the global high yield opportunity

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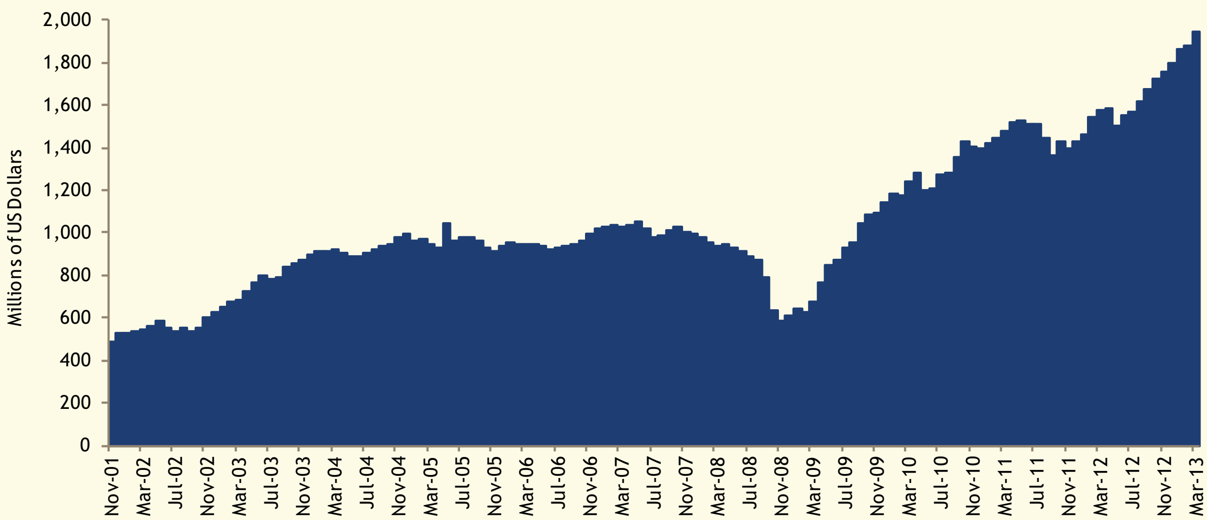
As high yield investors, we are participating in an ongoing capital market evolution that began during the past decade and has gained momentum in recent years. Amid a global expansion of what has historically been a US-dominated market, we have been increasingly identifying what we view as compelling investments in *global high yield markets*, a trend fostered by the continued creation of global wealth, the emergence of industry in developing countries, the maturation of capital markets in those countries, and finally, a broadening base of issuers and issuance.

The expanding financing needs of corporations and governments globally are increasingly being greeted by investor demand for yield and capital appreciation. These supply and demand dynamics have been fueling the growth and transformation of the global high yield market. In our estimation, this confluence of events has been creating an environment with investment opportunities that offer potential value, income and diversification benefits. For many, especially investors that experienced the progression of the US high yield market from its early days, this expanding opportunity to participate in a burgeoning global financing environment may seem familiar.

The shifting characteristics of US, European, Asian and emerging markets high yield assets have contributed to an expanding opportunity set. This has prompted many institutional investors to broaden their high yield investment guidelines, often giving portfolio managers the flexibility to include exposures to these markets within one portfolio. The days of "silo investing," in which non-US investors sought exposure to US high yield and emerging market debt through separate mandates, may be giving way to an era of sector allocation driven by investors.

The surging market value of the *Barclays Global High Yield Index*, which has increased 183% to $1.9 trillion during the past ten years,[i] reflects a demand for global high yield issues and indicates a growing acceptance of the asset class. Against a backdrop of low relative yields across certain other fixed income sectors and weak economic growth projections for many developed economies, we believe that global high yield is a potential source of growth, income and diversification with an attractive risk/reward profile.

BARCLAYS GLOBAL HIGH YIELD INDEX
Market Value



Source: Barclays, as of 3/31/2013.

A NEED FOR FINANCING MEETS A NEED FOR GROWTH & INCOME

Supply:

On the supply side of the equation, companies and governments in both *developed* and *developing* economies are issuing debt and seeking capital from less traditional sources. Buying these issues and financing these entities was formerly the purview of banks. However, stricter lending regulations, the ongoing sovereign debt crisis in Europe and greater acceptance of global high yield as an asset class have contributed to a disintermediation of the banks by the capital markets. Indications of this disintermediation can be seen in the expanded role of the global high yield market in Europe. The market value of the *Barclays European High Yield Index* has grown 445%, to €262 billion, over the past ten years.[ii] Today, as European banks continue to delever and attempt to decouple from the stressful bank/sovereign relationship, we expect public debt issuance will rise. To fill the banking void, many borrowers will likely tap the capital markets.

