Strategic Alpha Fund

FUND FACTS

OBJECTIVE

Seeks to provide an attractive absolute total return, complemented by prudent investment management designed to manage risks and protect investor capital. The secondary goal of the fund is to achieve these returns with relatively low volatility

Share class	Y
Inception	12/15/2010
Ticker	LASYX
CUSIP	63872T620

Market Conditions

- 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.
- 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.

Portfolio Review

- The fund's positive performance was mostly generated from exposures to investment grade corporate bonds, high yield corporate bonds and securitized assets.

CLASS Y PERFORMANCE (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	SINCE INCEPTION
FUND	4.77	10.19	10.19	4.82	4.93	3.49
BENCHMARK	0.06	1.08	1.08	1.92	1.50	0.90

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 0.74% (Class Y). Net expense ratio 0.74%. 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 4/30/2021. When an expense limitation has not been exceeded, the fund may have similar expense ratios and/or yields.

The Class Y inception date is 12/15/2010. Class Y shares are sold to eligible investors without a sales charge; other Classes are available for purchase.

Contributors

- Investment grade corporate bonds made the largest positive contribution during the period as spreads narrowed (spread reflects the incremental yield provided by lower quality bonds relative to US Treasurys). To support the flow of credit to households and businesses, the Federal Reserve (Fed) will likely continue to purchase Treasury securities. With the coronavirus continuing to spread and disrupt markets, the Fed has taken many additional measures to keep the economy afloat such as buying investment grade corporate bonds with the intent of providing a safety net to corporations and their employees. President-elect Joe Biden will be assuming office in January and one of his campaign promises was to reverse the excesses of the Trump tax cuts for corporations, and it remains to be seen if this impacts the current assistance measures the Fed is providing. Within the portfolio, consumer, capital goods and finance company names contributed in particular.

- High yield corporate bonds bolstered return during the period. Consumer, communications and capital goods names led contributions within the high yield allocation amid narrowing spreads. US high yield spreads have room to tighten a bit more as the credit cycle[1] likely progresses through the recovery phase in 2021. High-yield bonds have outperformed stocks during the past few economic recoveries, but that has not happened this time around. High yield bonds have responded favorably to the Fed's pandemic-driven rate cuts. During the quarter, multiple pharmaceutical and biotech companies confirmed they would soon disperse their Covid-19 vaccine (while awaiting FDA approval) and verified effective rates in the 95% range. Vaccine administration to healthcare workers and high risk individuals has begun, fueling optimism and gains in the high-yield bond market during the quarter.

- Securitized assets, specifically ABS, CMBS, and collateralized loan obligations, were additive to performance. Within ABS, exposure to the housing and auto loan sub-sectors led positive contributions. While housing initially showed signs of slowing during the coronavirus pandemic, it has since recovered strongly along with autos as both will likely benefit from low borrowing costs and bank willingness to lend. After a period of low activity, there has been some measure of pent-up demand from US consumers as real estate brokers and home builders are innovating rapidly to help would-be buyers search and buy safely. Before the pandemic began, low vacancy rates, low mortgage delinquency rates, favorable demographics, high homeowner equity, low mortgage rates and rising house prices were some fundamental trends that could soon reassert themselves. Rates have plunged to a very low level for borrowers, and may remain there for the foreseeable future. In turn, lower rates, as well as a spike in crime in certain metropolitan cities, may entice renters living in high-priced cities to buy homes in the suburbs. Additionally, for many commuters working from home has eliminated the need to live in the vicinity of an office. There has been some concern that housing has rebounded so strongly that it may soon need a correction especially as we have begun to see a second wave of the pandemic along with state-by-state restrictions. The concern is the new spike in cases could lead the recovery to deteriorate and result in even more unemployment and additional lockdowns. However, alongside congress rolling out a second stimulus package a major upside risk is that the virus is defeated as more US citizens are vaccinated, allowing full economic reopening and boosting the housing sector.

Detractors

- There were no negative contributors in terms of sector exposures during the fourth quarter, although bank loans were among the lowest contributors to performance.

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, delay in reaching agreement on additional stimulus 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.
- We anticipate limited changes in monetary policy, with the 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.
- We have been maintaining a balance of liquidity, diversification and risk exposure. Within our corporate 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 inexpensive relative to 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 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.
- 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 view that markets are highly inefficient in the short-term. We believe we were able to capitalize on these developments in 2020 and that we are well-positioned to benefit from the expected economic growth and recovery in the new year.

- During periods in which the US dollar appreciates relative to foreign currencies, funds that hold non-US-dollar-denominated bonds may realize currency losses in connection with the maturity or sale of certain bonds. These losses impact a fund's ordinary income distributions (to the extent that losses are not offset by realized currency gains within the fund's fiscal year). A recognized currency loss, in accordance with federal tax rules, decreases the amount of ordinary income a fund has available to distribute, even though these bonds continue to generate coupon income.
- Fund officers have analyzed the fund's current portfolio of investments, realized currency gains and losses, schedule of maturities, and the corresponding amounts of unrealized currency losses that may become realized during the current fiscal year. This analysis is performed regularly to determine how realized currency losses will impact periodic ordinary income distributions for the fund. Based on the most recent quarterly analysis (as of December 31, 2020), fund officers believe that realized currency losses will continue to have an impact on the distributions in the 2021 fiscal year. This analysis is based on certain assumptions including, but not limited to, the amount of foreign currency exposures held by the funds', the level of foreign currency exchange rates, security prices, interest rates, the fund advisers' ability to manage realized currency losses, and the net asset level of the fund. Changes to these assumptions could materially impact the analysis and the amounts of future fund distributions. Fund officers will continue to monitor these amounts on a regular basis and take the necessary actions required to manage the fund's distributions to address realized currency losses while seeking to avoid a return of capital distribution.

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. **Currency** exchange rates between the US dollar and foreign currencies may cause the value of the fund's investments to decline. **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 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. **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. **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. **Non-diversified funds** invest a greater portion of assets in fewer securities and therefore may be more vulnerable to adverse changes in the market. **Short exposures** using derivatives may present various risks. If the value of the asset, asset class or index on which the Fund holds short investment exposure increases, the Fund will incur a loss. The potential risk of loss from a short exposure is theoretically unlimited, and there can be no assurance that securities necessary to cover a short position will be available for purchase.

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

***ICE BoA Merrill Lynch US Dollar 3-month LIBOR Constant Maturity**. The 3-Month US LIBOR represents the London interbank offered rate (LIBOR) with a constant 3-month average maturity. LIBOR is a composite of the rates of interest at which banks borrow from one another in the London market, and it is a widely used benchmark for short-term interest rates. Indexes are unmanaged and do not incur fees. It is not possible to invest directly in an index.*

***Standard & Poor's 500 -S&P 500® Index** is a market capitalization-weighted Index of approximately 500 common stocks chosen for market size, liquidity, and industry group representation to measure broad US equity performance. S&P 500® is a registered service mark of McGraw-Hill Companies, Inc.*

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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