

# Credit Income Fund

## FUND FACTS

### OBJECTIVE

Seeks high current income with a secondary objective of capital growth

Share class	Y
Inception	9/29/2020
Ticker	LOCYX
CUSIP	543488613

## Market Conditions

- The bond market produced mixed returns in the third quarter, as investors began to look ahead to the point at which the US Federal Reserve (Fed) will start to taper its stimulative quantitative easing (QE) policy. In September, Fed Chairman Jerome Powell stated that the central bank was likely to announce a tapering program before the end of 2021. This change wouldn't mark an immediate end to the stimulus, but rather a gradual reduction over the course of the coming year. However, the markets also began to price in a significant likelihood that the Fed will enact its first rate hike in late 2022. The primary reason for the expected policy shift is not only that economic growth has been firmly in positive territory for over a year, but also signs that the recent increase in inflation is more than just a "transitory" phenomenon - particularly in light of increased bottlenecks in the global supply chain. Together, these factors dampened returns across the fixed-income market.
- The prospect of a change in Fed policy led to higher yields for US Treasuries with maturities of one year and above. The yield on the benchmark 10-year note rose from 1.45% at the beginning of the quarter to 1.52% at the end of September. All of the upward move occurred in September, as yields were flat to lower in the first two months of the quarter due in part to uncertainty about the trajectory of economic growth. Notably, Treasuries experienced day-to-day volatility that was well above historical levels as investors struggled to assess the various cross-cutting factors affecting the economic outlook.
- Investment-grade corporate bonds were flat over the past 3 months. After performing well in the first two months of the quarter, the asset class sold off in late September due to the spike in Treasury yields, rising new-issue supply and investors' reduced appetite for risk. Still, corporates maintained their return advantage over government debt on a year-to-date basis.
- High-yield bonds outpaced the broader fixed-income market. The category tends to have

### CLASS Y PERFORMANCE AS OF SEPTEMBER 30, 2021 (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	SINCE INCEPTION
<b>FUND</b>	0.30	0.22	5.38	-	-	5.05
<b>BENCHMARK</b>	-0.03	-1.30	1.45	-	-	1.25

**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](http://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 1.11% (Class Y). Net expense ratio 0.57%. As of the most recent prospectus, the investment advisor has contractually agreed to waive fees and/or reimburse expenses (with certain exceptions) once the expense limitation of the fund has been exceeded. This arrangement is set to expire on 1/31/2022. When an expense limitation has not been exceeded, the fund may have similar expense ratios and/or yields.

The Class Y inception date is 9/29/2020. Class Y shares are sold to eligible investors without a sales charge; other Classes are available for purchase.

lower interest-rate sensitivity than investment-grade bonds, a key positive at a time in which concern about Fed policy was the key factor driving market performance. High yield further benefited from the combination of favorable credit conditions, continued gains for equities and an impressive rally in oil prices. Leveraged loans, many of which offer yields that adjust upward with prevailing interest rates, also outperformed.

- Securitized assets-including mortgage backed securities, asset backed securities and commercial mortgage backed securities-produced positive total returns as a group, outpacing other credit-oriented segments of the domestic market. The category's underlying fundamentals remained firm with continued strength in both real estate prices and consumer credit.
- Emerging-market bonds lagged the US fixed-income market in the quarter. The category came under pressure from slowing economic growth in China, the mounting debt problems of the Chinese property developer Evergrande, and political uncertainty in Brazil. The sizable rally in the US dollar in September was an additional headwind for emerging-market assets.

## Portfolio Review

- The fund outperformed its benchmark, the Bloomberg US Credit Index, primarily due to security selection.

## Winners

- An allocation to high yield corporate credit was beneficial for performance, aided by basic industry, energy and consumer cyclical names.
- The fund is targeting an overall shorter duration stance than the benchmark, and we utilized Treasury futures to assist with meeting this objective. Here, these derivative positions were positive contributors, with most of the relative outperformance occurring toward the end of the quarter.
- Within investment grade corporate credit, selected finance company and banking names contributed to relative return.

