



# 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

- 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.
- Corporate bonds posted a small loss but slightly outperformed Treasuries 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 Treasuries).

## 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
<b>FUND</b>	1.20	1.20	7.42	0.62	2.74	2.66
<b>BENCHMARK*</b>	1.29	1.29	5.24	2.58	2.02	1.38

**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](http://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.



Senior loans also generated a strong gain and surpassed the return for the high yield market.

- 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.
- 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.
- The less favorable interest rate outlook led to a slightly negative total return for US Treasuries. 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.

## Portfolio Review

- The fund outperformed its benchmark, the ICE BofA 3 Month Treasury Bill Index, primarily due to positioning within securitized, equity and convertibles.

## Contributors

- The fund’s allocation to securitized led positive contributions to performance during the period, benefiting from shorter duration and carry. Select exposure to CMBS, ABS and CLO names moderately helped total return.
- The fund’s positioning within equity assets was additive to performance for the quarter. Select exposure to energy, capital goods and consumer non-cyclical names helped excess return. The first quarter of 2024 was generally a positive and a calm quarter across most equity styles and sectors as investors became less concerned about recession risks and more focused on the timing of first potential rate cuts by the Fed.
- The fund’s positioning with respect to convertibles was also additive to performance for the quarter. Holdings within communications and consumer cyclical were particularly contributory for the period.

## Detractors

- Exposure to high yield and limited performance during the quarter. High yield names within the communications and banking sectors were particularly negative, even as high yield corporate spreads continued to tighten. Spreads reached a 2-year low during the month of March.



- Duration management also limited performance. Long positions in 2-year and 5-year Treasury futures detracted from total return as expectations for Fed cuts were lowered and yields moved higher across the curve.

## Outlook

- The Federal Reserve (Fed) appears to be comfortable with the current fundamental backdrop of resilient economic growth, an unemployment rate below its estimate and inflation that continues to decline from its mid-2022 peak. At this point, the Fed is data dependent, noting supply and demand conditions have continued to come into balance, as further incoming data will be required to assess ongoing progress towards the inflation goal. Economic data surprised early in Q1, suggesting that inflation moderation is looking bumpy, coupled with volatile economic activity data and a strong, but moderating, labor market, in our view. Coming into the year, the market was pricing in six rate cuts from the Fed in 2024. As of the end of Q1, however, the market had shifted to three rate cuts based upon the Fed's message that it is committed to its inflation target and that rate cut expectations should be lowered. Investors now seem to be grappling with the potential for the Fed to indicate two rate cuts this year (versus three), as well as a more shallow cutting cycle than previously indicated by the Fed. During the quarter, investment grade and high yield spreads tightened on a more positive growth outlook. Interest rates moved higher, though, which resulted in negative total returns from most fixed income sectors outside of high yield corporates.
- In our view, the credit cycle<sup>1</sup> is firmly in the 'late cycle' stage. Monetary policy is in restrictive territory and lending standards have tightened as the US economy still remains resilient. Up to this point, the US labor market has continued to remain strong and underpinned consumer spending, while corporate fundamentals are stable and also have been supportive of economic activity. Looking forward, our base case calls for trend, or slightly below trend, with US growth in 2024 consistent with a 'resilient economy.' We do not anticipate a technical recession of back-to-back quarters with negative gross domestic product (GDP) as the probability of a 'no landing' scenario has started to tick higher. On a global basis, we expect European growth to still remain stagnant while economic growth in China is showing signs of bottoming, but continues to still remain sluggish.
- We believe that inflation has peaked and positive real rates should have the effect of slowing growth and continuing lower inflation over time. In our view, the market's expectation for a 'soft landing' implies inflation continues, unabated, back to the 2% Fed target with growth holding up. Our base case calls for 'unstable' inflation. Even though we expect inflation to bottom this year, we think it will be a recurring problem going forward based on long-term structural themes, such as deglobalization, decarbonization and the greenification of energy sources, aging demographics and growing government deficits. We expect the path to 2% to be a bit rocky and anticipate dips in inflation as cycles progress, but we also expect to experience higher lows than what we've experienced over the last 15 years. We have moderated our view of future Fed cuts with the expectation that the cutting process will be more drawn out with less cuts in 2025 and a trough rate expectation of 3.75% to be hit in 2026. We see long-term fair value in the 10-year US Treasury at 4.50% and believe the current range is 3.75-4.50%. We believe the prospect of a Fed easing cycle keeps investors willing to add duration and we are once again receiving value for taking on duration risk.
- Corporate fundamentals appear stable and while there has been some recent weakness in



broader fundamentals, factors such as leverage and interest coverage ratios still remain strong in a historical context. Profit margins still remain healthy as the pass through of higher prices to consumers continues and free cash flow (FCF) generation still remains solid. First quarter issuance, particularly in investment grade corporates, appeared significant as corporations potentially tried to issue debt ahead of what could be a volatile US Presidential election later this year. In addition, 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 still remain relatively low, while slowly increasing to more normal levels associated with a 'late-cycle' environment.

- We believe that long-term 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. Although risks exist, spreads have moved to the tightest levels of this cycle. We are not surprised by how buoyant credit markets are these days – fundamentals are stable, losses will still remain benign and buyers are showing up with an almost insatiable demand for paper. Our view is that credit remains well supported and investors can feel comfortable going for the extra spread pick up available in the credit markets. This view hinges somewhat on our expectation that any potential downturn will be mild, driven by a belief that unemployment will still 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. Based on this backdrop, we feel 2024 will likely be an environment where returns are driven by carry and it will be prudent to maintain a balanced risk profile between interest rate and spread risk. Spreads will likely live in a range that is typical of a non-stressed market, which for high yield corporates tends to be +300-+450 basis points, and we are being selective in deploying capital. We are better buyers at the wider end and patient holders at the narrower end. If volatility increases and we see what we view as more attractive yields and spreads, we would consider redeploying additional reserves faster. We believe the best approach is to maintain a yield advantage in our portfolios rather than waiting on the sidelines for a 'risk-off' environment that may never materialize.
- 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 March 31, 2024), 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.

<sup>1</sup>*A credit cycle is a cyclical pattern that follows credit availability and corporate health.*



## 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*

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***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](http://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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