Emerging Markets Debt Blended Total Return

Strategy Update by the Loomis Sayles Alpha Strategies Team

PERFORMANCE

AS OF MAY 2025	1M	3M	YTD	1Y	3Y	5Y	7Y	INCEPTION[2]
Composite (gross)	1.27%	1.25%	4.08%	7.05%	4.16%	2.06%	3.20%	2.30%
Composite (net)	1.22%	1.09%	3.80%	6.36%	3.51%	1.49%	2.65%	1.76%
Blended Index[1]	1.05%	2.21%	4.97%	8.35%	5.90%	2.29%	2.63%	2.70%
Excess return (gross)	0.23%	-0.96%	-0.89%	-1.30%	-1.74%	-0.23%	0.57%	-0.40%
Excess return (net)	0.17%	-1.12%	-1.17%	-1.99%	-2.38%	-0.79%	0.02%	-0.94%

Data Source: Loomis Sayles, as of 05/31/2025
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

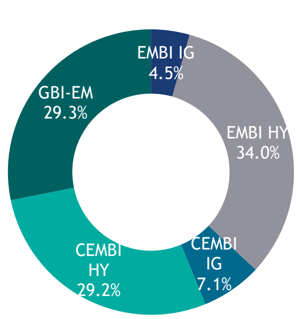
The panel below illustrates the current 'regimes' we are in, either risk-on or risk-off for EM Credit and EM FX, respectively. The regimes strongly influence (but do not mechanistically dictate) top-down asset allocation. Through our research, we have also found that the majority of value-add can typically 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	+	05/09/25	IMPROVING	+	05/09/25	DETERIORATING
EM FX	RISK-ON	-	05/02/25	DETERIORATING	+	01/31/25	DETERIORATING

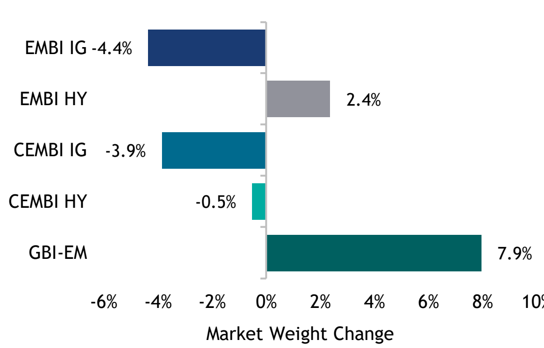
Data Source: Loomis Sayles, as of 05/31/2025
[1] EM Credit (sovereign and corporate) [2] Risk-On = Value OR Momentum (+). Risk-Off = Value AND Momentum (-)
The table presented above is shown for illustrative purposes only. Views and opinions expressed are as of the date indicated and are subject to change at any time without notice. Other industry analysts and investment personnel may have different views and opinions.

ASSET CLASS EXPOSURE

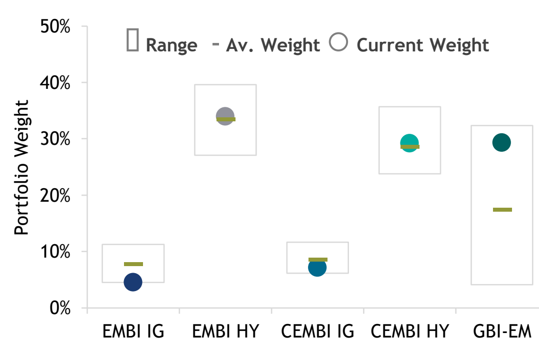
CURRENT WEIGHTS



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 05/31/2025. 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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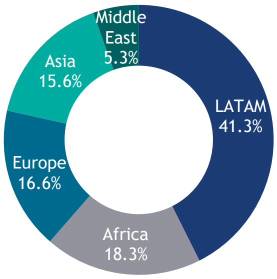
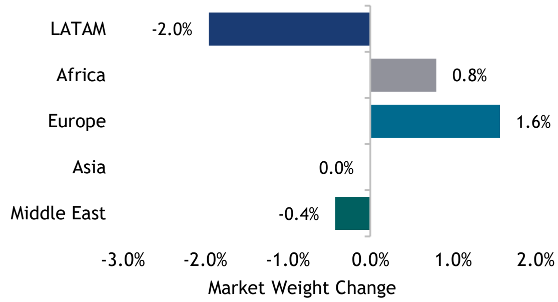
REGIONAL EXPOSURES

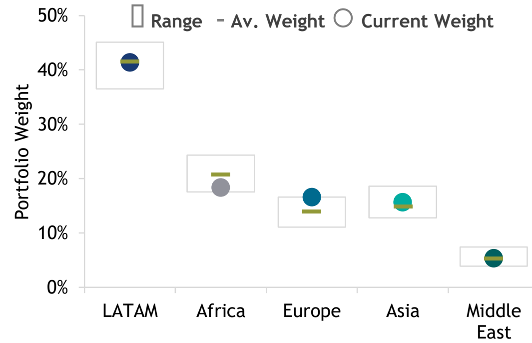
TOP 5 REGION OF RISK (MARKET WEIGHT%)



1-MONTH MARKET WEIGHT CHANGE



12-MONTH PORTFOLIO WEIGHT RANGE



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

Data Source: Loomis Sayles, as of 05/31/2025

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

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COMMENTARY

MAY POSITIONING

- Entering May, EM Credit and FX were in risk-on mode despite growing concerns about future US growth prospects due to ongoing uncertainty around tariff policy implementation.
- Having crossed the 100-day milestone of the Trump 2.0 presidency, we experienced the worst post-inauguration US Dollar performance since the 1970s. As a result, the local sovereign trade continued to attract attention, with future returns likely to be influenced by communication dynamics between the US and China, in our view.
- We maintained a portfolio beta of approximately 1.0, anticipating that intermittent trade talks would trigger periods of volatility while ultimately resulting in US Dollar weakness.

