LOOMIS | SAYLES

MUTUAL FUND COMMENTARY

SEPTEMBER 30 2019

Bond Fund

FUND FACTS

OBJECTIVE

Seeks high total investment return through a combination of current income and capital appreciation

Share class	I
Inception	5/16/1991
Ticker	LSBDX
CUSIP	543495840

Market Conditions

- The global bond markets delivered positive returns in the third quarter, building on their gains in the first half of the year. Bonds were well supported by the combination of slowing economic growth, low inflation worldwide, and the accommodative policies of the US Federal Reserve (Fed) and other major central banks. The Fed cut interest rates by a quarter point on both August 1 and September 19, bringing its benchmark fed funds target rate to a range of 1.75% to 2.00%. In addition, the markets appeared to be pricing in the likelihood of further reductions by mid-2020.
- These circumstances provided a boost to US Treasurys, fueling a rally across the maturity spectrum. Longer-term bonds (those with maturities of ten years and above) generated the best performance and outpaced the two- to five-year segment. The gap between the two- and ten-year yields narrowed as a result, leading to a flattening of the yield curve. The curve in fact inverted for a brief stretch in late August, with the ten-year yield trading below that of the two-year note. Since inversions have often been a leading indicator of recessions, this development contributed to the mounting concerns about the economic outlook.
- Investment grade corporate bonds produced positive returns and exceeded the gains for US Treasurys, continuing a trend that was in place during the first half of the year. At a time of generally uneven market sentiment, investors gravitated to the combination of corporates' above-average quality and yield advantage over government issues.
- High yield bonds, while generating a gain in absolute terms, finished slightly behind investment-grade issues. Returns were dampened by the combined effect of slowing economic growth and shaky performance for both crude oil and global equities. In addition, yield spreads (i.e., the yield advantage over US Treasurys) remained on the low end of the historical range.

CLASS I PERFORMANCE (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
FUND	0.80	8.96	4.88	3.92	2.79	6.09
BENCHMARK	2.64	9.72	11.32	3.16	3.61	3.94

Performance data shown represents past performance and is no guarantee of, and not necessarily indicative 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.

Additional share classes may be available for eligible investors. Performance will vary based on the share class. Performance for periods less than one year is cumulative, not annualized. Returns reflect changes in share price and reinvestment of dividends and capital gains, if any. You may not invest directly in an index.

Gross expense ratio 0.66% (Class I). Net expense ratio 0.66%. As of the most recent prospectus, the investment advisor has contractually agreed to waive fees and/or reimburse expenses once the expense cap of the fund has been exceeded. This arrangement is set to expire on 1/31/2021. When an expense cap has not been exceeded, the fund may have similar expense ratios and/or yields.

The Class I inception date is 5/16/1991. Class I shares are only available to certain institutional investors only; minimum initial investment of $100,000.

- Emerging-market bonds finished in positive territory but trailed domestic, investment-grade debt. While the asset class continued to benefit from investor demand for yield, its return was pressured somewhat by concerns about global growth and the ongoing trade dispute between the United States and China.

Portfolio Review

- The fund underperformed its benchmark, the Bloomberg Barclays US Government/Credit Index, primarily due to security selection within high yield and non-US dollar allocations.

Winners

- The select holding of a longer-dated US Treasury bond positively contributed to performance, as assets with greater duration (and corresponding sensitivity to interest rate changes) outperformed in the quarter.
- The fund's allocation to equities positively impacted performance during the quarter. Security selection within equities was positive as holdings within communications and consumer non-cyclical names modestly helped excess return.

Laggards

- The fund's allocation to high yield corporate credit was the principal constraint on performance for the quarter, as security selection within the asset class weighed on return.
- The fund's Exposures to non-US dollar denominated issues negatively impacted return, with holdings denominated in the Canadian dollar and New Zealand dollar the worst performers within the allocation.
- Holdings of convertibles securities detracted from performance for the period, as security selection was negative within the energy and communications sectors.

