Emerging Markets Debt Blended Total Return

Strategy Update by the Loomis Sayles Alpha Strategies Team

PERFORMANCE

AS OF MARCH 2024	1M	3M	YTD	1Y	3Y	5Y	INCEPTION[2]
Composite (gross)	2.00%	2.70%	2.70%	10.05%	-1.94%	2.81%	1.92%
Composite (net)	1.95%	2.53%	2.53%	9.34%	-2.47%	2.28%	1.39%
Blended Index[1]	1.02%	0.74%	0.74%	8.46%	-1.00%	1.20%	2.00%
Excess return (gross)	0.98%	1.96%	1.96%	1.59%	-0.94%	1.60%	-0.09%
Excess return (net)	0.93%	1.80%	1.80%	0.89%	-1.48%	1.08%	-0.61%

Data Source: Loomis Sayles, as of 03/31/2024
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

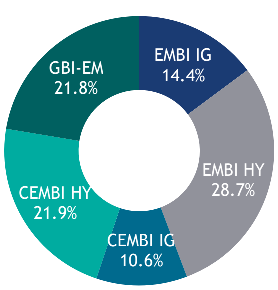
The panel below illustrates the current 'regimes' we are in, either risk-on or risk-off for EM Credit and EM FX, respectively. The regimes strongly influence (but do not mechanistically dictate) top-down asset allocation. Through our research, we have also found that the majority of value-add can typically 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	-	03/29/24	DETERIORATING	+	11/3/23	DETERIORATING
EM FX	RISK-ON	-	01/26/24	IMPROVING	+	11/3/23	DETERIORATING

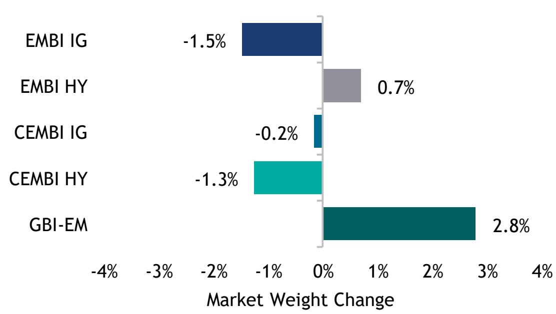
Data Source: Loomis Sayles, as of 03/31/2024
[1] EM Credit (sovereign and corporate) [2] Risk-On = Value OR Momentum (+). Risk-Off = Value AND Momentum (-)
The table presented above is shown for illustrative purposes only. Views and opinions expressed are as of the date indicated and are subject to change at any time without notice. Other industry analysts and investment personnel may have different views and opinions.

ASSET CLASS EXPOSURE

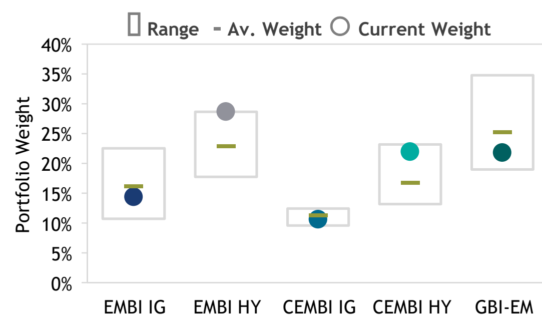
CURRENT WEIGHTS



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 03/31/2024. 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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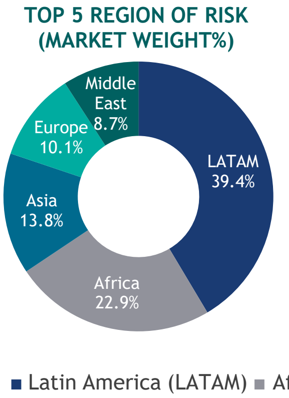
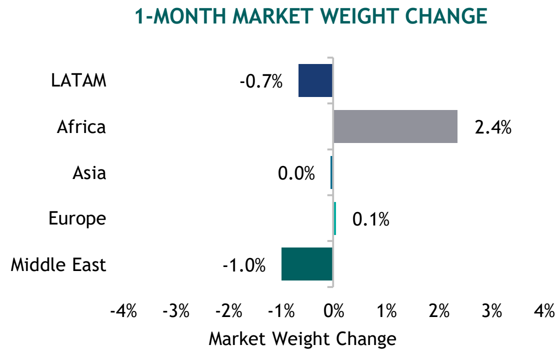
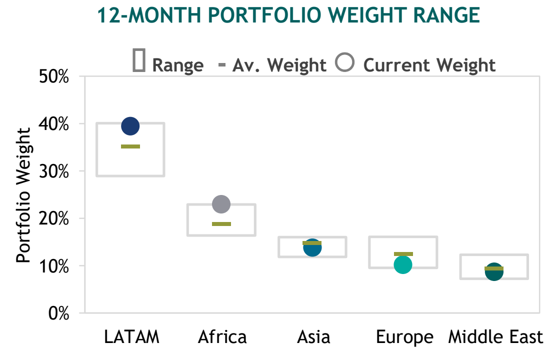
REGIONAL EXPOSURES







