LOOMIS | SAYLES

MUTUAL FUND COMMENTARY

SEPTEMBER 30 2019

Intermediate Duration Bond Fund

FUND FACTS

OBJECTIVE

Seeks above-average total return through a combination of current income and capital appreciation

Share class	Y
Inception	1/28/1998
Ticker	LSDIX
CUSIP	543495709

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.
- Securitized assets (such as mortgage backed securities, asset backed securities, and commercial mortgage backed securities) also gained ground, but returns were only modestly positive when compared to like-duration Treasurys.

CLASS Y PERFORMANCE (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
FUND	1.52	7.15	8.38	2.75	2.91	3.75
BENCHMARK	1.37	6.41	8.17	2.40	2.68	3.05

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 0.45% (Class Y). Net expense ratio 0.40%. 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 1/31/2020. When an expense cap has not been exceeded, the fund may have similar expense ratios and/or yields.

Effective August 31, 2016, the fund's Institutional Class shares were redesignated as Class Y shares. Accordingly, the returns shown in the table for Class Y shares prior to August 31, 2016 are those of Institutional Class shares. The fund revised its investment strategies on 5/28/2010; performance may have been different had the current investment strategies been in place for all periods shown.

Portfolio Review

- The fund outperformed its benchmark, the Barclays US Intermediate Government/Credit Index, primarily due to sector allocation.

Contributors

- The fund remains tilted toward risk assets such as corporate bonds and securitized assets. The fund's allocation to risk drove performance contributions as intermediate corporate bond spreads (the incremental yield provided by lower quality bonds relative to US Treasurys) narrowed.
- At a high level, the strategy's allocation decisions proved most impactful to performance with modest contributions also coming from positioning along the yield curve (which depicts the relationship among bond yields across the security spectrum) and security selection.
- Positive contributions from the fund's allocation to investment grade corporate bonds were balanced between the effect of our overweight allocation to the sector and security selection, while the contribution from high yield corporates was largely a result of our allocation decision.

Detractors

- Overweight exposure to the energy issues and negative security selection within the sector hindered performance relative to the benchmark.
- Security selection within transportation names weighed on relative performance.
- Within asset backed securities, holdings of issues backed by student loan receivables proved to be a detractor during the period.

Outlook

- We believe that the Federal Reserve (Fed) will cut rates up to four times in 2019 depending on the progress of trade talks and economic indicators. The cuts should help ameliorate yield curve inversion, stimulate activity and ease concerns about the end of the credit cycle.[1] We believe these cuts represent a "mid-cycle adjustment" and we do not expect a US recession to take hold over the next twelve months.
- Corporate fundamentals remain consistent with a credit cycle in late expansion mode. Top line revenues have plateaued, margins have started to deteriorate, leverage is elevated, and businesses are concerned with the economic environment, particularly given the ongoing discussions around trade. Primary cycle risks continue to include the pace of global growth, US trade policy, strong dollar, global central bank policy accommodation and the potential for further escalation of Middle East tensions.
- We continue to favor sectors offering higher yield potential than Treasurys and therefore remain underweight government bonds given low yields.
- We continue to be overweight credit. We are focused on security selection opportunities, buying new issues with favorable concessions and secondary market bonds that offer potentially favorable risk/return profiles.

- We remain overweight both agency and non-agency commercial mortgage-backed securities (CMBS), particularly senior parts of the capital stack.
- We think valuations in mortgage-backed securities (MBS) have improved and are becoming more interesting. Within MBS we are focused on securities with limited prepayment risk.
- The high-quality asset-backed securities (ABS) sector remains attractive relative to government bonds. Consumer fundamentals continue to be healthy and we still favor auto loans and credit card receivables within ABS.
- We have been maintaining a higher yield and exposure to more credit-sensitive sectors relative to the benchmark.
- We continue to monitor the portfolio and diversify our holdings with an eye toward minimizing undue exposure to macroeconomic risk and/or issuer-specific events.

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. **Mortgage-related and asset-backed securities** are subject to the risks of the mortgages and assets underlying the securities. Other related risks include prepayment risk, which is the risk that the securities may be prepaid, potentially resulting in the reinvestment of the prepaid amounts into securities with lower yields. **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. **Below investment grade fixed income securities** may be subject to greater risks (including the risk of default) than other fixed income securities.

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

***Bloomberg Barclays US Intermediate Government/Credit Bond Index** is the intermediate component of the Bloomberg Barclays US Government/Credit Index. The 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 U.S. 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.

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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