

## Matt Eagan & Elaine Stokes - 12 March 2020 conference call notes Full Discretion team heads and co-PMs of LS Multisector Income Fund

**From an economic cycle perspective, the team have suggested the economic cycle has transitioned from “Late Cycle” to the “Downturn”.**

The team suggest paying close attention to Italy and evolution of infection there, if the containment works and we see a reduction in new cases, the financial markets will see this a positive. The U.S. is 2-3 weeks behind Europe.

The team are focused on monetary policy and fiscal policy response in the context of containment efforts. While monetary policy is a “well-oiled machine” with creative solutions and coordinated response, fiscal policy is complicated, it’s difficult to determine the right policy response for this unique shock, but in the context of containment, it’s also hard to understand how effective it can be.

The team believe the Treasury needs to work closely with the Fed. Since 2008-09, central banks have done their part and shouldered most of the burden. Central banks are now running out of firepower and as such the Treasury has to come in. This requires the administration and Congress to agree; but, if it does, it might look like the U.K. where you get a cut with fiscal spending. This means the central banks will start to control the longer end of the curve and that will reset the risk-free rate and we should see spreads contract.

**LS Multisector Income Fund has been positioned for with historical levels liquidity (approx. 1/3 of the portfolio), and liquidity is currently at a premium. As markets present better and better value, the Fund is in good position to opportunistically re-enter risk markets. Loomis Sayles’ 50+ credit analysts are constantly on the hunt for good value.**

Until this week, the team have only occasionally picked-up bonds out of inventory at dealers that need to reduce risk; but this has been selective and incremental.

**With widening of spreads, especially this week, both in HY and IG, risk premia are becoming attractive again.** High yield spreads have widened from a recent low of 314 to 726 bps as of 11 March 2020 (chart below), widening 80 basis points on 12 March 2020 alone; investment grade credit widened from 90 to 195 bps. Loomis Sayles’ risk premia framework is predicated on the idea that credit losses drive spreads, if you do not know what the loss probability could be (default, downgrade migration), it is impossible to know if spreads are reasonable. **At current spread levels, the view is even with risk of recession and considering our expectations for credit losses, investors look to be earning a reasonable risk premium. Spreads and risk premia can absolutely go wider from here, of course, without a more complete view on coronavirus outcomes or the oil price war, but compensation for losses and upside/downside skew is looking increasingly attractive.**