Many developing countries have turned to the capital markets to finance a bevy of infrastructure projects as well as the build-out of certain industries. From March 2003 to March 2013, sovereign emerging markets issuance, as measured by the *JPM GBI-EM Global Index*, expanded by 578%.[iii] The Latin American market contributed significantly to this boom, as growth in the region spread beyond Mexico and Brazil and more countries funded expansion projects through bond issuance.

Demand:

In the current environment, with economic growth trends suppressing yields to historically low levels and certain developing markets approaching maturity, global high yield issuers have been encountering strong demand from investors.

While economic growth in many developed economies is projected to limp along at a slow pace, developing economies overall generate relatively higher GDP rates. Loomis Sayles estimates emerging market economic growth will be 5.0% in 2013, with 6.5% growth in China and 3.3% growth in Brazil. These enticing growth prospects stand in contrast to our 2013 estimate for GDP growth in the US and Europe, at 2.0% and -0.2%, respectively.

The quality transformation[iv] that has been underway in selected developing countries has also compounded demand for global high yield. As certain emerging market economies have matured, some reaching investment grade status, spreads on their debt have gradually narrowed relative to historical averages. This transformation has enhanced the relative appeal of global high yield. There remains a tier of below-investment-grade emerging market issuers with significant growth-driven financing needs; we believe that investor demand for yield, in addition to issuers' capital needs, should continue to fuel high yield issuance in this tier in the short term.

2013 GDP GROWTH ESTIMATES*

Developed	
US	2.0%
Euro Area	-0.2%
UK	1.0%
Australia	2.8%
New Zealand	2.8%
Canada	2.1%
Norway	2.5%
Japan	1.2%
Developing	
China	6.5%
Singapore	2.5%
Korea	3.2%
Indonesia	6.3%
Brazil	3.3%
Mexico	3.5%
South Africa	3.0%

Source: Loomis Sayles as of 3/31/2013.

WHY WE BELIEVE GLOBAL HIGH YIELD APPEARS ATTRACTIVE

As we see it, the expanding global high yield market stands out for its attractive yield profile, and prospects for potential fundamental growth. While recent technical factors have stoked demand for the asset class, we believe that over time, developing high yield markets will woo investors based on fundamentals. In our view, the investment theses for many developing nations appear sound, bolstered by strong infrastructure expansion, flourishing industry and increasingly affluent consumers eager to acquire goods and services.

As we have mentioned, we feel global high yield can offer strong income and diversification features with an attractive risk/reward profile. However, as with all high yield opportunities, there are risks. From the fundamental viewpoint, default risk is always a concern when analyzing high yield. In addition, global high

**Figures cited are estimates calculated by designated sovereign analysts. Estimates consider available data and the country/region and global macroeconomic environment as appropriate at the time. They are subject to change at any time.*

yield incorporates potential currency volatility (for unhedged positions), as well as macroeconomic dynamics on the country level. As with all investments, we carefully weigh these risks and contrast them with the potential return opportunities.

Income Features:

Similar to the supply and demand dynamics that propelled the US high yield market from its infancy in the 1970s to the several-hundred billion-dollar size it is today, we believe global market conditions can help foster further growth of the global high yield bond market.

Drawn by the potential for comparatively attractive yields and income in addition to the potential benefits that geographic diversification can bring, investors with the research capability and willingness to incorporate the risk of global investing into their asset allocations have provided demand for global high yield issues.

Diversification Features:

The diversification benefits of global high yield have been significant, as seen in the correlation table below. The most dramatic advantage is seen in the asset class's strikingly low correlation with investment grade bonds, as measured by the *Barclays Global Aggregate Index ex US*, for roughly the past 15 years. Diversification does not, of course, ensure a profit or guarantee against a loss.

Correlation Table from 1/1/1997 - 3/31/2013 unless noted otherwise	Barclays Global High Yield Index	Barclays US High Yield Index
Barclays Global High Yield Index	100%	93%
Barclays US Convertibles - Busted*	87%	86%
Barclays US Crossover Index	87%	92%
Barclays US Convertibles - Equity Sensitive*	79%	75%
S&P LSTA Index	69%	76%
S&P 500® Index	69%	62%
Barclays IG CMBS Index	52%	57%
JPM GBI-EM Global Index**	42%	36%
Barclays ABS Index	41%	41%
Barclays Global Agg ex. USD	28%	21%

**Correlation from 1/1/2003 - 3/31/2013.*
***Correlation from 1/1/2002 - 3/31/2013.*
Source: Loomis Sayles, as of 3/31/2013.

