen. The length and depth of the recession is unknown and predictions about the strength and sustainability of the economic upswing remain challenging. This uncertainty may lead investors and advisers to ask how their investments are managed and whether these strategies are appropriate given the rapid change we are experiencing. Questions arise such as: *Can my global equities portfolio grow over time even if the economy does not fully recover? Is my portfolio dependant on a certain economic outcome or investment theme?*

The team behind Loomis Sayles Global Equity Fund, Co-Portfolio Managers Eileen Riley, CFA and Lee Rosenbaum, construct portfolios on a company-by-company basis, centred on bottom-up fundamental research and a long-term perspective. This approach enables the team to focus on the merits of individual companies, rather than chasing themes or forecasting economic conditions.

The team seeks to invest in businesses that meet the criteria of three alpha drivers: **quality, intrinsic value growth, and an attractive valuation**. They look across geographies, sectors and styles to find their best ideas and invest only where they have the highest conviction, typically around 40 holdings.

Three Alpha Drivers Drive Security Selection

The team's three alpha drivers focus the research process on companies with sustainable competitive advantages, the ability to grow free cashflow, and which present an attractive discounted cashflow valuation. The following are key examples of the companies currently held in the portfolio.

MasterCard

MasterCard, a brand likely to be familiar to many as consumers, maintains a crucial role in the global payments system, enabling credit and debit transactions between merchants and purchasers. The firm operates an extensive network with nearly universal acceptance in most developed markets and possesses a powerful network effect: the more consumers on MasterCard's network, the more attractive it is to merchants, and vice versa. Global payments processing has an attractive market structure with MasterCard differentiating itself with a growing business services segment.

The company has been followed on the team's tracking list for a number of years and met the first two alpha drivers, quality and intrinsic value growth, but fell short on the third, an attractive valuation. Price volatility in the first quarter of 2020 drove MasterCard shares down and presented the valuation opportunity the team had been waiting for.

At first glance, MasterCard's business appeared badly affected by the pandemic. Indeed, at its nadir, MasterCard's card spending volumes were down over 30%. However, the team felt MasterCard could comfortably withstand a short-term drop of this magnitude, buffered by a business model with low capital requirements, a solid balance sheet, and its growing, less cyclical business services segment which offers clients important tools such as data analytics and cyber-security.

The team also believed MasterCard could emerge stronger as behaviours borne out of the pandemic were accelerating the shift from cash to digital payments, particularly contactless payments. There is also the possibility that the environment could create attractive acquisition targets, which would feed into MasterCard's opportunistic and disciplined bolt-on acquisition strategy.

Nomura Research Institute

Nomura Research Institute (NRI) is a Japanese IT services provider that specialises in serving banks, asset managers, and retail chains. The firm has been a longstanding holding in the strategy since 2013. NRI provides strategy consulting, system integration, and business process outsourcing, as well as software. While largely concentrated in its domestic market, NRI is expanding into global financial markets, recently acquiring AUSIEX (better known as CommSec Adviser Services). NRI has strong relationships with enterprise buyers across Japan, formed over decades of consistent execution and superior services. NRI's vertically integrated business model creates a more stable and profitable revenue stream by allowing the firm to charge customers for packaged solutions rather than billing hourly.

The Loomis Sayles team believes NRI's resilience stems from its asset-lite business model and entrenched position with clients. NRI is involved in critical business functions such as supply chain management systems for all 7-Eleven convenience stores in Japan. The company also has a high degree of recurring revenue stemming from its cloud computing capability, where offerings such as its back-office solution for retail brokerage firms are very sticky.

With the majority of its business concentrated in Japan, NRI has successfully navigated a low growth environment for decades. The company maintains a strong balance sheet and has grown revenue at a rate well above Japan's GDP growth while achieving a profit margin and return on equity that compare favourably with leading global players.

Moreover, as with MasterCard, the Loomis Sayles team believed the long-term potential of this company has perhaps improved in this new environment. The digital transformation in enterprises driving NRI's long-term potential has accelerated. Enterprises without best-in-class digital technologies are likely to find it increasingly hard to compete, as their peers have leveraged technology to improve existing business processes and created more relevant products.

IQVIA Holdings

IQVIA Holdings is a relatively new company, formed in 2017 by the merger of leading clinical research outsourcing organisation Quintiles and IMS Health, a leading healthcare data provider. The company provides clinical trials, like the ones currently being undertaken for a COVID-19 vaccine. Through its healthcare data and analytics business, IQVIA provides data (such as on prescription trends) which enables biotechnology and pharmaceutical companies to successfully launch new drugs. The combined company offers a one-stop shop for the life sciences industry. IQVIA has a high degree of recurring revenue from subscription-based products and a durable client base, as well as potentially attractive end markets as pharmaceutical companies increase spending on drug development and outsource more of their clinical development work.

IQVIA's business was greatly affected by the pandemic, particularly within its contract research segment. Its shares came under pressure as the COVID-19 environment delayed drug trials (as patient populations are typically measured at medical facilities) and its 2017 founding merger (of Quintiles and IMS Health) left the company with somewhat elevated debt levels.

