Emerging Markets Debt Blended Total Return

Strategy Update by the Loomis Sayles Alpha Strategies Team

PERFORMANCE

AS OF SEPTEMBER 2024	1M	3M	YTD	1Y	3Y	5Y	7Y	INCEPTION[2]
Composite (gross)	2.47%	6.05%	7.62%	18.13%	-1.29%	2.03%	2.12%	2.42%
Composite (net)	2.41%	5.88%	7.10%	17.38%	-1.86%	1.50%	1.59%	1.89%
Blended Index[1]	2.16%	6.53%	7.37%	15.51%	0.46%	1.46%	2.04%	2.73%
Excess return (gross)	0.31%	-0.48%	0.25%	2.61%	-1.75%	0.57%	0.08%	-0.31%
Excess return (net)	0.26%	-0.65%	-0.27%	1.86%	-2.32%	0.04%	-0.44%	-0.84%

Data Source: Loomis Sayles, as of 09/30/2024
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

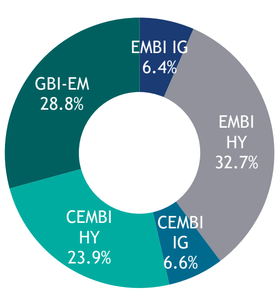
The panel below illustrates the current 'regimes' we are in, either risk-on or risk-off for EM Credit and EM FX, respectively. The regimes strongly influence (but do not mechanistically dictate) top-down asset allocation. Through our research, we have also found that the majority of value-add can typically 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	-	09/27/24	DETERIORATING	+	07/12/24	DETERIORATING

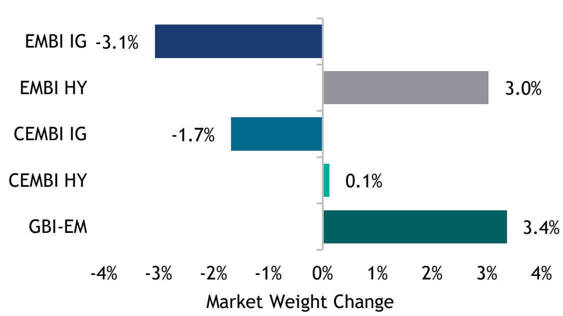
Data Source: Loomis Sayles, as of 09/30/2024
[1] EM Credit (sovereign and corporate) [2] Risk-On = Value OR Momentum (+). Risk-Off = Value AND Momentum (-)
The table presented above is shown for illustrative purposes only. Views and opinions expressed are as of the date indicated and are subject to change at any time without notice. Other industry analysts and investment personnel may have different views and opinions.

ASSET CLASS EXPOSURE

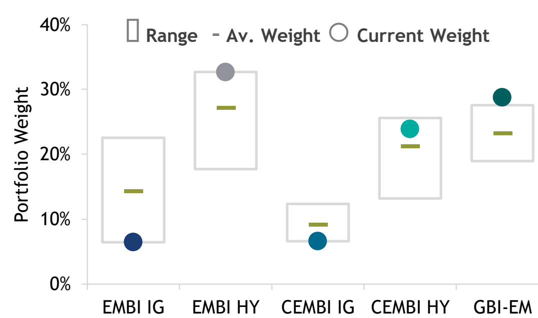
CURRENT WEIGHTS



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 09/30/2024. 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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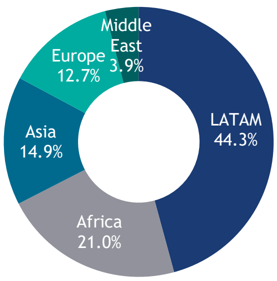
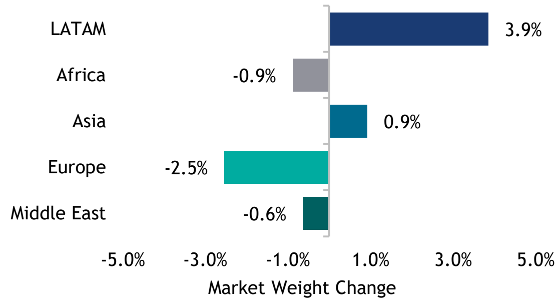
REGIONAL EXPOSURES

