



Core Plus Bond Fund

Fund Facts

OBJECTIVE

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

Share Class	Y
Inception	12/30/1994
Ticker	NERYX
CUSIP	63872R764
Benchmark	Bloomberg US Aggregate Bond Index

Bloomberg US Aggregate Bond Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the US investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. Indices are unmanaged. It is not possible to invest directly in an index.

Market Conditions

- The bond market produced a strong gain in the fourth quarter, moving its total return for 2023 firmly into positive territory. The final three months of the year brought an easing of the fears that had weighed on the fixed-income market since early 2022, boosting investor sentiment. Inflation continued to experience a meaningful decline, with the headline Consumer Price Index falling back to levels not seen since early 2021. This represented a major shift from the previous quarter, when bonds were under pressure from fears that inflation would remain sticky and the US Federal Reserve (Fed) would be compelled to adopt a “higher for longer” approach with respect to interest rates. With inflation receding, the markets grew comfortable with the idea that the Fed was finished raising rates. In December, Fed Chairman Jerome Powell added fuel to the rally with comments suggesting that rate cuts could begin as early as the first half of 2024. The bond market took another leg higher in response, helping it recover all of the price decline that occurred in the first ten months of the year.
- US Treasury yields plunged, leading to surging prices, in reaction to the improving outlook for inflation and Fed policy. The yield on the 10-year Treasury note, which peaked at 4.98% on October 19, fell to 3.88% by December 31 and finished the year at close to the same level where it ended 2022. Similarly, the two-year note, which came into 2023 at 4.41% and ultimately reached a high-water mark of 5.19% in October, fell to 4.23% on the final day of the year. The Treasury market was also helped by reduced fears about the government’s ability to continue funding its sizable deficit. The rally was accompanied by a modest decline in the degree to which the yield curve was inverted (in other words, the extent of short-term bonds’ yield advantage relative to longer-term issues).

Class Y Performance as of December 31, 2023 (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
FUND	7.28	6.12	6.12	-3.00	1.93	2.36
BENCHMARK	6.82	5.53	5.53	-3.31	1.10	1.81

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 0.49% (Class Y). Net expense ratio 0.49%. 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 1/31/2024. When an expense limitation has not been exceeded, the fund may have similar expense ratios and/or yields.

The Class Y inception date is 12/30/1994. Class Y shares are sold to eligible investors without a sales charge; other Classes are available for purchase.



- Corporate bonds performed very well in the fourth quarter and outperformed both Treasuries and High yield bonds (on account of Investment Grade’s longer duration than HY). In addition to being propelled by the decline in prevailing yields, the category was helped by the improving outlook for economic growth and corporate earnings, as well as the increase in investors’ appetite for risk.
- Securitized assets generally posted strong positive total returns and outperformed the broader fixed income market. Longer-duration commercial asset-backed securities, collateralized loan obligations, and non-agency commercial mortgage-backed securities provided the strongest total and excess returns behind improving fundamentals in aircraft asset-backed securities, receding fears of an economic “hard landing,” and rising expectations of Fed rate cuts in 2024. (Duration is a measure of interest rate sensitivity.) Shorter-duration sectors, such as consumer asset-backed securities and residential mortgage-backed securities, also produced gains. Agency mortgage-backed securities generated positive total and excess returns with the decline in rates and rally in risk assets, but lower-coupon issues generally outperformed higher coupons with greater refinance risk.
- High yield bonds moved sharply higher in the quarter. After losing ground in October, the asset class rallied in the final two months of the year on expectations that the US Federal Reserve was poised to start cutting interest rates in 2024. Additionally, better-than-expected growth data raised hopes that the US economy would experience a “soft landing,” supporting investor sentiment and fueling a sizable compression in the yield spreads on high-yield bonds. Senior loans lagged the high yield bond market. Bank loans generally have floating coupons, which mechanically have much lower duration.
- The US Federal Reserve’s apparent shift toward easier monetary policy led to a decline in the US dollar in the fourth quarter, supporting returns for emerging-market bonds and other non-US securities. Emerging-market debt gained a further boost from investors’ burgeoning appetite for risk and the positive economic growth trends for many countries in the asset class.

Portfolio Review

- The fund outperformed its benchmark, the Bloomberg U.S. Aggregate, primarily due to duration positioning.

Contributors

- Longer-than-benchmark duration was the largest contributor during the quarter as rates fell.
- Yield curve positioning had a slight positive impact as the curve modestly steepened.

Detractors

- Security selection was negative, largely driven by positioning in agency pass-throughs.
- Our underweight to IG corporate and out-of-benchmark position in non-dollar detracted from performance.
- Cash and cash equivalents dragged on relative returns as risk assets outperformed for the quarter.

