Emerging Markets Debt Blended Total Return

Strategy Update by the Loomis Sayles Alpha Strategies Team

PERFORMANCE

AS OF JUNE 2024	1M	3M	YTD	1Y	3Y	5Y	INCEPTION[2]
Composite (gross)	0.29%	-1.18%	1.48%	7.79%	-3.41%	1.56%	1.68%
Composite (net)	0.23%	-1.34%	1.15%	7.09%	-3.96%	1.04%	1.16%
Blended Index[1]	0.15%	0.05%	0.79%	6.36%	-2.03%	0.34%	1.94%
Excess return (gross)	0.13%	-1.24%	0.69%	1.43%	-1.38%	1.22%	-0.26%
Excess return (net)	0.08%	-1.40%	0.37%	0.73%	-1.93%	0.69%	-0.78%

Data Source: Loomis Sayles, as of 06/30/2024
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

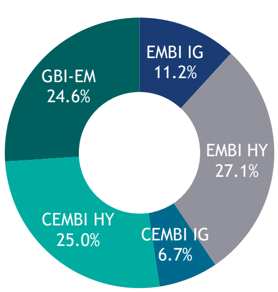
The panel below illustrates the current 'regimes' we are in, either risk-on or risk-off for EM Credit and EM FX, respectively. The regimes strongly influence (but do not mechanistically dictate) top-down asset allocation. Through our research, we have also found that the majority of value-add can typically 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	+	05/31/24	DETERIORATING	+	11/3/23	DETERIORATING
EM FX	RISK-ON	+	06/14/24	DETERIORATING	-	06/07/24	IMPROVING

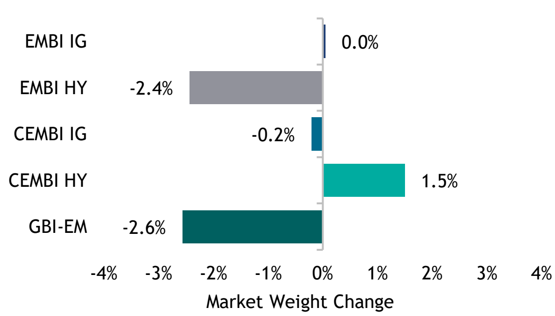
Data Source: Loomis Sayles, as of 06/30/2024
[1] EM Credit (sovereign and corporate) [2] Risk-On = Value OR Momentum (+). Risk-Off = Value AND Momentum (-)
The table presented above is shown for illustrative purposes only. Views and opinions expressed are as of the date indicated and are subject to change at any time without notice. Other industry analysts and investment personnel may have different views and opinions.

ASSET CLASS EXPOSURE

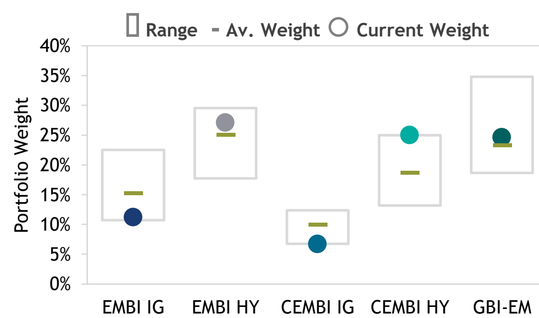
CURRENT WEIGHTS



1-MONTH MARKET WEIGHT CHANGE



12-MONTH PORTFOLIO WEIGHT RANGE



■ Hard Currency Sov. IG (JPM EMBI IG) ■ Hard Currency Sov. HY (JPM EMBI HY) ■ Hard Currency Corp. IG (JPM CEMBI IG) ■ Hard Currency Corp. HY (JPM CEMBI HY) ■ Local Currency Sov. (JPM GBI-EM)

Data Source: Loomis Sayles, as of 06/30/2024. 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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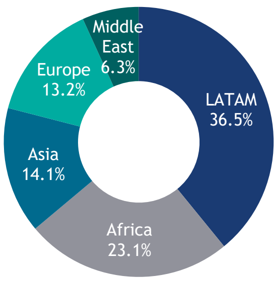
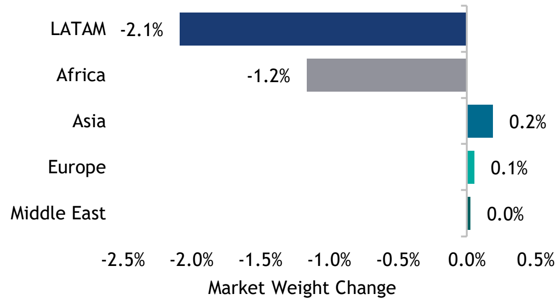
REGIONAL EXPOSURES

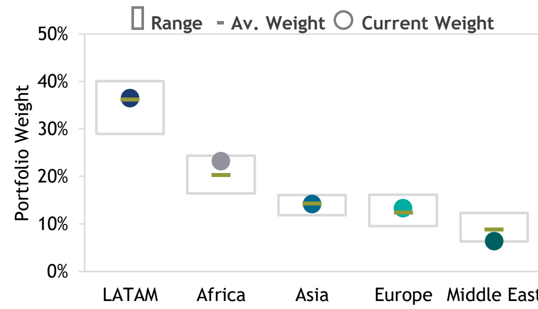
TOP 5 REGION OF RISK (MARKET WEIGHT%)



