# Limited Term Government and Agency Fund

**FUND FACTS**

OBJECTIVE

Seeks high current return consistent with preservation of capital

| | |
|---|---|
| Share class | Y |
| Inception | 3/31/1994 |
| Ticker | NELYX |
| CUSIP | 543487326 |

## Market Conditions

- Global financial markets experienced significant disruptions in the first quarter, as the emergence of the coronavirus brought a likely end to the longest US economic expansion on record. Investors reacted by selling positions in higher-risk asset classes and moving into perceived safe havens such as US Treasurys. Policy makers, for their part, responded with extraordinary measures. The US Federal Reserve (Fed) cut short-term interest rates to zero, expanded its lending facilities and announced an asset-purchase program that encompassed Treasurys, mortgage-backed securities, municipal bonds and corporate issues. In addition, the US government passed a $2 trillion fiscal stimulus package in late March (the CARES Act). The response was similar overseas, with a combination of accelerated interest rate cuts and a wide range of fiscal measures designed to support growth. While these efforts helped arrest the decline in risk assets late in the quarter, most asset classes nonetheless finished with sizable losses.
- US Treasurys were the prime beneficiaries of expectations for negative growth, the Fed's aggressive rate cuts and the global "flight to safety." The 10-year note, which closed 2019 with a yield of 1.92%, fell below 0.4% at its intraday low on March 9 – the lowest level in history. (Prices and yields move in opposite directions.) The unusual market action also led to an inverted yield curve in early March, meaning that yields on short-term issues were higher than those on longer-term securities. While the Fed's rate cuts helped normalize the curve by the end of the quarter, yields across the entire curve nonetheless finished near their historical lows.

CLASS Y PERFORMANCE (%)

| | CUMULATIVE TOTAL RETURN | | AVERAGE ANNUALIZED RETURN | | | |
|---|---|---|---|---|---|---|
| | 3 MONTH | YTD | 1 YEAR | 3 YEAR | 5 YEAR | 10 YEAR |
| FUND | 2.34 | 2.34 | 4.81 | 2.65 | 1.79 | 2.02 |
| BENCHMARK | 3.76 | 3.76 | 6.85 | 3.27 | 2.25 | 1.99 |

***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 0.55% (Class Y). Net expense ratio 0.55%. 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 Y inception date is 3/31/1994. Class Y shares are sold to eligible investors without a sales charge; other Classes are available for purchase.*

- Securitized assets—including mortgage backed securities (MBS), asset backed securities (ABS), and commercial mortgage backed securities (CMBS)—were also affected by the broad-based market volatility, and at times underperformed corporates as the sector was used broadly as a source for cash needs. Agency MBS rallied after the announcement of the Fed's asset-purchase program, and securitized credit rallied late in the quarter upon the announcement of government intervention.

## Portfolio Review

- The fund underperformed its benchmark, the Bloomberg Barclays US Government 1-5 Year Index, primarily due to security selection and interest rate sensitivity differences between the fund and the benchmark.

## Contributors

- The fund's allocation to US Treasurys contributed positively to relative return over the quarter as Treasurys benefited investors seeking a safe haven and riskier assets underperformed.
- The fund's allocation to US agency debt also benefited relative return during the quarter.
- On a relative basis, allocation to Government Guarantee's also contributed to the account during the first quarter of 2020.

## Detractors

- Positioning along the yield curve (which depicts the relationship among bond yields across the maturity spectrum) was a major detractor from relative performance. Specifically, the portfolio's exposure to shorter-maturity, less interest rate sensitive securities weighed on results as yields declined during the quarter.
- The fund's allocation to passthrough agency MBS, agency collateralized mortgage obligations and agency CMBS weighed on results as yield spreads relative to Treasurys widened for these assets during the period.
- Selection within securitized credits also detracted during the period, as issuers held within CMBS and ABS underperformed duration-matched Treasurys (duration refers to a security's price sensitivity to interest rate changes).

## Outlook

- Agency mortgage-backed security (MBS) spreads (the difference in yield between agency MBS and Treasurys of similar maturity) have become more attractive with valuations near longer-term averages. Mortgages issued in recent years are relatively high quality compared with those issued in prior years. Therefore, we favor an underweight to recently issued 30-year MBS and prefer MBS sectors less likely to face refinancing and extension risk, such as low loan balance mortgages and home equity conversion mortgages.
- Within the commercial real estate sector, top-tier assets and markets have generally recovered and are at or above prior peak levels. We believe investment grade commercial mortgage-backed securities remain attractive.
- We believe asset-backed securities (ABS) currently offer an attractive combination of strong credit quality and enhanced yield. We favor higher-yielding securities and bonds of less frequent issuers within ABS. Our analysis indicates the credit risk of these securities is inefficiently priced and that they offer potentially attractive opportunities for additional yield.

## 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. **US government agency securities** are not insured and may not be guaranteed by the US government. **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.

***Bloomberg Barclays US 1-5 Year Government Bond Index** is an unmanaged, market-weighted index of bonds issued by the US government and its agencies, with maturities between one and five years. 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 800-225-5478 for a prospectus and a summary prospectus, if available, containing this and other information. Read it carefully.***

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