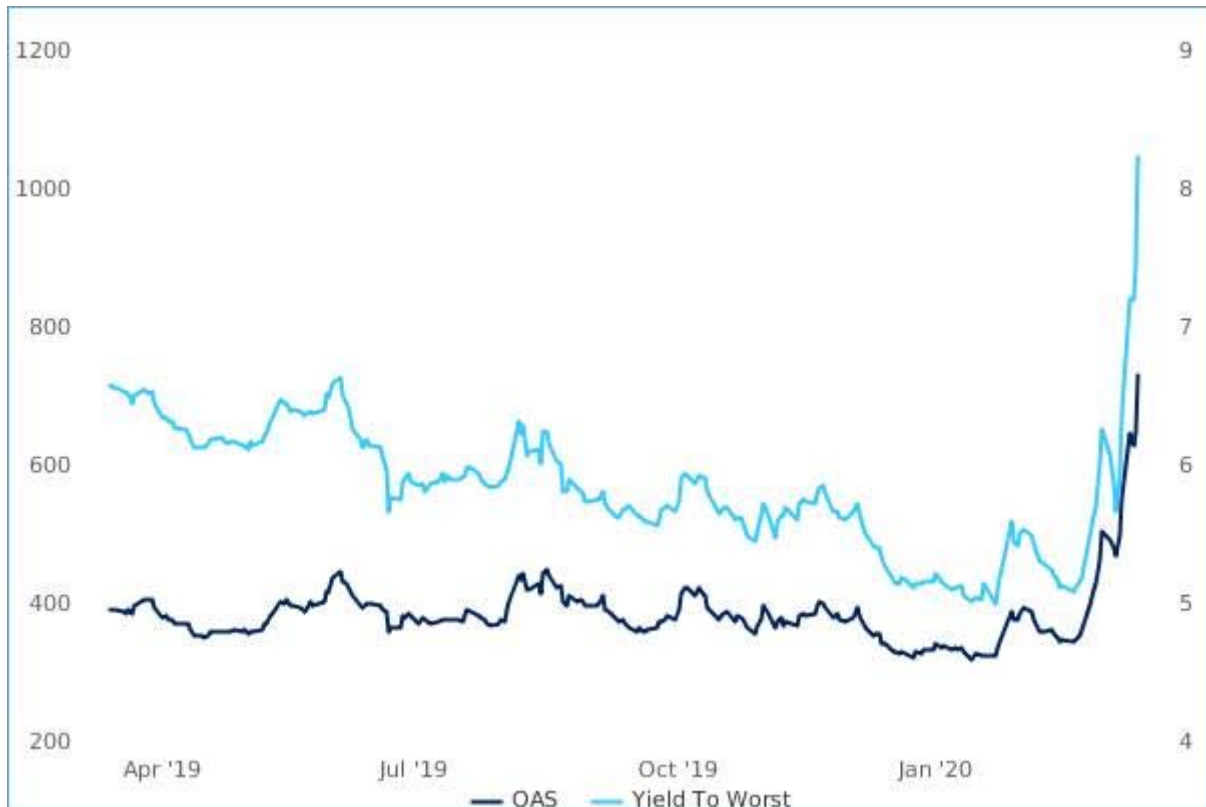
**Value is presenting itself and our approach is selective; as a historical provider of liquidity, in the face of market distress our approach is to pressure the market for better prices. For the first time in a long time, we are seeing bonds truly available for sale (rather than dealers just marking down prices in previous moments of weakness). And as in previous scares, we see participants selling what they can sell, which can often be better quality credits (the market will not acquire weak credits now). This is where being a provider of liquidity and having considerable reserves is very handy. We are at the earliest stages of deploying capital, acting with extreme caution, and as such we continue to have plenty more dry powder to deploy. We are seeing prices far below intrinsic value, offering an attractive margin of safety.**

**The Fund’s yield-to-maturity has gone above 4%.**

In this most recent leg-down the team have seen tremendous selling in retail mutual funds. Also, levered players are getting exposed. The U.S. Treasury market is broken. Emerging markets are feeling “new and different”, too.

Regarding the oil price war between Saudi Arabia and Russia, long-term, neither country can survive with oil prices this low, their budgets are built on much higher oil prices. However, both countries have a lot of foreign currency reserves and borrowing capacity in the markets, so this could persist for a while. This is bad for the U.S. energy market, even with improved balance sheets, we expect to see considerable defaults. Government support for the oil industry is not obvious and investors should not count on it.

High yield OAS and YTW for trailing 12-months as of 12 March 2020:



Source: Bloomberg Barclays Live as of 12 March 2020

**RISKS:** The Fund invests primarily in U.S. fixed-income securities. Fixed-income investments are typically sensitive to changes in interest rates, and the Fund could lose value when interest rates rise. The Fund is subject to specific risks, including geographic concentration risk, credit risk, and changing interest rate risk. An investor's capital will be at risk; you may get back less than you invested. Please refer to the full prospectus for additional details on risks. Please refer to the full prospectus for additional details on risks.

This material has been provided for information purposes only to investment service providers or other Professional Clients, Qualified or Institutional Investors and, when required by local regulation, only at their written request. This material must not be used with Retail Investors.