Data Source: Loomis Sayles, as of 03/31/2024
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COMMENTARY

MARCH POSITIONING

- As we entered March, EM Credit and FX remained in risk-on territory. Both our value and momentum signals showed improvement against the attractive backdrop of EM carry trades, characterized by a combination of high rates and low volatility.
- Rates had risen by +40 basis points year-to-date and were nearing the highs of November 2023, spurred by investors' concerns over unexpectedly high inflation figures.
- Despite recent surprises in inflation, Fed Fund futures continued to anticipate three rate cuts by year-end, in line with Fed Chairman Powell's message that inflation is on a general downtrend.
- With cross-asset volatility staying within the 5th percentile, we identified potential for further spread compression and positive total returns, primarily driven by carry, with distressed credits likely to be a significant source of alpha, in our opinion.
- Beta to the equal-weighted blended benchmark was reduced to approximately 0.6. This was achieved by underweighting investment grade credit, hedging interest rate exposure, overweighting high yield credit (especially single B/C's), and maintaining a neutral stance on local sovereigns with hedged FX exposure. This strategy has been in place since December 2023, when approximately six rate cuts were forecasted for 2024.

HOW DID MARCH UNFOLD

- Emerging markets appeared well-positioned, in our view, for a soft-landing scenario, with rate cuts by the Federal Reserve and the European Central Bank anticipated to start around June. Additionally, China's stimulus efforts were ramping up via the National People's Congress (NPC) to achieve their ambitious 2024 growth target of 5%.
- March marked the month that emerging market high yield recovered all total return losses since the COVID pandemic, though investment grade sovereigns remained about 10% lower than their 2020 levels.
- Momentum maintained its status as a top-performing style factor in emerging markets, further improving as spreads neared cycle tights.
- By mid-month, peak inflation expectations were challenged by rising Consumer (CPI) and Producer (PPI) Price Index prints, pushing US Treasury yields to the higher end of their range. Concurrently, oil prices were on a trajectory toward $90 per barrel, propelled by escalating tensions in the Middle East, a traditionally busy travel season, and OPEC+ cuts in anticipation of US elections.
- In this context, EM local markets continued to underperform, with the risk appetite for carry trades favoring the US Dollar over most other currencies.

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.
Views and opinions expressed reflect the current opinions of the Emerging Markets Debt Blended Total Return Team, and views are subject to change at any time without notice. Other industry analysts and investment personnel may have different views and opinions.
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COMMENTARY (CONT'D)

HOW DID MARCH UNFOLD (CONT'D)

- We responded by increasing the portfolio's credit beta, adding exposure to high yield markets buoyed by encouraging restructuring narratives, beneficial external conditions, and investments from both dedicated and crossover investors.
- Despite Fed Chairman Powell's efforts to minimize concerns about the recent uptick in inflation, risk assets experienced late-month volatility as the market grappled with a 'higher for longer' interest rate environment.
- March concluded with a continuation of risk-on sentiment; however, both our value and momentum indicators began exhibiting greater volatility amidst the unfolding central bank policy changes.

APRIL POSITIONING

- Beta to the equal-weighted blended benchmark increased to approximately 1.0 through the addition of duration and non-US Dollar exposure.
- While equities and emerging market high yield credit have been rallying, we believe these conditions have failed to provide a supportive backdrop for emerging market local markets, as the US Dollar and US Treasury yields have seen a steady ascent throughout the year.
- Given that rates and the US Dollar have returned to the upper end of the recent range – a position we have been hedged against all year – we are now adjusting the beta to better align with a risk-on portfolio approach.
- Emerging market high yield sovereign credit, which is our core long position, has stood out as a key performer this year. We believe this success is largely due to ongoing restructurings and the IMF's growing confidence in reform initiatives, offering enhanced support to Frontier nations with yields of 20-30% or more currently. Within high yield sovereign credit, positions in Turkey and South Africa have lagged year-to-date on higher inflation prints and concerns around perceived policy missteps.
- The recent statements by Fed Chairman Powell, which have played down the surge in inflation in January and February, suggest that the Federal Reserve may tolerate ongoing high inflation more than we initially thought, hinting at the possibility of a depreciating US Dollar. We believe that the risk-on regime established since November 2023 may continue should rate cuts materialize.
- Currently, our focus is on individual credit stories that show the potential for bottom-up improvement, potentially benefitting from the favorable global environment thanks to specific reforms, independent of the broader market's movement.
- A peak in Treasury yields could herald a more robust shift into the emerging market risk-on regime, leading us to pursue non-US Dollar trades with increased focus.
- For the coming month, we anticipate that some of the key return drivers may include the US Dollar Index (DXY), gold, US TIPS with maturities ranging from 1 to 10 years, industrial metals, 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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Any investment that has the possibility for profits also has the possibility of losses, including the loss of principal .

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