

LOOMIS SAYLES BOND FUND UPDATE

November 30, 2008

November 2008

Prices on high quality corporates recovered somewhat in November. In particular, investment grade financials were positive as the government's term loan guarantee program helped to shore up the capital structures of many financial institutions. In addition, the new issue window opened for a select group of investment grade corporations. High yield securities continued to struggle as companies were unable to access capital and negative news plagued the auto manufacturers. Some currencies, including the Australian dollar, Canadian dollar, Mexican peso and Brazilian real, found more stable levels.

The Bond Fund benefitted from positive moves in the investment grade sector. Some holdings that were punished in September and October performed well in November. Investment grade yields have come down slightly but still remain at unprecedented levels. High yield was a negative area for the Fund, due mainly to concerns that the Big Three auto makers would face bankruptcy. We expect the high yield sector to continue to struggle until the credit markets are restructured and some uncertainty about the future of autos dissipates. We are patiently observing the high yield space and may selectively add to positions; however, as we move through the recession, the increased potential for higher default rates and lower recovery rates makes credit research and security selection of paramount importance.

| Lehman Brothers Index | Total Return Nov. 2008 | Year-to-Date |
|---|-------------------------------|---------------------|
| Investment Grade Corporates | 4.07% | -10.99% |
| Investment Grade Corporate-Financials | 3.78% | -13.91% |
| High Yield Corporates | -9.31% | -31.42% |
| Emerging Markets | 3.58% | -21.57% |
| Citigroup WGBI ex US | 3.24% | 1.83% |
| | | |
| Loomis Sayles Bond Fund Attribution* | | |
| US Treasury | 0.00% | 0.40% |
| Investment Grade Corporate-Financials | 1.10% | -3.60% |
| Investment Grade Corporate-Industrials | 1.10% | -4.20% |
| High Yield Corporates-Financials | -0.80% | -1.50% |
| High Yield Corporates-Industrials | -1.60% | -6.20% |
| Non-US dollar | -0.70% | -6.60% |
| Preferred and Common Equity | <u>-0.40%</u> | <u>-5.00%</u> |
| Total | -1.30% | -26.70% |

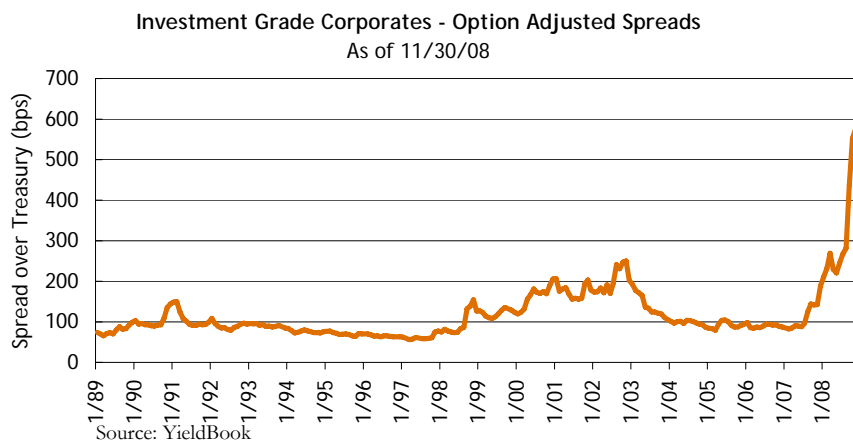
**Attribution data does not reflect fund share class level fees and expenses*

