

Inflation Protected Securities Fund

FUND FACTS

OBJECTIVE

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

Share class	I
Inception	5/20/1991
Ticker	LSGSX
CUSIP	543495766

Market Conditions

- Bonds suffered poor performance and unusually high volatility in the second quarter, continuing a trend that began in the first three months of the year. Inflation accelerated to the fastest pace in over 40 years, prompting the US Federal Reserve (Fed) to raise interest rates by 50 basis points (one-half of one percentage point) in May and another 75 basis points in June. The moves, which followed the Fed's quarter-point hike in mid-March, brought the fed funds target to a range of 1.50% to 1.75% - its highest level since before Covid-19. Perhaps more important, futures markets indicated that investors were anticipating further aggressive increases in the second half of the year.
- US Treasury yields rose across the board in response to these developments. The yield on the two-year note, which stood at 2.34% on March 31, 2022, climbed as high as 3.43% on June 14. (Prices and yields move in opposite directions.) The yield on the 10-year note began the quarter at 2.34% and peaked at 3.47% in the same time span. At the close of the quarter, concerns about a potential recession began to exceed the worries about inflation. Economic activity indicators in the United States came in below expectations, measures of consumer and business confidence continued to decline, and the markets appeared to grow more concerned that the crisis in Ukraine would cause Europe's growth to fall into negative territory. Treasuries rebounded in response to this news, with the yields on the two- and 10-year notes declining to 2.95% and 3.01%, respectively. Despite this late rally, the Treasury market finished with one of its worst showings in the first half of a calendar year in history.
- Investment-grade corporate bonds lagged Treasuries by a wide margin in the quarter. In addition to suffering from the uptrend in prevailing yields, corporates experienced a

CLASS I PERFORMANCE AS OF JUNE 30, 2022 (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
FUND	-6.73	-9.77	-6.75	3.22	3.31	1.60
BENCHMARK	-6.08	-8.92	-5.14	3.04	3.21	1.73

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 0.52% (Class I). Net expense ratio 0.40%. 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 1/31/2023. When an expense limitation has not been exceeded, the fund may have similar expense ratios and/or yields.

The Class I inception date is 5/20/1991. Class I shares are only available to certain institutional investors only; minimum initial investment of \$100,000.

The fund revised its investment strategies on 12/15/2004; performance may have been different had the current investment strategies been in place for all periods shown.

large increase in yield spreads relative to government bonds. Rising spreads reflected both investors' declining appetite for risk and concerns about the impact a recession could have on earnings results.

Portfolio Review

- The fund underperformed its benchmark, the Bloomberg TIPS Index, primarily due to TIPS yield curve positioning.

Contributors

- The fund was broadly positioned to benefit from rising inflation expectations, which contributed positively to performance relative to the benchmark.

Detractors

- The fund's positioning along the TIPS yield curve (which displays the relationship among bond yields across the maturity spectrum) weighed on relative return over the period.
- Out-of-benchmark positions in US corporate bonds constrained performance for the quarter.
- An out-of-benchmark allocation to floating rate bank loans detracted from relative performance.

Outlook

- Throughout the first half of 2022, the macroeconomic environment and outlook became more challenging. Increased geopolitical risk, led by the Russian invasion of Ukraine, added a strong supply chain shock to an already concerning inflationary environment just as continued Covid-19 shutdowns in China created further uncertainty. The US Federal Reserve, in an effort to get ahead of these shocks, announced the end of its quantitative easing program and delivered increasingly aggressive rate hikes of 25 basis points in March, 50 basis points in May and 75 basis points in June. As investors priced in a more hawkish Fed and growth expectations diminished, interest rates continued their move higher and risk assets came under pressure.
- In our view, the credit cycle has shifted from the "expansion" phase to "late cycle" with a macroeconomic environment that consists of potentially slower growth and inflation that will likely moderate but remain above the Fed's target. In our base case, growth will likely trend lower but stay resilient as a healthy consumer, positive corporate fundamentals and a strong banking system should help provide a backdrop for continued economic activity. Inflationary pressures will potentially remain sticky, with expectations for elevated commodity prices and persistent supply issues combined with a tight labor market. We believe this environment warrants an accelerated process of normalizing monetary policy, which would increase the potential for a policy mistake as the Fed, and other global central banks, embark on tighter monetary policy to combat inflation even as growth concerns have been increasing.
- We are mindful of the risks inherent to our credit cycle and macroeconomic outlook, such as ongoing global supply chain disruptions, tighter financial conditions resulting from global central bank rate hikes and quantitative tightening, slowing Chinese growth and

increased geopolitical risk. All of the turmoil around the world leaves us with a wide range of potential outcomes, but the probability of a downturn in 2023 has risen. As a result, we have modestly reduced portfolio risk and increased the level of cash reserve-like, higher quality instruments that can offer flexibility. With increased uncertainty surrounding economic activity, the path of inflation and subsequent Fed policy, we expect volatility to remain elevated in the second half of 2022, which could help drive future opportunities for investors.

- Given the upward movement of yields seen so far in 2022, fixed income markets currently offer higher levels of income that can help dampen downside risk for investors and have the potential to provide attractive total returns. As a result, we believe that future pockets of short-term market volatility can offer opportunities to reduce holdings of higher quality, liquid investments in favor of adding credit exposure; however, we will be patient and selective in doing so. We continue to favor issuers with strong carry potential, solid corporate profits and relatively low interest rate sensitivity and believe that increased volatility will help drive wider performance dispersion across sectors, industries and issuers. In this environment, we believe that individual issuer selection will be key in seeking to deliver favorable performance for the remainder of 2022. We remain comfortable with corporate fundamentals, and while we expect the rate of defaults and losses to rise in the intermediate term we believe they should stay below their long-term averages.
- With respect to interest rate risk, we expect an active Fed at each meeting for the rest of 2022 and have more modest expectations for rising nominal US Treasury rates following the significant increase seen in the first half of the year. We remain positioned shorter than broad market benchmarks from the perspective of duration and corresponding interest rate sensitivity to help minimize any negative performance impact from a further rise in interest rates. With the yield curve flattening experienced in 2022, short-dated maturity bonds currently offer favorable levels of income with potentially less volatility, without materially sacrificing yield relative to longer maturities. While we remain cautious on our outlook, we continue to focus on seeking to deliver higher levels of income and total return potential over time. As economic and central bank developments continue to unfold, we remain focused on our investing framework, philosophy and strategy to guide us.

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. **Inflation protected securities** move with the rate of inflation and carry the risk that in deflationary conditions (when inflation is negative) the value of the bond may decrease. **Derivatives** involve risk of loss and may entail additional risks. Because derivatives depend on the performance of an underlying asset, they can be highly volatile and are subject to market and credit risks. **Foreign securities** may involve heightened risk due to currency fluctuations. Additionally, they may be subject to greater political, economic, environmental, credit and information risks. Foreign securities may be subject to higher volatility than US securities due to varying degrees of regulation and limited liquidity. **Currency** exchange rates between the US dollar and foreign currencies may cause the value of the fund's investments to decline. **Commodity-related** investments, including derivatives, may be affected by a number of factors including commodity prices, world events, import controls and economic conditions, and therefore may involve substantial risk of loss.

***Bloomberg US Treasury Inflation Protected Securities Index** covers the most liquid portion of the global investment grade fixed-rate bond market, including government, credit and collateralized securities. The liquidity constraint for all securities in the index is \$300 million. 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.

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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