

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
Benchmark	ICE BofA 3-month Treasury Bill Index

ICE BofA 3-month Treasury Bill Index.

The ICE BofA 3-Month Treasury Bill Index tracks the performance of 3-Month Treasury Bills. Indexes are unmanaged and do not incur fees. 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.
- 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.
- 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,”

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	4.89	7.90	7.90	0.20	2.88	2.61
BENCHMARK*	1.37	5.01	5.01	2.15	1.88	1.25

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.

*ICE BofA 3 Month Treasury Bill Index

Gross expense ratio 0.75% (Class Y). Net expense ratio 0.75%. 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 4/30/2024. When an expense limitation has not been exceeded, the fund may have similar expense ratios and/or yields.

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



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.
- 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.
- 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 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).

Portfolio Review

- The fund outperformed its benchmark, the ICE BofA 3 Month Treasury Bill Index, primarily due to positioning within investment grade corporates, securitized and duration.

Contributors

- The fund's allocation to investment grade corporate bonds led positive contributions to relative performance during the period particularly within the industrial and financial sectors. Spreads tightened 5 bps and corporate yields declined from 5.60% to 5.06%, the lowest mark since May. While November's rally was largely driven by supportive economic data, December's rally was fueled by Federal Reserve rhetoric again supporting the soft-landing thesis in addition to expectations of future rate cuts.
- The fund's positioning within securitized assets was also additive to performance for the quarter, including within the ABS, CLO and CMBS sectors. The ABS allocation had the largest positive impact on performance, mostly due to the home equity allocation. The CMBS sector was positive in December, particularly within Non Agency CMBS, despite lagging during the months of October and November.
- The fund's longer-than-benchmark duration stance boosted excess performance as yields



fell throughout the quarter. The Federal Reserve held rates steady in December, with the last hike taking place in July. The fed funds rate target will remain in the 5.25% to 5.50% range, with a 5.375% mid-point. The interest rate on reserve balances will be unchanged at 5.40%.

Detractors

- The allocation to credit derivatives within the High Yield sector was a laggard.

Outlook

- US inflation — while still above the Fed's 2% target — continued to decline from its mid-2022 peak and provided the Fed with enough flexibility in December 2023 to signal the tightening cycle is over. Fed Chair Jerome Powell sent a clear message to investors that he did not want to restrict the economy longer than necessary and stated that interest rate cuts would occur over the next year. This fueled a bond market rally in the second half of the fourth quarter, which saw the 10-year US Treasury yield fall to 3.88% at year-end after peaking at 4.99% on October 19, 2023. Optimism for Fed cuts and the potential for a soft landing also drove a rally in risk assets. We saw tighter investment grade and high yield spreads, coupled with declining interest rates, which helped to boost fixed income returns, resulting in positive calendar year returns in most fixed income sectors.
- In our view, the credit cycle is firmly in the 'late cycle' stage. Monetary policy is in restrictive territory and lending standards have tightened. Up to this point, the US labor market has been resilient and underpinned consumer spending, while corporate fundamentals have remained stable and supportive of economic activity. Looking forward, we believe that economic growth is decelerating. Our base case calls for below-trend US growth in 2024, however, we do not anticipate a technical recession of back-to-back quarters with negative gross domestic product (GDP). We expect European economic growth to remain stagnant while economic growth in China is showing signs of bottoming, but continues to remain sluggish.
- We believe that inflation has peaked and positive real rates should have the effect of slowing growth and continuing to lower inflation over time. The Fed appears to be satisfied with the progress it has made against inflation and now sees labor market/economic softening as an equal risk to inflation, thus the pivot. We believe the market may be too aggressive in pricing in rate cuts for 2024, as we believe it will take longer for core inflation to hit the Fed's target and that Fed easing may ultimately come in some combination of rate cuts and a slowing of balance sheet normalization. Our view is that inflation will be 'unstable' over the long term as secular trends, such as deglobalization, decarbonization and the greenification of energy sources, aging demographics, and growing government deficits, have the potential to keep a floor under inflation but also have the potential to make it more volatile going forward. We expect to see dips in inflation as the cycles progress, but believe we're likely to experience higher lows than what we've experienced over the last 15 years. From an interest rate risk perspective, we believe the 10-year US Treasury range is currently 3.50% - 4.50% and have structured our portfolios for a steeper yield curve, likely driven by a fall in short-term rates as inflation moderates combined with secular trends that could potentially keep a floor under long-term yields.
- Corporate fundamentals appear stable and while there has been some recent weakness in broader fundamentals, factors such as leverage and interest coverage ratios remain strong



in a historical context, and specific to the high yield market, the maturity wall seems manageable in our opinion through 2025. Our Credit Health Index (CHIN) suggests defaults/losses will remain relatively low, while slowly increasing to more normal levels associated with a 'late-cycle' environment. Throughout 2023, we have been monitoring the pace of corporate earnings growth as an indicator of future economic activity. Positive earnings growth in the third quarter of 2023 confirmed our view that earnings would likely trough by the end of the year. The earnings recession experienced over the first half of 2023 was not deep enough to drive the credit cycle into downturn and improving earnings growth should alleviate some pressure for companies to aggressively cut costs through job cuts, in our opinion. Under this scenario, the economic downside is likely a mild or shallow recession, as we believe unemployment will remain low and a healthy consumer combined with stable corporate fundamentals should serve to minimize the potential for a hard landing by providing a floor to economic activity.

- We believe that value has returned to fixed income markets and a combination of discount-to-par (positive convexity), favorable yields and an increase in issuer performance dispersion is helping to create opportunities in the bond markets. In our view, bond markets will likely be supported with strong demand as investors sit on record levels of cash that will be seeking yield as the Fed potentially cuts rates on the front end. We are mindful of the risks going forward, such as tighter financial conditions and their impact on the financial system, slower Chinese economic growth, geopolitical risk, the broader economic impact of a further decline in the commercial real estate market, and the upcoming US Presidential election. We believe that much of the turmoil leaves us with a wide range of potential outcomes for growth, inflation and central bank policy response. Based on the uncertain backdrop, we feel it is prudent to maintain a balanced risk profile between interest rate and spread risk. While our average position in liquid reserves was reduced in 2023, we continue to maintain liquidity as we patiently wait for opportunities to potentially develop. If volatility increases and we see what we view as more attractive yields and spreads, we would consider redeploying reserves.
- During periods in which the US dollar appreciates relative to foreign currencies, funds that hold non-US-dollar-denominated bonds, foreign currency or foreign currency-based derivative securities ("Foreign Currency Exposures") may realize currency losses in connection with the maturity or sale of certain Foreign Currency Exposures. 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 non-US-dollar-denominated 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 have and will impact periodic ordinary income distributions for the fund. Based on the most recent quarterly analysis (as of December 31, 2023), realized currency losses could continue to have an impact on the distributions in the 2023 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.

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, if available, containing this and other information. Read it carefully.

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