The evolution of global high yield benchmarks also underscores the diverse nature of the asset class. As seen in the tables below, many of the major global high yield indices[v] have evolved from a US-only index to ones covering numerous regions since 2001.[vi] *(See Endnotes for index details.)* Though high yield issuance continues to be mostly US-dollar denominated, Europe and Asia have been gaining in terms of overall market size. The *Barclays Global High Yield Index* includes significant issuance from such emerging areas as Turkey, Philippines, Venezuela and Indonesia. These growing markets add to the overall high yield opportunity set and increase its diversification attributes.

It is our view that global high yield indices, while evolving, have yet to fully incorporate local pay high yield issuance. As these markets continue to grow in size, indices will continually need to reassess their constituents. Our belief is that global indices in general will look very different 10 years from now as issuance continues to grow and constituents continue to change.

COMPOSITION OF THE BARCLAYS GLOBAL HIGH YIELD INDEX OVER TIME

1/1/1990 - 12/31/1992	1/1/1993 - 12/31/1996	1/1/1997 - 11/30/1998	12/1/1998 - 6/30/2001	7/1/2001 - 11/30/2010	12/1/2010 - 3/31/2013
US Corporate High Yield	US Corporate High Yield	US Corporate High Yield	US Corporate High Yield	US Corporate High Yield	US Corporate High Yield
	Emerging Market High Yield	Emerging Market High Yield	Emerging Market High Yield	Emerging Market High Yield	Emerging Market High Yield
		CMBS: High Yield	CMBS: High Yield	CMBS: High Yield	
			Pan-European High Yield	Pan-European High Yield	Pan-European High Yield
				Pan-European EMG High Yield	Pan-European EMG High Yield

Source: Barclays, as of 3/31/2013.

CURRENCY BREAKDOWN AS OF 3/31/2003

	Barclays Global High Yield	Merrill Lynch Global High Yield	JPMorgan Global High Yield
United States Dollar	88.3%	89.6%	100.0%
European Euro	10.4%	8.4%	0.0%
Pounds Sterling	1.4%	1.5%	0.0%
Canadian Dollar	0.0%	0.5%	0.0%
Swedish Krona	0.0%	0.0%	0.0%
Swiss Franc	0.0%	0.0%	0.0%
Total	100.0%	100.0%	100.0%

CURRENCY BREAKDOWN AS OF 3/31/2013

	Barclays Global High Yield	Merrill Lynch Global High Yield	JPMorgan Global High Yield
United States Dollar	80.8%	80.4%	100.0%
European Euro	16.3%	16.3%	0.0%
Pounds Sterling	2.6%	2.7%	0.0%
Canadian Dollar	0.0%	0.6%	0.0%
Swedish Krona	0.1%	0.0%	0.0%
Swiss Franc	0.3%	0.0%	0.0%
Total	100.0%	100.0%	100.0%

COUNTRY BREAKDOWN AS OF 3/31/2003

	Barclays Global High Yield	Merrill Lynch Global High Yield	JPMorgan Global High Yield
United States	59.0%	80.4%	85.6%
Brazil	6.9%	0.0%	0.2%
Russia	6.8%	0.0%	0.7%
Canada	3.1%	4.8%	4.7%
Turkey	2.6%	0.0%	0.3%
United Kingdom	2.0%	2.5%	2.1%
Philippines	1.8%	0.0%	0.4%
Venezuela	1.7%	0.0%	0.0%
Colombia	1.4%	0.0%	0.0%
Argentina	1.3%	0.0%	0.6%
Netherlands	1.2%	1.1%	0.2%
Lebanon	0.9%	0.0%	0.0%
Peru	0.8%	0.0%	0.0%
Panama	0.7%	0.0%	0.0%
Bulgaria	0.7%	0.0%	0.0%
Nigeria	0.4%	0.0%	0.0%
Mexico	0.3%	0.8%	1.1%
Other	8.4%	10.4%	4.3%
Total	100.0%	100.0%	100.0%