Fund flow information

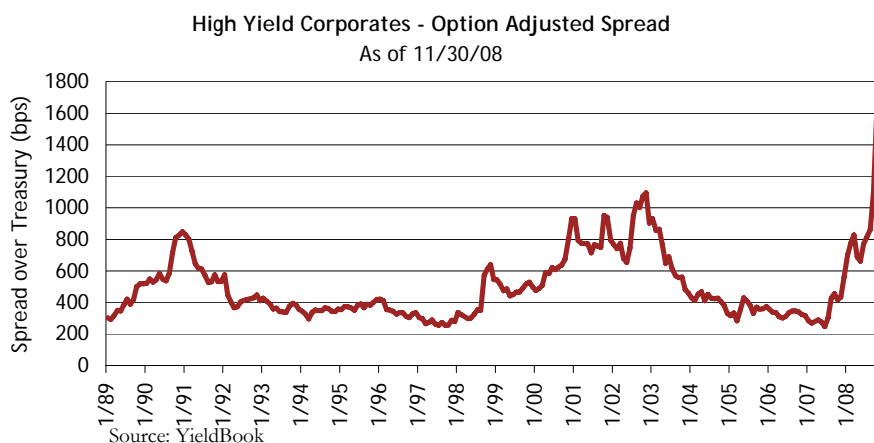
Redemptions have slowed dramatically since peaking in the second half of September and first half of October. From mid-October through November, the Bond Fund lost only 2% of the 8/31/08 assets. The Fund carried the reserves required to meet these redemptions without the need to sell less liquid securities. Total net redemptions experienced during September and October represented just 12% of starting assets (as of 8/31/08). During their peak, redemptions resulted in a loss of 9% of starting assets.

How can the Fund recover?

The following graphs seek to place in a historic context the severe weakness experienced in the credit markets in the recent period. These graphs also point out the significant recoveries following prior periods of spread widening.



Past performance is no guarantee of future results



Past performance is no guarantee of future results

The spread advantage offered by these market segments is at historic record levels. Based on these levels, the potential return relative to US Treasury securities offered by these sectors today could be significant.

As of 11/30/08, the yield advantages offered by investment grade and high yield indices relative to the *Lehman US Treasury Index* were 6.07% and 18.33%, respectively. Our analysis indicates that even if, over the next five years, we face defaults consistent with the two worst five-year historic periods of corporate defaults on record (1931-1935 and 1999-2003), these sectors have the potential to provide significant return advantages relative to Treasuries.

Our analysis indicates that corporate bonds currently offer the potential for positive risk-adjusted returns. Our strategy is to capture as much of this yield as possible and attempt to limit defaults so that we can take advantage of performance opportunities. The Loomis Sayles Bond Fund portfolio at November 30, 2008 had a yield to maturity (YTM) of 13.53%, which is 11.50% greater than the *Lehman US Treasury Index*. Yield to maturity is the annual rate of return an investor would realize if he or she bought a bond at a particular price, reinvested all interest payments at the same YTM rate

and receive the principal maturity. In contrast to current yield, YTM takes into account the horizon return impact of the difference between the actual price paid for a bond and its “terminal value” (usually par).

How is the portfolio positioned and why?

History offers few comparatives for the conditions in today's fixed income markets. Yield spreads are wide, market liquidity is extremely limited and investor uncertainty dominates. It is in just such periods that buyers are offered the opportunity to make attractive long term investments.

We continue to work diligently to identify those companies and securities that we expect to survive and flourish in the emerging financial market landscape and fully participate in a market recovery. Our most significant investments are in securities issued by companies in the industrial sector of the investment grade and high yield markets. Currently, nearly 44% of our portfolio is invested in such securities, and it is these sectors where we expect to see the most attractive new investment opportunities. Additionally, we see the US dollar increasingly challenged to maintain its recent strength. The current proposals to resolve the financial crisis are likely to double the US government's budget deficit next year, exacerbating the country's financing needs and supporting the longer-term trend toward further dollar adjustment against other major currencies. We see most of this adjustment relative to Latin American, Canadian and Asian currencies. This draws us to approximately a 22% allocation to non-US dollar denominated securities.

The following provides our outlook and positioning views on several key portfolio decisions.