1-MONTH MARKET WEIGHT CHANGE



12-MONTH PORTFOLIO WEIGHT RANGE



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

Data Source: Loomis Sayles, as of 06/30/2024
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COMMENTARY

JUNE POSITIONING

- Entering June, EM Credit and FX were in risk-on mode driven by a weaker US Dollar. However, value and momentum signals began to deteriorate in both markets.
- May was a strong month for the emerging market debt asset class. However global growth was shown to have slowed sharply over the second quarter and this development, along with widening interest rate differentials, kept the US Dollar in a position of relative strength due to its high carry and safe-haven properties.
- Meanwhile, cross-asset volatility was forming a bottom at one-year lows. Momentum began to turn negative in lower quality credits (CCC and B-rated bonds) - the first material shift from high yield to investment grade seen year-to-date.
- After a strong run, CCC-rated bonds and single-B-rated commodity exporters came for sale as investors shifted towards higher quality assets, adding interest rate risk into a near 30 basis point move lower in G4 yields as markets reposition for expected rate cuts.
- Industrial metals were among the top selected variables driving returns in EM FX, and falling, with recession risks re-emerging. Metals prices fell through the end of May, prompting us to prepare for a potential reversal in the carry trade.
- Portfolio beta remained unchanged at approximately 1.5, driven by our overweight positions in high yield credit (Latin America and Africa) and local currency bonds (Latin America and Central and Eastern Europe, Middle East, and Africa).

HOW DID JUNE UNFOLD

- EM FX shifted to risk-off during the first week of May and we turned long US Dollars against our positive carry local bond holdings.
- We reduced risk in lower-rated CCC sovereign bonds following a strong month for the sector, shifting from an overweight to underweight position in CCC bonds versus the blended benchmark.
- As we navigated through the end of an increasingly volatile Federal Reserve interest rate hiking cycle, similar to the third quarter of 2023, we added exposure to short-duration corporate bonds. We expected credit to outperform local markets until the US Dollar rolled over again, likely around the time of the Federal Reserve's first interest rate cut.
- We also covered our Asian FX positions (Indian Rupee, South Korean Won, Japanese Yen) reducing portfolio beta from 1.5 to approximately 1.0.

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 JUNE UNFOLD (CONT'D)

- Tensions escalated in the Red Sea with low-risk premium in oil prices. Brent crude oil was down 12% from mid-April through the end of May largely due to slowing global demand.
- Extended US Dollar strength raised the risk of market disruptions; the most concerning move was the US Dollar to Japanese Yen exchange rate trading above 160 (up 12% year-to-date). The options market pushed this rate higher (170 strike prices, implying another 6% increase), betting against Bank of Japan verbal intervention. In our opinion, it will be a much tougher balancing act for the Bank of Japan after their last two attempts to stem excessive currency depreciation (approximately $60 billion per intervention: first in October 2022, second in April-May 2024). The United States put Japan back on its currency manipulator watch list after one year.
- Approaching a volatile quarter-end, EM FX momentum, our preferred crisis leading indicator, was negative and deteriorating.
- The strong US Dollar – producing negative EM FX momentum – reflected weaker global growth (copper down 13% from late May highs) and persistent inflation keeping US versus rest-of-world interest rate differentials higher for longer than the FX market could tolerate at this stage of the late-cycle economic expansion.
- We saw evidence that the global expansion was slowing under the pressure of persistent inflation, which kept financial conditions elevated. Inflation proved even more stubborn, leading to a significant delay in the anticipated central bank easing cycles. Moreover, geopolitical risk was prominent with elections in emerging markets (Mexico, India, South Africa) and developed markets (United States, France, United Kingdom).
- US Treasurys bear-steepened to reflect rising term premium on deficit and tariff implications from a potential Trump administration, while French government bonds tested Euro sovereign crisis levels.
- We ended the month with our beta reduced to approximately 1.0 with our overall outperformance driven by asset allocation effects.

JULY POSITIONING

- In line with historical trends during late-cycle economic expansion, the Treasury curve continues to steepen, causing risk assets to sell off globally.
- We believe higher term premium needs to be priced in before we are duly compensated for taking emerging market risk. This is due to three main reasons: 1) increased deficit spending in the United States, 2) Treasury bonds being sold to fund intervention in Japan, and 3) although the acceleration of inflation from earlier this year is slowing, global core inflation is expected to remain close to 3% this year as tight labor markets and elevated wage gains limit disinflation in the service sector.
- We believe that these collective developments limit the potential for near-term monetary policy easing, increasing the probability of "higher for longer" interest rate stances in both emerging market and developed market economies.
- Emerging market high yield bond spreads have widened by around 30 basis points, the US Dollar is breaking out, and we are seeing deeper corrections in Brazil and South Africa. Meanwhile, Asia is outperforming, with most currencies trading at crisis levels as the US Dollar to Japanese Yen exchange rate continues to test multi-decade highs.
- We anticipate additional value to be created while markets navigate through French elections, Middle East tensions, and the potential impact of Trump tariffs.
- Macroeconomic volatility is high and rising. Our strategy aims to enter the market when macroeconomic volatility is high but falling at more attractive valuations than we are currently seeing.
- Historically, July is typically a positive month for risk assets, so we expect a peak in Treasury yields to be followed by a rally led by emerging market local currency bonds.
- Some of the key drivers of returns for the month ahead include: the US Dollar Index (DXY), precious and industrial metals, Euro investment grade credit, US investment grade credit, and EM FX volatility.

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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