**In the E.U. (outside of the UK and France):** Provided by Natixis Investment Managers S.A. or one of its branch offices listed below. Natixis Investment Managers S.A. is a Luxembourg management company that is authorized by the Commission de Surveillance du Secteur Financier and is incorporated under Luxembourg laws and registered under n. B 115843. Registered office of Natixis Investment Managers S.A.: 2, rue Jean Monnet, L-2180 Luxembourg, Grand Duchy of Luxembourg. **Italy:** Natixis Investment Managers S.A., Succursale Italiana (Bank of Italy Register of Italian Asset Management Companies no 23458.3). Registered office: Via San Clemente 1, 20122 Milan, Italy. **Germany:** Natixis Investment Managers S.A., Zweigniederlassung Deutschland (Registration number: HRB 88541). Registered office: Im Trutz Frankfurt 55, Westend Carrée, 7. Floor, Frankfurt am Main 60322, Germany. **Netherlands:** Natixis Investment Managers, Nederlands (Registration number 50774670). Registered office: Stadsplateau 7, 3521AZ Utrecht, the Netherlands. **Sweden:** Natixis Investment Managers, Nordics Filial (Registration number 516405-9601 - Swedish Companies Registration Office). Registered office: Kungsgatan 48 5tr, Stockholm 111 35, Sweden. **Spain:** Natixis Investment Managers, Sucursal en España. Serrano n°90, 6th Floor, 28006, Madrid, Spain. **Belgium:** Natixis Investment Managers S.A., Belgian Branch, Louizalaan 120 Avenue Louise, 1000 Brussel/Bruxelles, Belgium.

**In France:** Provided by Natixis Investment Managers International – a portfolio management company authorized by the Autorité des Marchés Financiers (French Financial Markets Authority - AMF) under no. GP 90-009, and a public limited company (société anonyme) registered in the Paris Trade and Companies Register under no. 329 450 738. Registered office: 43 avenue Pierre Mendès France, 75013 Paris.

**In Switzerland:** Provided for information purposes only by Natixis Investment Managers, Switzerland Sàrl, Rue du Vieux Collège 10, 1204 Geneva, Switzerland or its representative office in Zurich, Schweizergasse 6, 8001 Zürich.

**In the British Isles:** Provided by Natixis Investment Managers UK Limited which is authorised and regulated by the UK Financial Conduct Authority (register no. 190258) - registered office: Natixis Investment Managers UK Limited, One Carter Lane, London, EC4V 5ER. When permitted, the distribution of this material is intended to be made to persons as described as follows: in the United Kingdom: this material is intended to be communicated to and/or directed at investment professionals and professional investors only; in Ireland: this material is intended to be communicated to and/or directed at professional investors only; in Guernsey: this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Guernsey Financial Services Commission; in Jersey: this material is intended to be communicated to and/or

directed at professional investors only; in the Isle of Man: this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Isle of Man Financial Services Authority or insurers authorised under section 8 of the Insurance Act 2008.

**In the DIFC:** Provided in and from the DIFC financial district by Natixis Investment Managers Middle East (DIFC Branch) which is regulated by the DFSA. Related financial products or services are only available to persons who have sufficient financial experience and understanding to participate in financial markets within the DIFC, and qualify as Professional Clients or Market Counterparties as defined by the DFSA. No other Person should act upon this material. Registered office: Office 23, Level 15, The Gate Building, East Wing, DIFC, PO Box 506752, Dubai, United Arab Emirates.

**In Japan:** Provided by Natixis Investment Managers Japan Co., Ltd., Registration No.: Director-General of the Kanto Local Financial Bureau (kinsho) No. 425. Content of Business: The Company conducts discretionary asset management business and investment advisory and agency business as a Financial Instruments Business Operator. Registered address: 1-4-5, Roppongi, Minato-ku, Tokyo.

**In Taiwan:** Provided by Natixis Investment Managers Securities Investment Consulting (Taipei) Co., Ltd., a Securities Investment Consulting Enterprise regulated by the Financial Supervisory Commission of the R.O.C. Registered address: 34F., No. 68, Sec. 5, Zhongxiao East Road, Xinyi Dist., Taipei City 11065, Taiwan (R.O.C.), license number 2018 FSC SICE No. 024, Tel. +886 2 8789 2788.