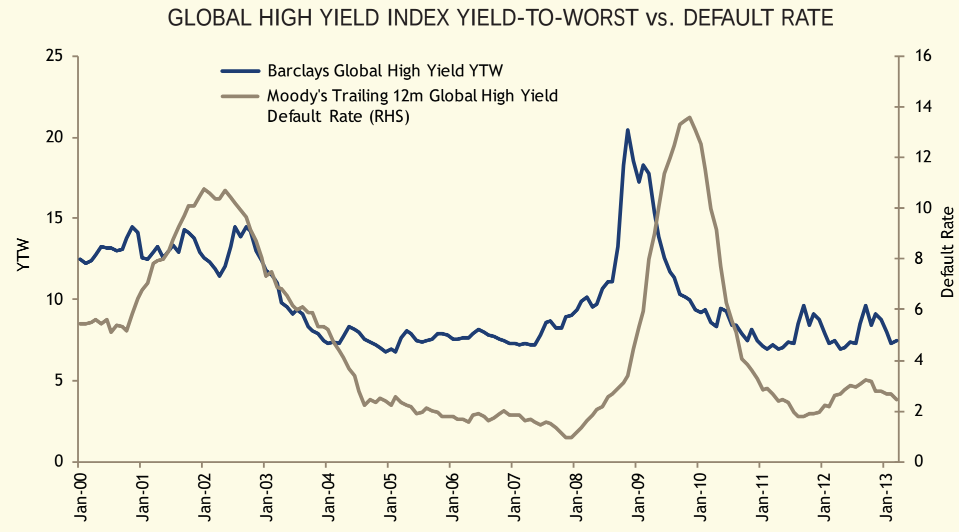
COUNTRY BREAKDOWN AS OF 3/31/2013

	Barclays Global High Yield	Merrill Lynch Global High Yield	JPMorgan Global High Yield
United States	52.2%	57.4%	77.2%
United Kingdom	4.4%	5.1%	2.1%
France	3.5%	4.0%	0.6%
Venezuela	3.2%	1.3%	0.0%
Germany	3.2%	3.2%	0.8%
Turkey	3.1%	0.4%	0.0%
Italy	2.7%	3.0%	0.4%
Luxembourg	2.7%	2.4%	0.7%
Canada	1.9%	2.9%	3.5%
Philippines	1.7%	0.1%	0.0%
Russia	1.5%	2.0%	1.5%
Hungary	1.4%	0.2%	0.0%
Netherlands	1.3%	1.4%	0.9%
Portugal	1.3%	1.3%	0.0%
Ukraine	1.2%	0.4%	0.3%
Argentina	1.0%	0.2%	0.3%
Japan	0.4%	0.2%	0.0%
Other	13.4%	14.5%	11.8%
Total	100.0%	100.0%	100.0%

	Barclays US High Yield Index		Barclays Global High Yield Index	
	Market Value %	Market Value (000) USD	Market Value %	Market Value (000) USD
Industrial	82.7%	975,561,597	67.4%	1,311,316,389
Utility	7.4%	86,948,344	5.3%	102,688,387
Financial Institutions	10.0%	117,643,284	11.9%	231,401,973
Government-Related	0.0%	0	15.4%	299,138,749
Total	100.0%	1,180,153,225	100.0%	1,944,545,498

Sources: Barclays, JP Morgan, Bank of America/Merrill Lynch; as of 3/31/2013.

GAUGING DEFAULT RISK



Source: Moody's Investor Services, as of 3/31/2013.

The trailing 12-month default rate, commonly used as an indicator of risk in the global high yield market, has plummeted since peaking in November 2009. In contrast, yield-to-worst (YTW) for the *Barclays Global High Yield Index* has moved higher to 7.45%[vii] after hitting a post-crisis month-end low of 6.92% in April 2011. Given the strong high yield refinancing activity over the past 24 months, in addition to the fundamentally sound credit profile of many high yield corporations, our expectations are for default rates to remain low over the next 12-18 months. However, market conditions cannot predict future results.

SEIZING AN OPPORTUNITY

Loomis Sayles' reputation as an experienced fixed income investor was built on a consistent philosophy—*a fundamentally based research process encompassing security, sector and macroeconomic analysis can reveal sources of value and opportunity, helping to drive performance over the long term.*

In response to institutional client demand, and building on our traditional full discretion philosophy and process, we broadened our high yield fixed income product offerings to include a global high yield strategy measured against the *Barclays Global High Yield Index*, a Benchmark with a significant non-US-dollar component. It is a broadly diversified multisector strategy that can invest in a variety of fixed income sectors, including investment grade crossover securities, emerging markets, non-US dollar pay corporate and sovereign bonds, structured finance and convertible securities.