HOW DID MAY UNFOLD

- EM fixed income ended April on a strong note, outperforming developed markets on the de-dollarization trade and extended momentum into May. A 10-standard deviation event in the Taiwan Dollar (strengthening versus the US Dollar) brought increased focus to this trend. Asia FX emerged as among the most dislocated EM assets, beginning to catch up to major year-to-date moves in Latin America and CEEMEA.
- In real terms, the US Dollar was approximately 10% overvalued, driving institutional capital rotation to rest-of-world opportunities after a decade of US exceptionalism. This shift gained significant traction during the stagflationary first half of 2025.
- Beyond fixed income, EM equities outpaced both the S&P 500 Index and their historical beta relationship to lower stocks and higher yields in the US. This relative outperformance occurred when US recession odds were increasing – a departure from historical patterns. Typically, rising US recession odds trigger initial pain for EM markets due to their higher elasticity to global demand. When global demand falls, EM markets typically decline more severely than developed markets. During such periods of market stress, the US Dollar usually strengthens on safe-haven flows, EM currencies weaken, and credit spreads widen. However, May proved different. EM equities experienced a 10% tariff-relief rally from April lows, breaking out to five-year highs by mid-month. US-China trade talks delivered more positive outcomes than expected, followed by a 90-day tariff delay for continued negotiations.
- EM CCC sovereigns outperformed with sustained follow-through interest on these headlines, led by African markets.

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 MAY UNFOLD (CONT'D)

- Notwithstanding the intra-year volatility, the overall resilience of EM sovereign credit and its outperformance versus US credit was particularly noteworthy given the improving default and ratings trajectory of EM sovereign credit. Recovery values have now reached the $60-70 range versus $30-40 in the post-GFC period.
- Portfolio beta remained at approximately 1.0 throughout May, with a skew toward unhedged local bonds and high-yield sovereign opportunities.
- Based on improving momentum in our top-down regimes, still light EM investor positioning combined with growing diversification needs into higher-yielding assets has the potential, in our view, to extend outperformance and support EM over a longer horizon.
- The 90-day tariff delays created additional upside as non-US currencies strengthened on expectations of further China stimulus. By month-end, foreign investors had turned net buyers of EM debt as trailing risk-adjusted returns exceeded developed market credit while showing typically lower correlation to macro headline risk.

JUNE POSITIONING

- We maintain a risk-on stance with portfolio beta increased to approximately 1.1. While it may seem counterintuitive for EM to perform well during US Treasury curve bear steepening, this is exactly what we have experienced.
- We believe several factors suggest that negative spillover from US long-end pressure should be smaller than in previous episodes. First, fiscal concerns coincide with a broader reassessment of US exceptionalism, likely pushing the US Dollar weaker from current levels. Second, EM external balances are in a much better position compared to prior episodes. Third, foreign participation in EM local debt markets remains at relatively low levels, reducing the risk of disorderly sell-offs such as during the 2013 Taper Tantrum.
- EM fixed income outperformance has been primarily driven by lower-quality credits on month, quarter, and year-to-date. Ongoing spread compression is supported by idiosyncratic frontier constituents benefiting from recent restructuring packages contingent on reforms, lifting frontier sovereigns from downturn to the credit repair phase of the cycle.
- We believe clear investor appetite exists for increased non-US Dollar exposure, given the sizable unhedged foreign asset holdings impacting portfolios as the US Dollar weakens.
- The back-end term premium rebuild in developed market curves has been painful, with unrealized losses mounting on every basis point of steepening. Trump recently invited Fed Chairman Jerome Powell to the White House, only to tell him the Fed is making a mistake by not lowering interest rates.
- We believe EM fixed income is proving far more resilient this time around, as post-sovereign restructurings are being met with ratings upgrades and improved recovery values. Frontier EM debt now outperforms the broad private credit universe on both three-year and five-year bases.
- Global capital flow rotation continues, with the US administration facing an increasingly difficult position: increase the deficit, and investors demand higher premiums to hold long-duration US assets. The Fed's wait-and-see approach is not making this situation easier, in our view.
- Barring an exogenous volatility shock (which can occur at any time), we believe most scenarios point to further US Dollar weakness – a major tailwind that keeps us in risk-on mode and overweight beta across sovereigns and corporates. Our highest conviction position remains unhedged local bonds.
- Top-down EM regimes indicate we are still in the early innings of capital flow rotation. Even a marginal shift in future investments away from US assets, or an increase in hedge ratios, could extend this US Dollar move through three-year lows into the Fed's first cut by December.
- We believe some of the key return drivers for the month ahead include: the VIX Index, US rates volatility, US TIPS 1-10 year, 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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Any investment that has the possibility for profits also has the possibility of losses, including the loss of principal .

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