## Laggards

- Despite posting positive returns earlier in the quarter, equity markets stumbled in September, a month that is typically volatile for stocks. Given this equity backdrop, selected communications, consumer non-cyclical and technology names within the fund's convertible securities allocation weighed on returns.

## Outlook

- While our fundamental economic outlook remains positive, the world appears less synchronized than we expected at this point in the recovery. Leading indicators remain strong, financial conditions appear easy and monetary/fiscal policies continue to be a tailwind to economic activity. This macroeconomic backdrop, coupled with strong credit fundamentals, appears positive for risk assets. However, we are mindful of the risks inherent to our outlook, such as the lingering impact of the COVID variant, slowing Chinese growth (and deleveraging within its property sector) and ongoing global supply chain disruptions that could lead to a bumpier, if still solid, global growth environment.
- Under our base case of a gradual economic expansion, we anticipate a slow rise in interest rates as the Fed likely initiates a taper of QE purchases later this year and into 2022. While the most recent FOMC statement sent a strong signal that we are approaching the end of the road on QE, the Fed has stated their belief that inflation has been boosted by transitory factors which will presumably fade over time. We believe supply disruptions should work out over time and energy prices could ease in 2022, which would support the Fed's

view. While we expect rate lift-off in 2023, the Fed may find it necessary to delay hiking if growth is weaker or accelerate hiking if inflation is persistently higher than expected. Adding to the uncertainty of the timing and magnitude of the Fed's taper and rate lift-off includes the early retirement of two Fed presidents over their 2020 trading activities, which adds risk to Fed Chair Powell's renomination and the future composition of the FOMC. Given our views, we remain defensive on interest rates and positioned shorter than broad market benchmarks from a duration perspective.

- In our view we remain fully embedded in the expansion phase of the credit cycle<sup>1</sup> with credit fundamentals, technical factors and default expectations continuing to appear attractive. We remain "pro risk" on credit for higher carry and potential outperformance of our best ideas. In this environment, we continue to focus on issue selection, which drives our investment process. Specifically, we are seeking out "rising star" candidates that possess strong balance sheets and catalysts to help drive upgrades. We believe accommodative global monetary policies coupled with the tailwind of fiscal support could drive a wave of credit upgrades going forward. From a sector perspective, we are targeting those that have strong carry, less interest rate sensitivity and positive convexity (i.e. a favorable risk/reward profile in a changing rate environment). As such, we currently favor high yield corporates and convertible securities along with securitized debt, which can provide diversification away from pure corporate risk, relatively attractive yield potential and shorter duration profiles.
- During the quarter, credit markets were generally resilient to macroeconomic events, including Fed taper talk and concerns over Chinese growth and property sector challenges, suggesting to us that there could be a strong demand for yield. We suspect this dynamic will likely hold going forward given our outlook for downgrades, defaults and losses to trend notably below long-term averages. However, we recognize current elevated valuations and tight credit spreads, and have built flexibility into our portfolios in seeking to take advantage of opportunities that may arise as a result of short-term disruptions.

## 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 U.S. securities, due to varying degrees of regulation and limited liquidity. These risks are magnified in emerging markets. **Collateralized Loan Obligation (“CLO”)** Investments in CLOs involve risks in addition to the risks associated with investments in debt obligations and other fixed-income securities such as credit risk, interest rate risk, liquidity risk and market/issuer risk. The degree of such risk will generally correspond to the type of underlying assets and the specific tranche in which the fund is invested.

*The Bloomberg US Credit Index measures the investment grade, U.S. dollar-denominated, fixed-rate, taxable corporate and government-related bond markets. It is composed of the U.S. Corporate Index and a non-corporate component that includes non-U.S. agencies, sovereigns, supranationals and local authorities. The U.S. Credit Index was called the U.S. Corporate Index until July 2000, when it was renamed to reflect its inclusion of both corporate and non-corporate issuers. The U.S. Credit Index is a subset of the U.S. Government/Credit Index and U.S. Aggregate Index. Indexes are unmanaged. 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](http://www.loomissayles.com) or call 800-225-5478 for a prospectus and a summary prospectus, if available, containing this and other information. Read it carefully.**

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<sup>1</sup>A credit cycle is a cyclical pattern that follows credit availability and corporate health.