KEY ASPECTS OF INVESTMENT PROCESS

Bottom-Up Security Selection:
Historically, global high yield securities have demonstrated a wide return dispersion. We believe this is largely due to a persistent mispricing of default risk at the issue level. This may be a result of factors including investors' short-term horizons, overreactions to news, price distortions relative to market liquidity and a general misunderstanding of the complex drivers of defaults. Our strong commitment to fundamental research enables us to identify potential investment opportunities across the capital structure. Additionally, our full-cycle investment horizon is designed to position us to take advantage of market mispricings by employing a strong process of security selection that emphasizes both value and fundamentals.

Opportunistic Allocations:
By analyzing a variety of fixed income sectors,[viii] we seek to identify securities offering a return and risk profile comparable to, or better than, those in the *Barclays Global High Yield Index*. Within certain parameters, we invest in these "high yield substitutes." We believe this flexibility can expand our ability to generate excess returns while increasing the potential for further diversification.

The Default Cycle:

Historically, default losses, which tend to ebb and flow over a cycle of approximately 5-7 years, heavily influence global high yield market return patterns. Our investment process places particular emphasis on evaluating the key drivers of each cycle in order to help identify potential risks and opportunities. Shifting a portfolio's quality bias and/or sector exposure prior to and following a period of peak defaults can make a significant difference in performance over a cycle.

Currency Management:

The team actively manages currency exposures relative to the Benchmark. We consider a broad range of developed and emerging market currencies by casting a wide net and looking for values based on a variety of fundamental factors such as relative economic growth potential, fiscal health, monetary policies and terms of trade. Our long-term approach seeks opportunities with the potential for strong risk-adjusted total returns relative to the Benchmark over a full cycle of 3-5 years. In our opinion, the diversification features and excess return potential from currency exposures can outweigh any contribution to tracking error, especially when the investments are made within an appropriate risk management process.

CONCLUSION

Many high yield investors have been taking an increasingly global view when seeking to benefit from the sector's potential income, value and diversification attributes. We see a market that is evolving and expanding in order to meet issuer and investor needs, and one with significant long-term opportunity. Loomis Sayles has experience in global high yield investing and intends to continue pursuing the asset class through its new Global High Yield strategy.

To judiciously take advantage of the potential benefits of global high yield while seeking to avoid the associated risks, institutional investors need an asset manager with the experience and depth of research resources to unearth and exploit mispriced global issues. Loomis Sayles utilizes a well-established, disciplined investment process that institutional investors in the high yield markets should consider.

ENDNOTES

[i] *Loomis Sayles, as of 3/31/2013.*

[ii] *Source: Barclays.*

[iii] *Source: JP Morgan.*

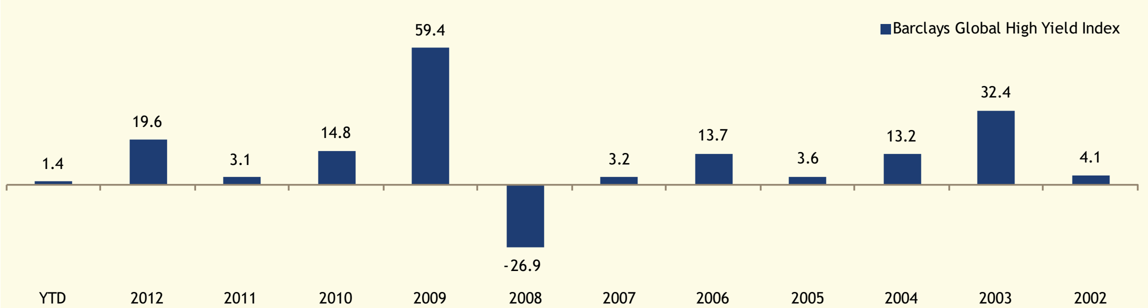
[iv] *According to JP Morgan, the average emerging markets debt ratio was 34% of GDP at the end of June 2011 while the average fiscal deficit for the group was only 2% of GDP. A Reversal of Fortunes: EM's New Standing as an Asset Class, JP Morgan, 9/19/2011.*

[v] *The Loomis Sayles Global High Yield strategy is managed against the Barclays Global High Yield Index. While in our opinion there is no mainstream global high yield index that accurately reflects the rapidly developing global high yield arena, we believe the Barclays Index is an adequate starting point to frame our risk/return expectations. The Index's combination of corporate, sovereign, US-dollar-denominated issues as well as non-US denominated debt gives a better representation compared to other global high yield benchmarks.*