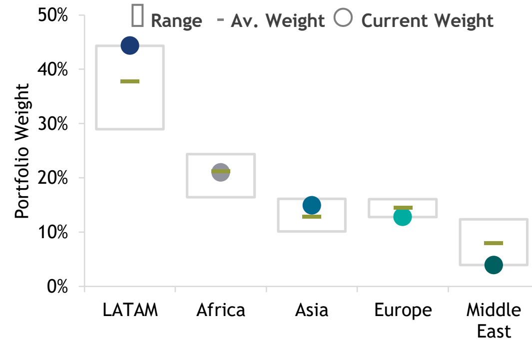
TOP 5 REGION OF RISK (MARKET WEIGHT%)



1-MONTH MARKET WEIGHT CHANGE



12-MONTH PORTFOLIO WEIGHT RANGE



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

Data Source: Loomis Sayles, as of 09/30/2024
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COMMENTARY

SEPTEMBER POSITIONING

- Entering September, EM Credit and FX remained in risk-on territory with all emerging market asset classes trending positively from mid-August through to quarter-end.
- The post carry trade unwind effect left markets pricing an extreme currency crisis on August 5th. Cross-asset volatility has since collapsed in the wake of Bank of Japan intervention and a dovish Federal Reserve.
- Portfolio beta was approximately 1.4 versus the blended benchmark – a positioning we initiated mid-August.

HOW DID SEPTEMBER UNFOLD

- Emerging market assets bounced back along with global markets from the August flash crash, which was triggered principally by growth concerns and then exaggerated by positioning.
- The 50-basis point cut by the Federal Reserve appeared to catch many market participants by surprise, and risk-assets broadly welcomed increased flexibility to ease across global central banking cycles.
- Falling rate differentials between the US and the rest-of-world helped to renew optimism towards emerging markets as an asset class with underweights being actively covered in the market.
- We believe this backdrop offered a more supportive environment for emerging market debt to lead global fixed income in the weak US Dollar, risk-on regime.
- We remained overweight beta across sectors, increasing exposure to high yield corporates in the new issue market.
- By month-end, risk appetite picked up as China unleashed a stimulus blitz, including pledges to support its property sector while increasing fiscal spending. Emerging market high yield and local sovereigns were prime beneficiaries on the back of commodities (excluding oil) surging higher, while investment grade areas lagged in the rally.

OCTOBER POSITIONING

- Our portfolio beta remains unchanged at approximately 1.4 driven by high yield credits in Latin America, Africa and local sovereigns (FX unhedged).
- Most importantly for emerging markets as an asset class, the US Dollar appears to be on a path to break multi-year lows, in our view. We would expect a continuation of this move, driven by converging rate differentials and China stimulus measures, to potentially attract more flows to emerging market fixed income markets. We do however need to factor in the potential implications from a ground invasion by Israel as a potential trigger for higher volatility heading into the US election cycle.

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)

OCTOBER POSITIONING (CONT'D)

- In our opinion, base metals are a key measure of real-time global growth, and they have been moving higher on the China trade. This reflects ongoing supply/demand imbalances as China re-stocking lifts around 60% of metals imports. We believe the rotation of capital flows to non-US assets, on speculation China will do more to reach their 5% growth target, is only just beginning.
- Overall, global economic strength with a Federal Reserve tailwind is pushing emerging markets to shrug off both negative seasonality and the Japanese Yen carry unwind.
- Given the China growth reboot, can softer US data help push emerging market outperformance versus developed markets into the fourth quarter, or will the US election uncertainty create another volatility spike before we rally into year-end?
- We adhere to a thesis that sees at or above trend GDP growth plus positive earnings growth and a supportive Federal Reserve continuing to drive the emerging market risk-on regime.
- In our opinion, this global central bank easing environment is forming a positive tailwind. For example, emerging market bond funds saw their largest weekly inflows in over a year and a half to end the last week of September.
- We believe emerging markets as an asset class has plenty of room to potentially outperform developed markets if the Federal Reserve maintains its aggressive easing cycle while China stimulates their way to recovery. We expect both dynamics to send the US Dollar lower and, conversely, emerging market assets higher.
- In our opinion, some of the key return drivers for the month ahead will include the US Dollar, US investment grade corporates, Euro investment grade corporates, industrial metals and US equity 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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