| Drivers | Outlook | Portfolio Positioning |
|--------------------------------------|---|--|
| Interest Rates & Duration | The Fed has staved off a systemic financial meltdown, yet the credit crunch persists and the aftershocks of the housing bust will continue to weigh on the US economy, keeping broad-based inflation in check. Deflation fears have created an asset bubble in the Treasury market, and we see little value in that sector beyond a flight-to-quality hedge. The Fed seeks a steep yield curve to help recapitalize the banking sector. | Maintain a long nominal duration, mainly through long corporate bonds. Use short-dated Treasury and agencies as liquid reserves. |
| Investment Grade Credit | We believe investment grade corporate bonds continue to offer value, even considering further deterioration in the credit cycle. Value exists in the secondary market for discount structured finance paper caught up in the subprime tornado. | We believe this is the most attractive fixed income sector. Emphasis placed on BBB-rated credit, as these may offer some of the best values relative to risk. Favor long discount securities to maintain duration. Build position in select discount structured finance diversified across sector and geography. |
| High Yield | Current spreads appear attractive given the backdrop of a weakening economy. Bond picking will be critical as defaults trend upward and recovery rates are squeezed by bank-loan-heavy capital structures. Investment grade spread compression and a re-emerging primary market are necessary precursors for high yield. May see added pressure from restructuring and consolidations. | Selectively and gradually add exposure. |
| Non-dollar/Currency | The US dollar is likely to remain range-bound versus most major developed currencies; rate differentials are not driving valuations. Global growth should moderate as technicals and weak US economy pressure emerging currencies near-term. We believe credit offers more compelling opportunities. | Opportunities in credit should offset the drag from maintaining most currency positions. We are positioning for long-term recovery. Higher-yielding currencies could offer some value when the global economy improves. Remain cognizant of risks to global economy due to competitive currency devaluations as economies seek to jump start growth. |
| Overall | Market focuses on worsening economic indicators and fears of a deflation trap. Consumers and businesses work to repair balance sheets. Slow growth keeps commodity prices suppressed. We expect further worldwide monetary and fiscal easing plus massive government intervention to spur economic recovery. | Over time, attractive prices and yields present opportunities to leverage prudent security selection across the credit spectrum. Portfolio positioned for ultimate recovery and reflation. |

2008 Performance Chronology of Loomis Sayles Bond Fund

January-August 2008

Performance of the Fund over the first eight months of the year (-3.80%) was certainly within our range of expectations given the eroding cyclical market environment. As with prior business cycles, monetary policy eased, US Treasury rates declined, the yield curve steepened and credit spreads widened. This market favored the highest-quality assets, led by US Treasuries, (according to *Lehman Brothers US Treasury Index*) which generated a positive 3.95% return over this period. According to *Lehman Brothers* indices, US investment grade corporates fell by 0.88% during the same period with weak results from other sectors including commercial mortgage-backed securities (CMBS) (-3.72%), home equity (-18.27%), high yield (-2.28%), and bank loans (-1.58%). Dollar strength was uneven with currency returns among G-10 countries ranging from 2.63% for Swiss franc to -6.90% for British pound.

Our expectations for a protracted period of slow economic growth rather than a major market disruption made credit-related financial and industrial credits appear increasingly attractive for new investment. As has always been our investment approach, we enter these markets in their weakness, when bonds are available, to secure full participation when market conditions improve.

During this eight-month period, the Fund's negative performance can be attributed to the following:

| | |
|--|---------------|
| US Treasury | 0.30% |
| Investment Grade Corporate-Financials | -0.80% |
| Investment Grade Corporate-Industrials | -0.30% |
| High Yield Corporates-Financials | -0.80% |
| High Yield Corporates-Industrials | -0.40% |
| Non-US dollar | -0.50% |
| Preferred and Common Equity | <u>-1.30%</u> |
| Total | -3.80% |

September 2008

September proved to be a near perfect storm, with performance for the month at -10.80% (institutional shares) and -10.86% (retail shares). The crisis of confidence that materialized in the financial sector with the wide range of actions, reactions, and remedies with which it was met were both outside the range of our expectations. While we recognized the significant pressures within the financial firms resulting from their exposures to troubled mortgage securities, we expected the combination of time, positive yield curve and likely mergers and acquisition activity to gradually stabilize the environment. As discussed above this was far from the actual result.

The events of September took a dramatic toll on all credit-related sectors of the fixed income markets. Again US Treasury debt led all sectors with a total return of 0.61%. The returns generated in many indices were extremely weak, as highlighted by these *Lehman Brothers* indices:

| Lehman Brothers Index | Total Return September 2008 |
|-----------------------------|-----------------------------|
| Investment Grade Corporates | -7.77% |
| Financials | -12.86% |
| High Yield Corporates | -7.98% |
| Emerging Markets | -7.69% |

The Bond Fund was severely punished for its preemptive investment strategy in September. Debt and equity positions in securities issued by the GSEs and investment grade financial issuers were the largest contributors to the weak performance; however, the broad based decline in other credit-related sectors and US dollar strength contributed to the drop in the Fund's value as well.

| | |
|---------------------------------------|---------------|
| US Treasury | 0.20% |
| Investment Grade Corporate-Financials | -2.90% |
| Investment Grade Corporate-All Other | -1.70% |
| High Yield Corporates-Financials | -0.40% |
| High Yield Corporates-All Other | -1.30% |
| Non-US Dollar | -2.00% |
| Preferred and Common Equity | <u>-2.50%</u> |
| Total | -10.80% |

Dan Fuss, the lead portfolio manager of the Bond Fund, compares the period to 1974—a period of extraordinary credit market decline. In retrospect, that period proved to be an excellent time to make new investments, which were rewarded handsomely in 1975.

