Emerging Markets Debt Blended Total Return

Strategy Update by the Loomis Sayles Alpha Strategies Team

PERFORMANCE

AS OF FEBRUARY 2025	1M	3M	YTD	1Y	3Y	5Y	7Y	INCEPTION[2]
Composite (gross)	1.56%	1.01%	2.80%	6.27%	1.20%	1.31%	2.16%	2.22%
Composite (net)	1.51%	0.85%	2.69%	5.59%	0.59%	0.76%	1.63%	1.68%
Blended Index[1]	1.26%	1.38%	2.71%	6.98%	3.07%	0.89%	1.79%	2.50%
Excess return (gross)	0.30%	-0.37%	0.09%	-0.71%	-1.87%	0.41%	0.37%	-0.29%
Excess return (net)	0.25%	-0.53%	-0.02%	-1.40%	-2.48%	-0.14%	-0.16%	-0.83%

Data Source: Loomis Sayles, as of 02/28/2025
Returns for multi-year periods are annualized. Gross returns are net of trading costs. Net returns are gross returns less effective management fees. Returns may increase or decrease as a result of currency fluctuations.
[1] The Blended Index is 1/3 JPM EMBI; 1/3 JPM GBI-EM; 1/3 JPM CEMBI. Indices are unmanaged and do not incur fees. It is not possible to invest directly in an index.
[2] The Emerging Markets Debt Blended Total Return Composite Inception Date is 03/01/2017.
Past performance is no guarantee of future results

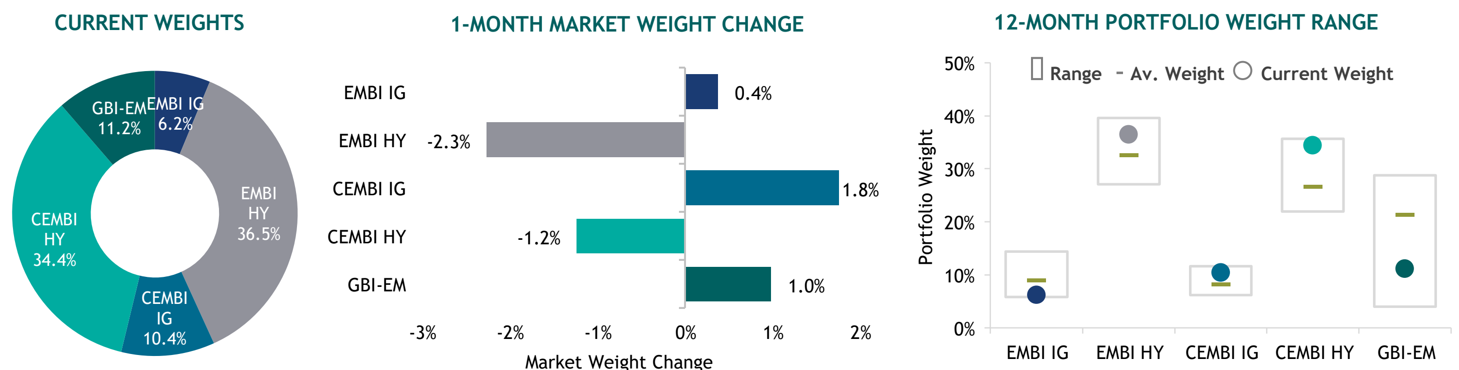
EM CREDIT & FX REGIME IDENTIFICATION

The panel below illustrates the current 'regimes' we are in, either risk-on or risk-off for EM Credit and EM FX, respectively. The regimes strongly influence (but do not mechanistically dictate) top-down asset allocation. Through our research, we have also found that the majority of value-add can typically be captured within the first six months of a signal switching, which is why we include the date at which the respective signal last changed. The additional information relates to what is driving the current regimes (value and momentum signals) and the directional trend.

SIGNAL	REGIME[2]	VALUE SIGNAL	SHIFT DATE	TREND	MOMENTUM SIGNAL	SHIFT DATE	TREND
EM CREDIT[1]	RISK-ON	+	01/31/25	IMPROVING	+	01/31/25	DETERIORATING
EM FX	RISK-ON	-	02/21/25	IMPROVING	+	01/31/25	DETERIORATING

Data Source: Loomis Sayles, as of 02/28/2025
[1] EM Credit (sovereign and corporate) [2] Risk-On = Value OR Momentum (+). Risk-Off = Value AND Momentum (-)
The table presented above is shown for illustrative purposes only. Views and opinions expressed are as of the date indicated and are subject to change at any time without notice. Other industry analysts and investment personnel may have different views and opinions.

