Institutional High Income Fund

FUND FACTS

OBJECTIVE

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

Share class	I
Inception	6/5/1996
Ticker	LSHIX
CUSIP	543495600

Market Conditions

- Investors' appetite for risk surged in the fourth quarter, which contributed to a broad range of nearly all positive returns across credit asset classes. In early November, investors were treated to the long-awaited news that coronavirus vaccines were effective and would soon become available to the public. The prospect of a gradual return to normal economic conditions in 2021 allowed market participants to look beyond recent adverse headlines, including the emergence of a new strain of the virus, ongoing Brexit negotiations, and a slowdown in the economic recovery. Investors instead were focused on and encouraged by the US Federal Reserve (Fed) statements indicating its intention to keep short-term interest rates near zero for a multiyear period. Not least, the resolution to the US election removed a factor that had weighed on sentiment in early autumn.
- The developments mentioned above acted as a headwind for the Treasury market. While short-term yields were largely unchanged due to the steady outlook for Fed policy, longer-term yields rose (as prices fell). With Treasurys already having rallied significantly in the first nine months of the year, there was little room for further improvement – particularly in light of rising estimates for both economic growth and inflation in 2021. In addition, demand for "safe haven" assets was muted due to generally positive headlines.
- Investment-grade corporate bonds delivered sizable outperformance in the quarter, closing out an impressive year. The combination of an improving credit outlook and stable Fed policy prompted investors to move further out on the risk spectrum in search of more attractive yields.

CLASS I PERFORMANCE (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
FUND	7.79	3.47	3.47	3.33	7.31	6.18
BENCHMARK	6.45	7.11	7.11	6.24	8.59	6.80

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 0.68% (Class I). Net expense ratio 0.68%. 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 1/31/2021. When an expense limitation has not been exceeded, the fund may have similar expense ratios and/or yields.

The Class I inception date is 6/5/1996. Class I shares are only available to certain institutional investors only; minimum initial investment of $3 million.

- High yield corporate issues performed very well and finished as the best performing major segment of the bond market for the quarter. Yield spreads—the difference between yields on below investment-grade debt and Treasurys of similar maturities—declined to a level close to where they stood in February prior to the sell-off associated with COVID-19.
- Securitized assets—including mortgage backed securities (MBS), asset backed securities (ABS) and commercial mortgage backed securities (CMBS)—outperformed Treasurys but trailed both corporates and high yield. The category benefited from the same search for yield that aided other credit-sensitive segments of the fixed-income market, with CMBS outpacing ABS and MBS, respectively.
- Emerging market bonds also moved higher in the quarter, with the bulk of the gain occurring in November and December. The asset class made up all of the ground it lost in the February-March sell-off, allowing it to finish the full year firmly in positive territory. Emerging-markets debt was boosted by the combination of the "risk-on" environment, rising commodity prices and the persistent weakness in the US dollar.

Portfolio Review

- The fund outperformed its benchmark, the Bloomberg Barclays US Corporate High Yield Index, primarily due to security selection.

Winners

- Markets finished the year on a positive note as a pair of COVID-19 vaccines received emergency use authorization and distribution began on a global scale. Credit sectors continued to perform well under these conditions. Security selection within the fund's allocation to high yield corporate credit was the biggest contributor to relative return, largely driven by consumer non-cyclical, energy and finance company names.
- Exposure to non-US-dollar securities was helpful for returns, with holdings denominated in the Mexican peso the best performers within the space.
- Equities, particularly those within the consumer cyclical, consumer non-cyclical and technology sectors, generated positive relative performance as stock markets posted strong gains for the quarter.
- Our exposure to convertible securities benefited performance as well, led by technology, energy and communications names.

Laggards

- The fund's allocation to US Treasurys and defensive, reserve-like positions weighed on relative return as "risk-on" sentiment prevailed during the quarter.

Outlook

- Looking ahead to the upcoming year, there are a number of structural economic factors in place that pose risks to our market outlook, including the ongoing impact of the pandemic, further delay in reaching a fiscal package and any resurgence of trade tensions between the US and China. That said, we are optimistic that economic conditions could continue to show improvement over the next year. This view is reflected in current market prices and appears to be shared by the consensus.

- While the recent rise in coronavirus cases has led to renewed containment measures across the US, the likelihood of a vaccine has been priced into markets along with expectations for a fiscal package to arrive in the first quarter of the year. These measures help give us some confidence that the economic recovery could continue to show steady, if uneven, progress. GDP growth rebounded from the steep declines earlier this year and we expect this trend to continue into next year.
- We anticipate limited changes in monetary policy, with the Federal Reserve (Fed) likely maintaining its zero interest rate policy until at least 2023. The Fed has also indicated that full employment and longer-term inflation averages are additional factors in considering any future rate hikes. This accommodative stance should continue to boost investor confidence and demand for yield in a low global rate environment. In addition, we believe the overall health of the consumer, strong housing market and expected inventory rebuilding provide support to our outlook.
- The credit markets have been progressing through the cycle[1], and we believe there are increasing signs of a shift towards recovery with corporate profits rebounding, easy monetary policy, balance sheet improvement and potential for large-scale vaccine distribution.
- We have been maintaining a balance of liquidity, diversification and risk exposure in our portfolios. Within our credit allocation, we continue to focus on areas where we still see value based on our fundamental research. We are specifically focused on some of the sectors that were hardest hit by the pandemic including the transportation, recreational and hospitality industries. These areas of the economy include credits that have been cheap for their rating, have been able to access the capital markets for liquidity and are likely in a good position to benefit from the recovery.
- Despite the higher valuations, we believe there are still selective opportunities in both the investment grade and high yield corporate sectors. Spreads have compressed but can potentially tighten further on improving fundamentals. We are selectively adding corporate credit, particularly in areas of the market that have lagged the recovery.
- Our emerging market allocation largely represents US dollar-pay exposure to high quality securities with strong balance sheets and currently attractive real yields. We are holding little foreign currency but continue to evaluate opportunities in markets outside the US as we look for clarity on the outlook for global growth.
- Market conditions in the past year have highlighted the notion that investors tend to overreact. The speed and severity of the recession and subsequent sharp rebound were unexpected, but also presented some favorable investment opportunities. These developments have served to reinforce our investment philosophy that markets are highly inefficient in the short-term. We believe we were able to capitalize on these developments in 2020 and that our portfolios are well-positioned to benefit from the expected economic growth and recovery in the new year.

About Risk

Below investment grade fixed income securities may be subject to greater risks (including the risk of default) than other fixed income securities. **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. **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.

Bloomberg Barclays US Corporate High Yield Index *covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included. 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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[1]A credit cycle is a cyclical pattern that follows credit availability and corporate health..

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