The Loomis Sayles team remains confident that IQVIA will successfully navigate this period of uncertainty, aided by its variable expenses within clinical research services and strong revenue visibility of the data business. Importantly, the company's long-term drivers of intrinsic growth remain intact.

A Long-Established and Well-Resourced Firm

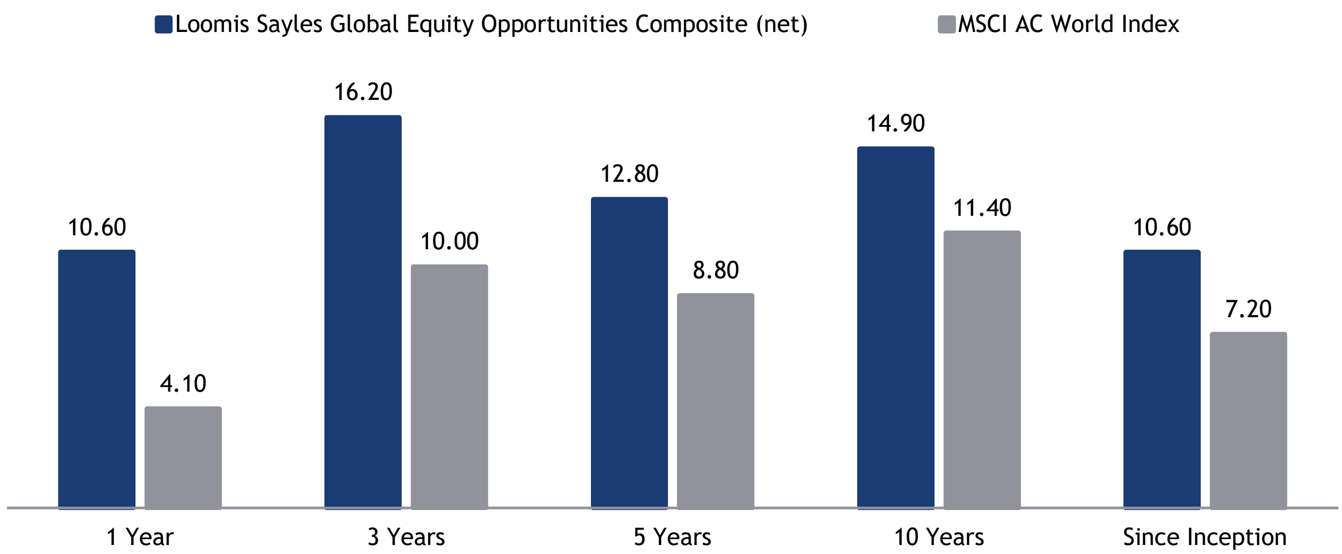
The team behind Loomis Sayles Global Equity Fund is part of Loomis Sayles, a Boston-based firm founded in 1926. Loomis Sayles has a long history of managing investors' funds across a variety of market environments. Loomis Sayles was founded on the belief that in-depth fundamental research helps uncover market inefficiencies. The firm is well-resourced, with around 300 investment staff (including over 170 research analysts) spanning global equity and fixed income markets.

The global equity team has the benefit of being a dedicated investment team focused on a single investment strategy, while working within a diversified asset management firm. This helps create a balance of investment focus and partnership with extensive firm-wide capabilities, which include credit analysis, sovereign analysts, and quantitative/risk research groups.

Consistency of Long-Term Performance

The Global Equity Fund has demonstrated a consistent track record since its launch in Australia on November 1, 2018. Longer-term evidence of the team's approach shows that the strategy has historically provided outperformance over a variety of time periods.

Global Equity Composite Performance as of June 30, 2020 (% p.a.)



Data source: Loomis Sayles, MSCI. Since inception return calculated from October 1, 2004. Composite returns are calculated net of management fees, and assuming all distributions are re-invested. The investment strategy of the Fund has been designed to replicate that of the Loomis Sayles Global Equity Opportunities Composite which is a separate investment vehicle offered to qualified investors by the Fund Manager, Loomis Sayles & Company. LP. Given the Fund is new, the chart above summarises the recent performance of the Composite, which may be a useful reference point for the Fund. However, you should be aware that the Fund itself is new and has limited performance history – the past composite performance information is NOT the past performance of the Fund. Investors should be aware that past performance not a reliable indicator of future performance.

These consistent outcomes are what Co-Portfolio Managers Eileen Riley and Lee Rosenbaum continue to seek to deliver for investors by focusing on high-quality companies with the ability to grow their intrinsic values and which are attractively valued.

We believe the Loomis Sayles Global Equity Fund is an excellent place for investors looking for a quality, well-researched portfolio of global shares. The team seeks to take advantage of volatile market conditions by managing potential opportunities through a tracking list that enables the co-portfolio managers to act on opportunities as they occur. This investment strategy should continue to offer potential long-term performance in the years ahead.

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