ASSET CLASS EXPOSURE



Data Source: Loomis Sayles, as of 02/28/2025. Due to active management, characteristics evolve over time. Due to rounding, totals may not equal 100%.
Indices are unmanaged and do not incur fees. It is not possible to invest directly in an index. The charts presented above are shown for illustrative purposes only.
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Please see important disclosure page, an integral part of this presentation, which follows.

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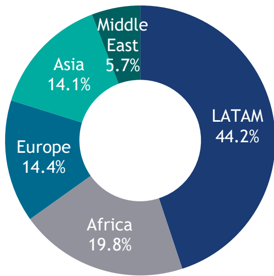
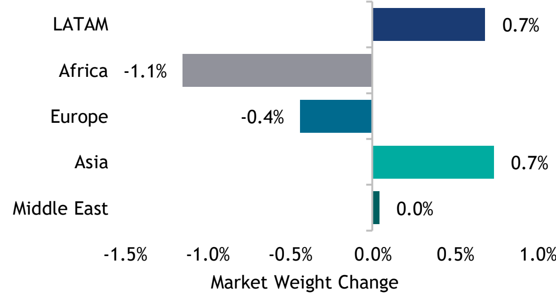
REGIONAL EXPOSURES

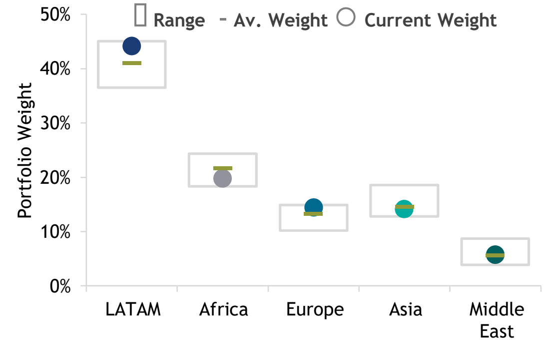
TOP 5 REGION OF RISK (MARKET WEIGHT%)



1-MONTH MARKET WEIGHT CHANGE



12-MONTH PORTFOLIO WEIGHT RANGE



■ Latin America (LATAM) ■ Africa ■ Asia ■ Europe ■ Middle East

Data Source: Loomis Sayles, as of 02/28/2025

Due to active management, characteristics evolve over time. Due to rounding, totals may not equal 100%.

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COMMENTARY

FEBRUARY POSITIONING

- Entering February, EM Credit and FX were in risk-off mode as the US Dollar strengthened amid tariff uncertainty.
- EM high yield credit spreads traded at tight levels throughout January, led by CCC-rated bonds, with limited room to compress in the near term.
- Portfolio beta was approximately 0.9, with overweight positions tilted toward high yield corporates and sovereigns.

HOW DID FEBRUARY UNFOLD

- The month began with a shift to risk-on in both EM Credit and FX. CCC-rated sovereigns led cross-asset performance, outperforming most global equity markets and only lagging behind gold.
- In response to the positive shift in sentiment, we began legging into GBI-EM positions across Latin American, African, and frontier markets, increasing our portfolio beta to approximately 1.0.
- US Treasury Secretary Bessent's preference to keep the 10-year Treasury yield below 5% helped fuel the GBI-EM rally, which created positive momentum in EM investment grade credit for the first time since the Federal Reserve turned hawkish in the second quarter of 2024.
- By mid-month, President Trump introduced reciprocal tariffs, shifting the focus from a higher-for-longer environment toward concerns about economic growth. US Treasury yields turned sharply lower, led by the back-end, as crowded steepener positions were stopped out.
- Equities began to slide, reflecting lower future growth and earnings expectations. CCC-rated credits lost momentum, beginning with Ecuador and broadly held Argentina. CCC-rated credits had been the star performers since 2022. Given their higher correlation to equity market declines, the turn in "Magnificent Seven" sentiment left emerging market frontier investors positioned to take profits.
- Positive total returns were now heavily influenced by back-end yields; AA/A-rated long investment grade bonds surged from deeply discounted levels (with 30-year bonds trading at $75-80 levels).
- As the risk-on momentum began deteriorating amid rising cross-asset volatility, we reduced our CCC overweight to neutral. Ultimately, we reallocated approximately 10% from CCC/B-rated sovereigns to higher quality corporates.

