



bond fund

June 30, 2010

PORTFOLIO REVIEW

- The Fund underperformed its Benchmark primarily due to lagging performance from non-US-dollar-denominated investments, high yield credits and convertible bonds.
- Confidence in the global economic recovery deteriorated after fears of contagion from the European sovereign debt crisis, and uncertainty surrounding US financial regulatory reform drove credit yield spreads wider.
- Disappointing domestic economic data further compounded the adverse effect on risk assets, and the pronounced flight to quality dampened their performance.

WINNERS

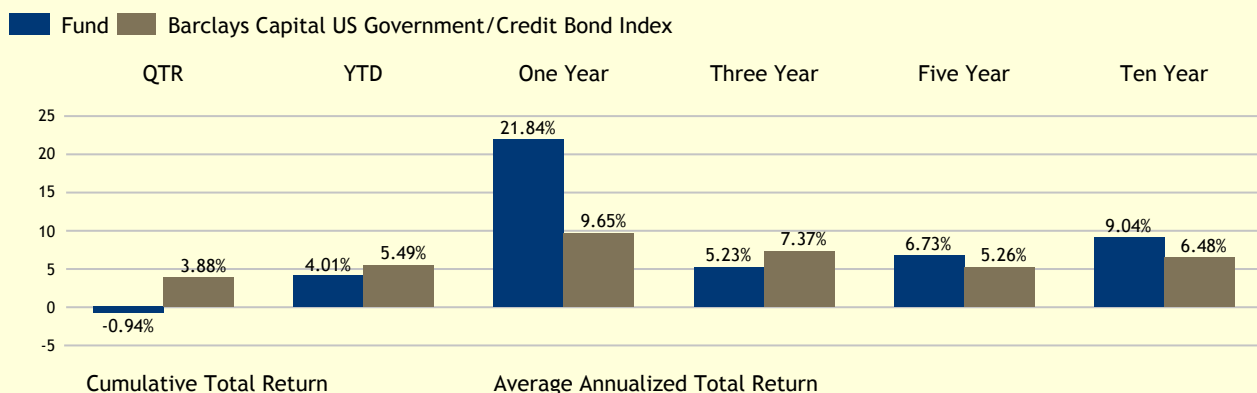
- Investment grade corporate securities posted positive absolute returns for the quarter but added little to relative performance. Within high grade corporates, financials contributed positively, with the best returns coming from select names in the banking and insurance sectors. Certain industrial issues in the construction machinery and automotive areas also posted positive results on an absolute basis.
- Our modest exposure to Icelandic krona-denominated bonds boosted overall performance, as the currency appreciated against the US dollar.

LAGGARDS

- Heightened risk aversion led to muted returns from high yield credits. Industrial issues in the healthcare and airlines sectors posted gains but were eclipsed by weakness in the technology, paper and wireline segments. High yield financial also lagged, due to poor performance from select names in insurance and finance companies.
- The plunging equity markets dragged down returns from convertible bonds and preferred securities. Names in metals and mining, pharmaceuticals and wirelines posted the worst results.

Performance - Institutional (I shares)

as of June 30, 2010



Past performance is no guarantee of future results. Investment return and principal value may fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Performance data quoted represents past performance and current returns may be higher or lower. For performance current to the most recent month-end, please visit www.loomissayles.com. Other share classes are available. Performance may be lower depending upon the expenses of different share classes.

Total return assumes reinvestment of dividends and capital gains distributions, if any. Performance data reflects certain fee waivers and reimbursements, if any. Without such waivers, performance would be lower.

The gross expense ratio of 0.68% Class I share does not reflect any potential reimbursement/reduction of expenses as stated in the most recent fund prospectus. The gross expense ratio of 0.65% Class I share does not reflect any potential reimbursement/reduction of expenses as stated in the most recent fund prospectus. The net expense ratio of 0.65% Class I share reflects the reimbursement/reduction of expenses, if any, as stated in the most recent fund prospectus. Please note: Fund expenses and expense reductions are subject to change. Expense reductions are contractual and are set to expire 1/31/11. Investors should consult the most recent fund prospectus for more detailed information.



- Our underweight allocation to US Treasuries hurt performance, as investors sought safety in US government bonds.
- Nervousness around the sovereign debt crisis in Europe and signs of slowing growth in China depressed the value of major commodity currencies, including issues denominated in the Canadian dollar, Australian dollar, Norwegian krone and New Zealand dollar. Bonds issued in the Indonesian rupiah and South Korean won also suffered modest losses.

OUTLOOK

- Our outlook and portfolio positioning continue to project a slow, modest recovery in economic conditions in the US. Second-quarter events in Europe along with the recent softening in economic data domestically have forced us to extend the time horizon in which we foresee low interest rates, and to modestly reduce growth assumptions. We continue to believe that the growing public debt burden along with an economic recovery will ultimately lead to higher interest rates, but think the timeline for such a change in market sentiment has been elongated.
- While the fundamental trends in many corporations remains positive, the lack of job creation along with a continued weakness in housing and consumer spending continue to keep the market from having any conviction regarding long-term positioning.
- We expect continued volatility in the markets, as liquidity has been reduced through lack of dealer participation. Political, economic data and news releases both at home and abroad continue to have the potential to move the markets significantly on a daily basis.
- We will continue to stress bond picking and will take advantage of situations where credits have become overly attractive to add value to our portfolios.

ABOUT RISK

Because the Fund can invest a significant percentage of assets in foreign securities the value of the Fund shares can be adversely affected by changes in currency exchange rates, political, and economic developments. In emerging markets these risks can be significant. The Fund is subject to currency risk, which is the risk that fluctuations in exchange rates between the US dollar and foreign currencies may cause the value of a Fund's investments to decline. Funds that invest in securities denominated in, or receive revenues in, foreign currency are subject to currency risk. Accordingly, the purchase of fund shares should be viewed as a long-term investment. Because the Fund can invest a significant percentage of assets in debt securities that are rated below investment grade the value of fund shares can be adversely affected by changes in economic conditions or other circumstances. These events could reduce or eliminate the capacity of issuers of these securities to make principal and interest payments. Lower rated debt securities have speculative characteristics because of the credit risk of their issuers and may be subject to greater price volatility than higher rated investments. In addition, the secondary market for these securities may lack liquidity which, in turn, may adversely affect the value of these securities and that of the Fund. Accordingly, the purchase of fund shares should be viewed as a long-term investment. Mutual funds that invest in bonds can lose their value as interest rates rise and an investor can lose principal.

The **Barclays Capital US Government/Credit Bond Index** includes Treasuries (public obligations of the US Treasury that have remaining maturities of more than one year) and agencies (publicly issued debt of US government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the US government) as well as other publicly issued investment grade corporate and foreign debentures that meet specified maturity, liquidity, and quality requirements. Indexes are unmanaged, do not incur fees and it is not possible to invest directly in an index.

Before investing, consider the fund's investment objectives, risks, charges, and expenses. Please visit loomissayles.com or call us at 800-633-3330 for a prospectus and a summary prospectus, if available, containing this and other information. Read it carefully.

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