Outlook

- The Federal Reserve elected to hold fed funds rates steady at 5.25% throughout the fourth



quarter, although forward guidance shifted from a hawkish to a dovish tone, as inflation surprised to the downside and softer economic data increased the odds of achieving the elusive "soft landing". In our view, the shift in tone caused market sentiment to dramatically reverse course; yields fell sharply while spreads tightened. Yields on 10-year Treasuries peaked at just over 5% in late-October before falling over 110 bps to 3.88% by year-end. Market expectations for any additional hikes disappeared, while expectations for easing rose and were pulled forward into early 2024. Current pricing reflects 150 bps of anticipated cuts in the next 12 months, equivalent to three additional hikes on top of what is reflected in the Fed's Summary of Economic Projections. The yield curve steepened but remained inverted during the quarter, with higher yields on shorter maturity Treasuries relative to longer-dated notes and bonds.

- We continue to hold the view that we are in the late expansion phase of the credit cycle, with a significant probability of either a softer landing or more meaningful slowdown (i.e. downturn) sometime over the next 6-9 months. Corporate balance sheets have deteriorated, but from a very strong starting point; profit margins could continue to be pressured amid higher input costs, tighter credit conditions, and a slowdown in de-leveraging trends. We believe a relatively healthy middle class consumer and resilient labor market should prevent the economy from entering into a severe recession in this cycle.
- We remain concerned about the lagged effects of significant monetary tightening, globally. This has come through traditional monetary policy tightening, including some central bank asset sales and/or balance sheet run-off, and covers many developed and emerging economies across the globe. Notable exceptions include the Bank of Japan, where policy remains very accommodative, and the Bank of China, where weakness in the Chinese property sector in particular remains a concern, in our view. We also remain concerned about potential exogenous shocks to growth, possibly emanating from the ongoing conflict in the Middle East.
- We do not believe that current spreads provide adequate compensation for the risks facing the economy and markets. Overall duration and corresponding interest rate risk is currently 0.7 years longer than the benchmark. We took the opportunity to sell into the end-of-year rally as the market implied Fed Funds path seemingly became more closely aligned with our base case and probability-weighted views. We retained our more bulleted yield curve positioning, but reduced the overweight in the belly of the curve, reducing duration via a combination of sales in intermediate US Treasuries and Agency MBS in the belly of the coupon stack, and relatively low-yielding intermediate investment grade corporate bonds. Our peak long duration position for the strategy was at the end of October, when we were approximately 1.35 years long and the entire curve was over 5%. We began trimming as the 10-year approached 4.25%.
- We currently hold roughly one-third of the portfolio in US Treasuries. Looking ahead, we expect Treasuries to be supported by slowing economic activity and decelerating inflation, and by a potential further pull back in credit spreads as markets likely reckon with tangible signs of economic weakening. We continue to have significant liquidity for re-entering spread markets should valuations cheapen meaningfully from current levels.
- We tactically trimmed exposure to agency mortgage-backed securities on the spread tightening that occurred in November following the rates rally, and maintain a modest underweight. We continue to emphasize potentially favorable convexity and structure through coupon and specified pool selection.
- Within investment grade corporate credit, we remain underweight on both market value and



contribution-to-duration measures. We have a modest bias towards BBB-rated securities for incremental carry potential, and tend to favor industries that we believe are less economically sensitive and well positioned for a tighter Fed policy environment.

- We have a large overweight to investment grade securitized credit, primarily in the front end of the yield curve, in seeking for more defensive, non-corporate carry. We continue to favor higher-rated asset-backed securities (ABS) related to consumer receivables, as well as whole loan ABS, and have minimal exposure to commercial real estate.
- Within the Plus sectors, our current allocation to high yield is down slightly from the end of the third quarter due to upgrades and trading out of outperforming issues. Currently we own approximately 4.5% in fixed rate high yield corporates, including 1.8% in emerging market high yield corporates. We are at the low end of our historical allocation range in high yield, given the Fed's aggressive tightening this past year and a half, amid growing signs of economic slowdown. Floating rate exposure includes around 3% in high-quality, investment grade collateralized loan obligations (CLOs) where permitted (In guidelines which do not allow CLOs, we have maintained an approximately 2.5% exposure to bank loans).
- We opportunistically added to non-US local government emerging market bonds during the quarter as Uruguay became more attractively valued in our opinion. Our current exposure to non-dollar is at 3.3%, roughly evenly split between Mexico and Uruguay. Notably, this has been an important source of diversification, helping to generate significant carry and total return year-to-date.



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

Important Disclosure

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. These perspectives are as of the date indicated and may change based on market and other conditions. Actual results may vary. Please refer to the Fund prospectus for a comprehensive discussion of risks.

This marketing communication is provided for informational purposes only and should not be construed as investment advice. Investment decisions should consider the individual circumstances of the particular investor. Investment recommendations may be inconsistent with these opinions. Information, including that obtained from outside sources, is believed to be correct, but we cannot guarantee its accuracy. This information is subject to change at any time without notice.

Market conditions are extremely fluid and change frequently.

Diversification does not ensure a profit or guarantee against a loss.

Commodity, interest and derivative trading involves substantial risk of loss.

Any investment that has the possibility for profits also has the possibility of losses, including the loss of principal.

There is no guarantee that the investment objective will be realized or that the Fund will generate positive or excess return.

Past performance is no guarantee of future results.

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 containing this and other information. Read it carefully.

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