Source: Loomis, Sayles & Co; Bloomberg

^ The Blended Index is 1/3 JPM EMBI; 1/3 JPM GBI-EM; 1/3 JPM CEMBI. Indices are unmanaged and do not incur fees. It is not possible to invest directly in an index.

Credit Quality reflects the highest credit rating assigned to individual holdings of the Composite among Moody's S&P or Fitch; ratings are subject to change.

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COMMENTARY (CONT'D)

HOW DID FEBRUARY UNFOLD (CONT'D)

- US Dollar weakness persisted – whether due to delayed tariffs, the rest-of-world growth recovery, or the end of U.S. economic exceptionalism remains to be seen. Meanwhile, Latin America was the primary beneficiary, and emerging market foreign exchange strength broadened as volatility declined from post-election highs. While many expected a higher-for-longer, strong US Dollar start to the year, the opposite occurred in February, keeping us in a risk-on position.
- Further gains materialized in Chinese and European equity markets, which supported high yield corporates for the month, largely driven by issuers within the real estate and metals and mining industries.
- By month-end, EMBI CCC-rated bonds began to stall. However, this was based on specific situations in Ecuador (elections), Argentina (crypto currency), Senegal (worsening deficit), and Ukraine (Trump's scrutiny), while the rest of the complex continued to perform.
- Overall, emerging market debt's income and liquidity advantage appeared to compensate investors for the risk in this range-bound yield environment.

MARCH POSITIONING

- This month began with emerging market investors adjusting to downside growth risks in the US and upside growth risks in Europe. We believe the market has proved difficult to navigate given the barrage of risks and drivers that rotated daily, as well as the unpredictability of outcomes focused on one person's decisions.
- After initially promoting "peace through strength," the US administration took steps to pause its support for Ukraine, aiming to force concessions without security guarantees. At that time, no concessions had been announced regarding Russia. An agreement on Ukraine's natural resources could help restore US-Ukraine relations, but we believe it remains unclear if this implies a removing of the pressure to accept a ceasefire that Ukraine views as unfavorable.
- Continuing our adjustment from the second half of February, we further reduced CCC/B-rated sovereign positions, this time favoring euro-denominated credits following the largest German government bond sell-off since the Berlin Wall fell (in response to an €800 billion defense spending plan, a major turning point comparable to Draghi's "whatever it takes" moment).
- EM beta was reduced to approximately 0.8 as regimes deteriorated and as cross-asset volatility escalated to around the 90th percentile. We believe positioning is now more prepared for potential downside growth risks in the US, which should benefit non-US Dollar trades as seen in broadening rallies from Mexico to Hungary.
- While US economic data has weakened, Europe appears to have shifted to a pro-growth stance through higher deficits. This represents a meaningful development, in our view, and we are factoring this into our emerging market asset allocation.
- What we face now is a world with greater extremes in both directions: a higher risk of a US recession (not the current consensus view) and a higher chance of European growth acceleration from fiscal spending (accelerating capital flow abroad).
- We believe the more positive growth outlook in Europe, coupled with stability in China, now balances downside growth risks from tariff uncertainty. President Trump has delayed Canada and Mexico tariffs for USMCA goods until April 2.
- Our main risk is that volatility might rise to extreme levels, perhaps driven by an ongoing spike in German government bond yields (risk-off). However, this was a two standard deviation event in US-EU rates, unlikely to be sustained as the European Central Bank implements potential cuts at each meeting through the end of the second half of the year.
- EM local bonds and FX remain among the top performers year-to-date as Treasury yields moved lower and rest-of-world growth makes a tentative comeback, led by Latin America and Central and Eastern Europe.
- We believe some of the key return drivers for the month ahead include: long-duration US Treasuries, 1-10 year US TIPS, gold, euro investment grade credit, and the US Dollar.

Source: Loomis, Sayles & Co; Bloomberg

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EMERGING MARKETS DEBT BLENDED TOTAL RETURN TEAM

Andrea DiCenso
Portfolio Manager

Peter Yanulis
Portfolio Manager

Alex Thompson
Investment Director

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Past performance is no guarantee of future results.

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

Any investment that has the possibility for profits also has the possibility of losses, including the loss of principal .

Key Risks:
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Any investment that has the possibility for profits also has the possibility of losses, including the loss of principal.

Diversification does not ensure a profit or guarantee against a loss.

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