**In Singapore:** Provided by Natixis Investment Managers Singapore (name registration no. 53102724D) to distributors and institutional investors for informational purposes only. Natixis Investment Managers Singapore is a division of Ostrum Asset Management Asia Limited (company registration no. 199801044D). Registered address of Natixis Investment Managers Singapore: 5 Shenton Way, #22-05 UIC Building, Singapore 068808.

**In Hong Kong:** Provided by Natixis Investment Managers Hong Kong Limited to institutional/ corporate professional investors only.

**In Australia:** Provided by Natixis Investment Managers Australia Pty Limited (ABN 60 088 786 289) (AFSL No. 246830) and is intended for the general information of financial advisers and wholesale clients only.

**In New Zealand:** This document is intended for the general information of New Zealand wholesale investors only and does not constitute financial advice. This is not a regulated offer for the purposes of the Financial Markets Conduct Act 2013 (FMCA) and is only available to New Zealand investors who have certified that they meet the requirements in the FMCA for wholesale investors. Natixis Investment Managers Australia Pty Limited is not a registered financial service provider in New Zealand.

**In Latin America:** Provided by Natixis Investment Managers S.A.

**In Uruguay:** Provided by Natixis Investment Managers Uruguay S.A., a duly registered investment advisor, authorised and supervised by the Central Bank of Uruguay. Office: San Lucar 1491, Montevideo, Uruguay, CP 11500. The sale or offer of any units of a fund qualifies as a private placement pursuant to section 2 of Uruguayan law 18,627.

**In Colombia:** Provided by Natixis Investment Managers S.A. Oficina de Representación (Colombia) to professional clients for informational purposes only as permitted under Decree 2555 of 2010. Any products, services or investments referred to herein are rendered exclusively outside of Colombia. This material does not constitute a public offering in Colombia and is addressed to less than 100 specifically identified investors.

**In Mexico:** Provided by Natixis IM Mexico, S. de R.L. de C.V., which is not a regulated financial entity, securities intermediary, or an investment manager in terms of the Mexican Securities Market Law (Ley del Mercado de Valores) and is not registered with the Comisión Nacional Bancaria y de Valores (CNBV) or any other Mexican authority. Any products, services or investments referred to herein that require authorization or license are rendered exclusively outside of Mexico. While shares of certain ETFs may be listed in the Sistema Internacional de Cotizaciones (SIC), such listing does not represent a public offering of securities in Mexico, and therefore the accuracy of this information has not been confirmed by the CNBV. Natixis Investment Managers is an entity organized under the laws of France and is not authorized by or registered with the CNBV or any other Mexican authority. Any reference contained herein to "Investment Managers" is made to Natixis Investment Managers and/or any of its investment management subsidiaries, which are also not authorized by or registered with the CNBV or any other Mexican authority.

The above referenced entities are business development units of Natixis Investment Managers, the holding company of a diverse line-up of specialised investment management and distribution entities worldwide. The investment management subsidiaries of Natixis Investment Managers conduct any regulated activities only in and from the jurisdictions in which they are licensed or authorized. Their services and the products they manage are not available to all investors in all jurisdictions. It is the responsibility of each investment service provider to ensure that the offering or sale of fund shares or third party investment services to its clients complies with the relevant national law.

The provision of this material and/or reference to specific securities, sectors, or markets within this material does not constitute investment advice, or a recommendation or an offer to buy or to sell any security, or an offer of any regulated financial activity. Investors should consider the investment objectives, risks and expenses of any investment carefully before investing. The analyses, opinions, and certain of the investment themes and processes referenced herein represent the views of the portfolio manager(s) as of the date indicated. These, as well as the portfolio holdings and characteristics shown, are subject to change. There can be no assurance that developments will transpire as may be forecasted in this material. Past performance information presented is not indicative of future performance.

Although Natixis Investment Managers believes the information provided in this material to be reliable, including that from third party sources, it does not guarantee the accuracy, adequacy, or completeness of such information. This material may not be distributed, published, or reproduced, in whole or in part.

All amounts shown are expressed in USD unless otherwise indicated.