[vi] *Barclays Global High Yield Index, all data as of 3/31/2013:*

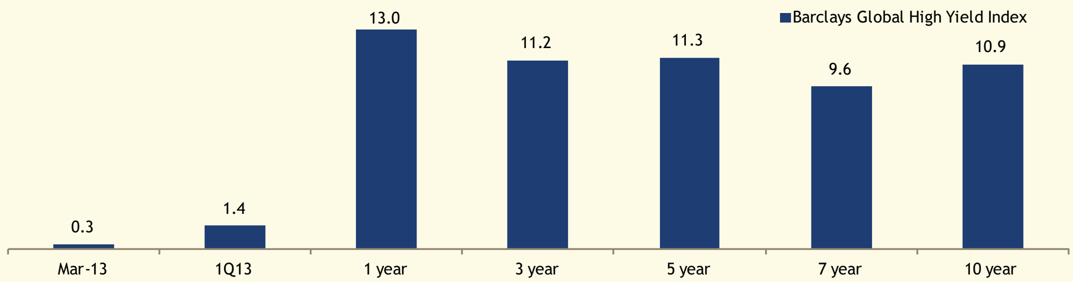
Characteristics	3/31/2013
Average YTM (%)	6.4
Average Maturity (yrs)	6.8
Average Duration (yrs)	4.2
Average Coupon (%)	7.5
Average Price (USD)	103.9
Average Quality	B1
Quality	
Govt/Agency	0.00%
Baa & Higher	0.00%
Ba	46.48%
B	39.07%
Caa & Lower	13.31%
Other/Not Rated	1.13%
Cash/Equivalents	0.00%
Country Summary	
United States	52.2%
United Kingdom	4.4%
France	3.5%
Venezuela	3.2%
Germany	3.2%
Turkey	3.1%
Luxembourg	2.7%
Italy	2.7%
Canada	1.9%
Philippines	1.7%
Currency Summary	
European Euro	16.3%
Pounds Sterling	2.6%
Swedish Krona	0.1%
Swiss Franc	0.3%
United States Dollar	80.8%

CALENDAR YEAR RETURNS AS OF 3/31/2013



Returns for multi-year periods are annualized. ***Past performance is no guarantee of future results.***

TRAILING YEAR RETURNS AS OF 3/31/2013



Past performance is no guarantee of future results.

[vii] *Source: Moody's Investors Services.*

[viii] *To the index universe, we add sectors that fall under two categories: high yield substitutes and opportunistic sectors. This represents current team views; other industry analysts and investment personnel may have different views.*

Global High Yield Substitutes	Opportunistic
Crossover Bonds	EM Local Currency Debt
Busted Convertible Securities	Equity Sensitive Convertible Securities
Dev.World Non-USD Denominated HY (ex-Index)	Preferred Stock
Bank Loans	Common Equity
Securitized Finance (i.e. ABS)	Municipal Bonds

Source: Loomis Sayles.

ADDITIONAL NOTES

This report was originally published in November 2011. We have updated the content as necessary and otherwise believe the information is current and relevant.

Standard & Poor's 500 (S&P 500®) Index is a registered service mark of McGraw-Hill Companies, Inc.

All indexes are unmanaged and do not incur fees. You cannot invest directly in an index.

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

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PRINCIPAL RISKS

Non-US Securities Risk – the risk that the value of non-US investments will fall as a result of political, social, economic or currency factors or other issues relating to non-US investing generally. Among other things, nationalization, expropriation or confiscatory taxation, currency blockage, political changes or diplomatic developments can negatively impact the value of investments. Non-US securities markets may be relatively small or underdeveloped, and non-US companies may not be subject to the same degree of regulation or reporting requirements as comparable US companies. This risk is heightened for underdeveloped or emerging markets, which may be more likely to experience political or economic stability than larger, more established countries. Settlement issues may occur.

- *Currency Risk – the risk that the value of investments will fall as a result of changes in exchange rates, particularly for global portfolios.*
- *Credit Risk – the risk that the issuer or borrower will fail to make timely payments of interest and/or principal. This risk is heightened for lower rated or higher yielding fixed income securities and lower rated borrowers.*
- *Interest Rate Risk - Mutual funds that invest in bonds can lose their value as interest rates rise and bond prices usually fall; investor can lose principal.*