Outlook

- Recent market volatility and macro developments have confirmed our view that we are in a late cycle environment. We have become more cautious based on the high degree of uncertainty associated with the outlook for trade; we believe there is still potential for a deal but with reduced conviction. Weak global manufacturing demand has persisted longer than expected, and this has the potential to further weaken business and consumer sentiment. We expect the US economy to exit this manufacturing slowdown without recession. However, it is likely that more policy easing will be needed to avoid a near-term downturn with the trade dispute showing the potential for rapid escalation. Our portfolios reflect a cautious view and we expect the above factors will be the primary issues driving risk profiles in the financial markets. As we gain clarity on the macro risk factors, we will seek to invest opportunistically where we feel the market may be mispricing risk in credit, currency or rate markets.
- In our view, it is possible the Federal Reserve overtightened in 2018 while fiscal stimulus and corporate tax cuts were temporarily boosting economic activity. We don't believe that yield curve inversion is entirely indicative of an imminent recession and the time between inversion and start of a recession can be long. Risk assets can still perform well

while yield curves are inverted, which supports continued investment in credit. However, security selection is critical. With the recent policy pivot and acknowledgement of a global slowdown by the Fed and other global central banks, the direction of rates in the near term appears to be more neutral. Additionally, further central bank cuts should support extension of the credit cycle.[1]

- The current shift in US monetary policy has not translated to a materially weaker US dollar. This combined with slower global growth and trade conflict leaves us with a cautious view on markets outside of the US. We are being patient and highly selective within our allocation to emerging market debt.
- We believe there are still opportunities in the credit markets, given the positive technical backdrop including flat to negative net issuance and solid retail inflows driven by negative global yields, along with expectations for slower, but non-recessionary US economic growth. We are finding value in select areas of the market, while maintaining a higher credit quality bias and increased emphasis on sectors with more defensive characteristics and positive secular trends including healthcare, communications, technology and media cable. These are industries that should hold up well even in a downturn. The upside potential for the credit markets, given current valuations, is largely dependent on global profit growth and capital expenditures helping to extend this stage of the cycle. The key risk to markets, in our view, centers around the overhang from macro uncertainty with potential for contagion across sectors.
- Consistent with our process, we use periods of market volatility to invest where there has been significant dislocation at the sector or security level and valuations show a disconnect from the underlying fundamentals. We have maintained sufficient liquidity in our portfolios to be positioned to invest opportunistically as these situations arise.
- During periods in which the US dollar appreciates relative to foreign currencies, funds that hold non-US-dollar-denominated bonds may realize currency losses in connection with the maturity or sale of certain bonds. These losses impact a fund's ordinary income distributions (to the extent that losses are not offset by realized currency gains within the fund's fiscal year). A recognized currency loss, in accordance with federal tax rules, decreases the amount of ordinary income a fund has available to distribute, even though these bonds continue to generate coupon income.

  Fund officers have analyzed the fund's current portfolio of investments, realized currency gains and losses, schedule of maturities, and the corresponding amounts of unrealized currency losses that may become realized during the current fiscal year. This analysis is performed regularly to determine how realized currency losses will impact periodic ordinary income distributions for the fund. Based on the most recent quarterly analysis (as of September 30, 2019), fund officers believe that realized currency losses will have an impact on the distributions in the 2020 fiscal year. This analysis is based on certain assumptions including, but not limited to, the level of foreign currency exchange rates, security prices, interest rates, the fund advisers' ability to manage realized currency losses, and the net asset level of the fund. Changes to these assumptions could materially impact the analysis and the amounts of future fund distributions. Fund officers will continue to monitor these amounts on a regular basis and take the necessary actions required to manage the fund's distributions to address realized currency losses while seeking to avoid a return of capital distribution.

About Risk

Fixed income securities may carry one or more of the following risks: credit, interest rate (as interest rates rise bond prices usually fall), inflation and liquidity. **Below investment grade fixed income securities** may be subject to greater risks (including the risk of default) than other fixed income securities. **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. **Currency** exchange rates between the US dollar and foreign currencies may cause the value of the fund's investments to decline. **Equity securities** are volatile and can decline significantly in response to broad market and economic conditions.

Barclays US Government/Credit Index *includes securities in the Government and Credit Indices. The Government Index includes Treasurys (i.e., public obligations of the US Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of US Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the US Government). The Credit Index includes publicly issued US corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. Indexes are unmanaged and do not incur fees. It is not possible to invest directly in an index.*

Outlook as presented in this material reflects subjective judgments and assumptions of the portfolio team and does not necessarily reflect the views of Loomis, Sayles & Company, L.P. There is no assurance that developments will transpire as stated. Opinions expressed will evolve as future events unfold.

These perspectives are as of the date indicated and may change based on market and other conditions. Actual results may vary. Please refer to the Fund prospectus for a comprehensive discussion of risks.

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

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[1]*A credit cycle is a cyclical pattern that follows credit availability and corporate health.*