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

- Investment-grade bonds finished the first quarter with a narrow loss, as the benefit of narrowing spreads was outmatched by rising US rates. Bonds rallied significantly in the final two months of 2023 on expectations that falling inflation would allow the US Federal Reserve (Fed) to begin reducing interest rates. Coming into the year, the futures markets were indicating that the Fed would enact as many as six to seven rate cuts in 2024, with the first potentially occurring in March. This positive outlook ultimately proved to be premature, as rising oil prices and robust economic data began to fuel concerns that inflation may be set to reaccelerate. The consensus number of rate cuts fell to three by quarter-end as a result, with the likely timing of the first cut pushed back to June. While Fed Chairman Jerome Powell reiterated his December statement that the Fed indeed is on track to begin cutting rates this year, market participants appeared to display a lower degree of confidence. In combination, these factors led to uninspiring returns for most segments of the bond market.
- The less favorable interest rate outlook led to a slightly negative total return for US Treasurys. Although bonds with maturities of two years and below finished with small gains, the benefit was outweighed by weakness in longer-term issues. The yield on the two-year note rose from 4.23% to 4.59% (as its price fell) over the course of the quarter, while the 10-year climbed from 3.88% to 4.22%. The yield curve remained inverted—meaning that short-term yields were above those on longer-term debt)—extending the duration of the inversion to the longest in history and exceeding the previous high set in 1978.

Class Y Performance as of March 31, 2024 (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
FUND	-0.33	-0.33	1.86	-2.09	1.17	1.97
BENCHMARK	-0.78	-0.78	1.70	-2.46	0.36	1.54

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 posted a small loss but slightly outperformed Treasurys in the quarter. The category benefited from the combination of better-than-expected economic growth, positive corporate earnings results, and investors' hearty appetite for risk. These factors led to a modest decline in yield spreads that augmented corporates' above-average income.
- High yield bonds produced a low single-digit gain and comfortably outpaced the investment-grade market. High yield was boosted by the backdrop of robust economic growth, favorable credit conditions, and elevated investor risk appetites, together with gains for both equities and crude oil. Yield spreads fell as a result, continuing the downtrend that began in October 2023. (Falling yield spreads indicate outperformance versus Treasurys). Senior loans also generated a strong gain and surpassed the return for the high yield market.
- Securitized credit posted strong positive total and excess returns in the first quarter. Receding fears of an economic "hard landing" and further rising expectations for Fed rate cuts in 2024 were beneficial for the sector. Commercial mortgage-backed securities were particularly strong performers following a significant selloff in 2023 that was brought about by concerns about fundamentals in commercial real estate. Commercial ABS and consumer asset-backed securities also delivered strong returns amid a broader rally in risk assets. Collateralized loan obligations and non-agency residential mortgage-backed securities (MBS) were also positive. Agency MBS experienced negative total returns, with lower-coupon issues generally underperforming those with higher coupons.
- Despite a modest uptrend in the US dollar, emerging market bonds gained ground and outperformed the US investment-grade market. The asset class was boosted by the same factors that supported returns for risk assets globally, including healthy economic growth trends and expectations for lower interest rates in the developed markets.

Portfolio Review

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

Contributors

- Sector allocation was positive, largely due to non-dollar performance
- Security selection contributed positively to performance, primarily driven by investment grade corporates
- We had positive excess returns from our non-dollar allocation, with Uruguay being a particularly strong performer.

Detractors

- Duration and yield curve positioning were the main detractors from performance this quarter
- Within credit, securities held within the wireless and cable and satellite industries detracted the most.

Outlook

- The Federal Reserve held the Fed Funds rate steady at 5.5% (upper) throughout the first quarter. Markets reacted to inflation prints that came in hotter than expected. These were elevated partly due to residual seasonality, but allowed the Fed to keep the median Q1 Summary of Economic Projections (SEP) with expectations for 75 bps of cuts between now and year-end, unchanged from Q4. Current market pricing is consistent with the Fed's SEP and a "soft landing" narrative, although US Treasurys now discount a less aggressive Fed tightening path than early in the first quarter. Meanwhile, risk appetite remaines robust and spreads continued to tighten during the quarter. The yield curve remained inverted (2's-10's have now been inverted for the longest period since the late 1970s), with higher yields on shorter maturity Treasurys relative to longer-dated notes and bonds. We believe that growth and inflation are likely to shift to a lower pace in the coming months and for remainder of this year, with potential for the unemployment rate to edge up further. We think this implies that the Fed may be more accommodative than the market currently anticipates. Yields on 10-year Treasurys returned to the 2023 year-end level 3.88% in early February before pushing higher, ending the quarter at 4.20%.
- We continue to hold the view that we are in the late expansion phase of the credit cycle. Corporate balance sheets have deteriorated, but from a very strong starting point. Profit margins are likely to continue to be pressured amid higher input costs including labor, tighter credit conditions, and a slowdown in top line growth in revenue. We believe a relatively healthy middle class consumer and resilient labor market should prevent the economy from entering into a more pronounced downturn in this cycle, but we do anticipate a slowdown from current levels rather than an acceleration in growth and inflation.
- We anticipate continued volatility in interest rate markets should inflation data come in much higher or lower than expectations, even as the broad disinflation trend remains intact. We remain concerned about the lagged effects of significant monetary tightening and 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.
- The strategy's overall duration and corresponding interest rate risk is currently 0.9 years longer than the benchmark. Our peak long duration position for the strategy during this credit cycle was at the end of October. We began trimming duration as the 10-year approached 3.8%, reaching just 0.7 years long by the end of 2023, and have added duration back as rates have retraced some 50bps higher. We retained our more bulleted yield curve positioning, underweight the front end of the curve and overweight the belly, expressing our expectation for incremental bull steepening with an easing cycle approaching.
- We currently hold roughly one-third of the portfolio in US Treasurys. Looking ahead, we expect Treasurys to be supported by slowing economic activity and decelerating inflation, and by a potential further pull back in credit spreads as markets 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 covered our underweight to agency mortgage-backed securities on the spread widening that occurred in February, and are now roughly neutral versus the benchmark. We continue to emphasize 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, and tend to favor industries that we believe are less economically sensitive and better positioned for a slower paced economic environment.
- We have a large overweight to high quality investment grade securitized credit, primarily in the front end of the yield curve, 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 allocation to high yield is up slightly relative to year-end. Currently we own approximately 4.9% in fixed rate high yield corporates, including 2.1% 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 4.6% in high-quality, investment grade collateralized loan obligations (CLOs) where permitted (In guidelines which do not allow CLOs, we have maintained an approximately 4% exposure to bank loans).
- We added a 1% position in Brazil during the quarter, bringing our total allocation to non-US local government emerging market bonds to about 4.5%. The remaining exposure to non-dollar is 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 securitie**s 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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