INVESTOR'S BUSINESS DAILY®

VOL. 37, NO. 3 | WWW.INVESTORS.COM | WEEK OF APRIL 27, 2020

FUNDS & PERSONAL FINANCE

MUTUAL FUND PROFILE

Why This Top Stock Mutual Fund Went Shopping In The Bargain Bin

Loomis Sayles Growth Fund

How this fund picks buys, and why it holds stocks 12-1/2 years on average

BY PAUL KATZEFF
INVESTOR'S BUSINESS DAILY

What makes Loomis Sayles Growth Fund **(LSGRX)** one of the best mutual funds? Manager Aziz Hamzaogullari not only seeks stocks with sustainable long-term growth. He wants to buy them at a discounted price, which makes it easier to rack up a gain.

Not surprisingly, that has made the coronavirus stock market correction a buyer's market for Hamzaogullari.

"This has been one of our most active quarters ever," said Hamzaogullari, who has run the $9.2 billion fund since June 1, 2010. "We've invested in five new companies, taking advantage of the dislocation. We reduced holdings in several companies to finance the new positions."

Normally, the fund trades far less often. Annual turnover since Hamzaogullari took the reins averages a scant 8%. That means he holds stocks an average of 12-1/2 years each. In contrast, the average annual turnover rate for all U.S. diversified stock funds is 66%, according to Morningstar Direct.

Hamzaogullari is barred from naming the new holdings until his official monthly disclosure.

While the number of buys this quarter has been unusual, there has been nothing impetuous about them. "We don't get ready for market downturns the day before they happen," Hamzaogullari said. "We do our homework for years so we are in fact ready when opportunities present themselves."

"We've been following all five of the new names for roughly a decade. There are about 150 companies we constantly monitor. When market dislocations happen, because we've done our homework well in advance, we know the risks in each business. And the upside potential."

That patience is part of what makes Growth one of the best mutual funds. "We always buy stocks only when we believe they are trading at a significant discount to their intrinsic value," Hamzaogullari said. "We require a 2-to-1 upside potential to downside risk in each buy, and preferably a 3-to-1 reward-to-risk opportunity."

There's more to the strategy that makes Growth one of the best mutual funds. It aims for stocks in high-quality businesses with sustainable competitive advantages and profitable growth.

To Hamzaogullari, high quality means a business with a hard-to-imitate business model. "It would be difficult to replicate its process even if they had a lot of time and capital," Hamzaogullari said. "We invest in less than 1% of the businesses that have such characteristics."

That strategy has worked for this fund. It is a 2020 IBD Best Mutual Funds Awards winner.

Loomis Sayles Growth Y

Aziz Hamzaogullari

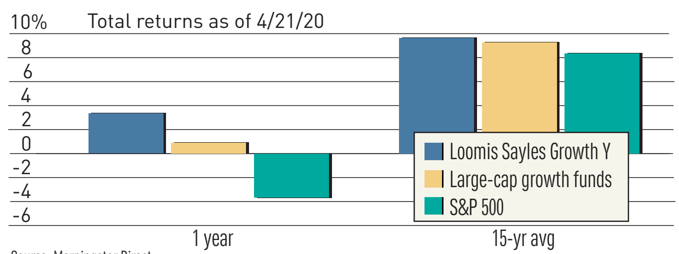
- Load: None
- Expenses: 0.66%
- Symbol: LSGRX

Total returns as of 4/21/20

2019: 31.72%		3-yr. avg.:	13.81%
YTD: -6.11%		5-yr. avg.:	12.10%
		10-yr. avg.:	13.54%

Sector weightings as of 2/29/20

	% of stock assets	% of S&P 500
Cyclical	**28.37%**	
Basic materials	0.00	2.09%
Consumer cyclical	17.59	9.60
Financial services	10.78	13.79
Real estate	0.00	3.01
Economically sensitive	**40.95**	
Communication services	11.62	10.74
Energy	1.22	2.65
Industrials	5.90	8.71
Technology	22.21	22.18
Defensive	**30.68**	
Consumer defensive	12.62	8.14
Health care	18.06	15.54
Utilities	0.00	3.57



Source: Morningstar Direct

The fund topped the S&P 500 in calendar 2019 as well as over the three, five and 10 years ended Dec. 31 on an average-annual-return basis.

During this coronavirus-wracked year going into Wednesday, the fund lost 6.11% vs. a 14.79% setback for the S&P 500 and an 9.75% loss on average for its large-cap growth rivals tracked by Morningstar Direct.

Which stocks illustrate Growth Fund's appetite for stocks with strong and sustainable earnings growth, protected by a hard-to-breach moat, which he was able to buy at a favorable price? Amazon **(AMZN)**, Nvidia **(NVDA)** and Facebook **(FB)** are three.

One standout feature about Amazon is that it is one of the few stocks that not only lost little in the coronavirus stock market correction, but its share price has also surpassed its pre-crisis high.

The broad market peaked Feb. 19. By its March 23 trough, it had cratered 35%. Rallying off that bottom, it is still down 16% going into Wednesday.

Amazon dropped at the

outset of the coronavirus correction, tumbling 25% by its March 16 low. But it has erased its entire loss and is now up 7% from its Feb. 19 close. Amazon's solid earnings and chart give it a perfect 99 IBD Composite Rating.

"What makes Amazon a quality stock is that in both of its core markets — retail sales and Amazon Web Services (AWS) — Amazon presents strong and sustainable competitive advantages that would be very hard for competitors to replicate," Hamzaogullari said.

Amazon's Higher Margins

On the retail side, Amazon has a low-cost structure that makes it more profitable, with higher margins, than best-in-class rivals, Hamzaogullari says. That's largely due to having far fewer physical sites to operate than a mainly brick-and-mortar rival like Walmart **(WMT)**.

Hamzaogullari said, "Amazon also benefits from strong operational efficiency of its fulfillment, delivery and logistics network and strong network effects of Prime users and third-party merchants, all of which contribute to a structural cost advantage."

In addition, Amazon offers wider selection than its rivals, by virtue of not being limited to what can fit into its physical stores. And its "margins benefit from a growing proportion of third-party e-commerce sales," Hamzaogullari said.

And Amazon pays its suppliers for merchandise only once goods are sold, whereas brick-and-mortar rivals typically pay sooner for merchandise.

Chipmaker Nvidia has also shown the resilience that helps it make Growth one of the best mutual funds.

At one point Nvidia shares plunged 44% off its Feb. 19 high. It has regained all but 14% of that.

Its share-price strength stems from the fact that its chips provide the horsepower for several computer functions that are in high demand.

Its chips are graphics processing units, or GPUs. Central processing unit (CPU) chips are a more traditional design. They're good at a broad range of tasks because they're programmable and flexible.

In contrast, GPUs are more specialized and expensive. They're far better than CPUs at performing fast math. That makes GPUs better for video games, computer graphics, autonomous driving, cryptocurrency mining, machine learning and artificial intelligence.

In several products using its chips such as video games, Nvidia has strong brand recognition and preference by end consumers, he adds. Nvidia, like Amazon, carries a perfect 99 IBD Composite Rating.

Nvidia is even enjoying a network effect where developers have created software products built on Nvidia's chips. "That creates a virtuous cycle, where more developers create more applications, which in turn attract a greater number of customers," Hamzaogullari said.

Alibaba is a third stock that has helped make Growth one of the best mutual funds.

Shares have regained most of their coronavirus stock market correction loss. At the worst, they lost 23%. Now share price is down just 7%. Alibaba also has a perfect 99 IBD Composite Rating.

The company is a leading Chinese e-commerce and consumer engagement provider. Its businesses include retail sales, payments, technology, advertising, digital media, entertainment and logistics. Those businesses form a strong, intertwined network. The segments often reinforce each other.

For example, mobile monthly active users grew 17% in the company's latest fiscal year to 721 million, Hamzaogullari says. Data culled from consumer activity on the company's e-commerce and digital media sites gives insights into consumer behavior. That lets Alibaba personalize content, which in turn helps merchants better target customers and engage them. That helped customer management revenue grow 23% in calendar 2019 Q4 vs. the prior-year quarter.

Alibaba's gross merchandise volume of $853 billion in its latest fiscal year makes the company the world's largest retail platform, Hamzaogullari says.

Currently, shares in the fund can only be bought through defined contribution plans like 401(k)s and conventional pension plans and by clients of registered investment advisors and registered representatives that already offer the fund.

This communication is dated as of April 24, 2020. This material may not be redistributed, published, or reproduced, in whole or in part. This reprint and the materials delivered with it should not be construed as an offer to sell or a solicitation of an offer to buy shares of any fund.

This is for informational purposes only and should not be construed as investment advice. Any economic projections or forecasts contained herein reflect the subjective judgments and assumptions of the authors, and do not necessarily reflect the views of Loomis, Sayles & Company, L.P. There can be no assurance that developments will transpire as forecasted. This reflects the opinions of Investor's Business Daily on the date made and is subject to change at any time without notice. All data contained in the article is based on research compiled by Investor's Business Daily. Loomis Sayles cannot guarantee the accuracy or completeness of any statements or data.

Loomis Sayles and Investor's Business Daily are not affiliated.

Loomis Sayles Growth Fund: Equity securities are volatile and can decline significantly in response to broad market and economic conditions. **Foreign and emerging market securities** may be subject to greater political, economic, environmental, credit, currency and information risks. Foreign securities may be subject to higher volatility than US securities, due to varying degrees of regulation and limited liquidity. These risks are magnified in emerging markets. Investments in **small and midsize companies** can be more volatile than those of larger companies. **Growth stocks** may be more sensitive to market conditions than other equities, as their prices strongly reflect future expectations. **Currency** exchange rates between the US dollar and foreign currencies may cause the value of the Fund's investments to decline.

Click here for the most recent quarter end fund performance and holdings information:
https://www.loomissayles.com/website/advisor-solutions/Growth-Fund

Performance data shown represents past performance and is no guarantee of future results. Investment return and value will vary and you may have a gain or loss when shares are sold. Current performance may be lower or higher than quoted. For most recent month-end performance, visit www.loomissayles.com. Returns reflect changes in share price and reinvestment of dividends and capital gains, if any.

The index information contained herein is derived from third parties and is provided on an "as is" basis. The user of this information assumes the entire risk of use of this information. Each of the third party entities involved in compiling, computing or creating index information disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to such information.

This material should not be considered a solicitation to buy or an offer to sell any product or service to any person in any jurisdiction where such activity would be unlawful.

Before investing, consider the fund's investment objectives, risks, charges, and expenses. Visit loomissayles.com or call 800-633-3330 for a prospectus or a summary prospectus containing this and other information. Read it carefully.

Natixis Distribution, L.P. is a limited purpose broker-dealer and the distributor of various registered investment companies for which advisory services are provided by affiliates of Natixis Investment Managers.
Natixis Distribution, L.P. • 800-225-5478 • im.natixis.com
Member FINRA | SIPC • NOT FDIC INSURED • MAY LOSE VALUE • NO BANK GUARANTEE

3556103.1.1
MALR027155
Exp 04/30/26