October 2008

Uncertainty over a resolution to the financial crisis persisted as authorities in Washington and abroad considered additional tactics. Investors continued to flock to safe havens, which further pressured corporate bonds and increased credit spreads (the difference between yields of Treasury bonds and yields of corporate bonds). Spreads for the investment grade and high yield sectors widened to unprecedented levels. Markets remained illiquid due to elevated short-term funding rates, as measured by LIBOR and the commercial paper markets. Panic that had previously centered on the financials sector was replaced by broader fears of a global recession. Price pressure that had slammed US investment grade financials spilled over into investment grade industrials. The US dollar continued to benefit from the flight to quality, resulting in negative October returns for non-dollar holdings. During the month, some currencies depreciated 10 to 15% relative to the greenback. Commodity-driven currencies were hurt by global slowdown concerns, with the Australian, New Zealand and Canadian dollars down 16.12%, 12.54% and 12.54%, respectively. The emerging market debt sector, which had previously been perceived as a relative safe haven, was hit hard by fears of a global recession.

The table below highlights October index returns. Returns were negative across the quality spectrum, with lower-quality sectors hit hardest. AAA-rated bonds delivered a return of -1.29% while BBB debt was down 10.98%. In high yield, BB-rated securities declined 13.71% and CCCs were down 23.45%.

| Lehman Brothers Index | Total Return October 2008 |
|---------------------------------------|---------------------------|
| Investment Grade Corporates | -6.44% |
| Investment Grade Corporate-Financials | -2.16% |
| High Yield Corporates | -15.91% |
| Emerging Markets | -20.56% |
| Citigroup WGBI ex US | -2.54% |

The decline in investment grade, high yield and non-dollar denominated debt—rather than individual holdings—struck the biggest blow to the Bond Fund in October. Our sizeable allocation to credit weighed on performance. *Kaupthing Bank* of Iceland, a small holding, was notable, as the Icelandic banks were recently nationalized. Recovery value of *Kaupthing* will be difficult to determine until plans for managing the country's banking crisis are clear. Our *Kaupthing* position detracted 30 basis points from October returns. On the brighter side, talk of Washington support for the automobile industry sparked a glimmer of hope that boosted our *GMAC* holdings and generated a positive performance impact from high yield financials.

| | |
|---------------------------------------|--------|
| US Treasury | 0.00% |
| Investment Grade Corporate-Financials | -0.90% |
| Investment Grade Corporate-All Other | -4.40% |

| | |
|----------------------------------|---------------|
| High Yield Corporates-Financials | 0.30% |
| High Yield Corporates-All Other | -3.70% |
| Non-US Dollar | -4.20% |
| Preferred and Common Equity | <u>-1.80%</u> |
| Total | -14.70% |

As the market closed for the month, tentative signs of returning liquidity began to emerge: The Federal Reserve's commercial paper program was initiated and the investment grade credit market saw \$6 billion of new issues.

While we think volatility and illiquidity are here to stay for the foreseeable future, we believe the Bond Fund is strongly positioned for eventual economic recovery. We continue to selectively increase positions in credits we believe can reach the recovery in good standing. The 30-day yield for the Fund at the end of October was 11.25% (retail shares) and 11.55% (institutional shares). Not only is this a record level for the Fund, but the values represented by the securities held in the portfolio offer the potential for strong future returns.

This portfolio is actively managed and holdings are subject change. There is no guarantee the fund continues to invest in the securities referenced. Reference to specific securities or holdings should not be considered recommendations for action by investors.

Please note this material is dated as indicated. The opinions expressed are those of the manager and are subject to change. The occurrence of forecasted events and predictions is not certain.

| | Cumulative Total Return As of 11/30/08 | Average Annual Total Returns As of 9/30/08 | | |
|---|---|---|--------|---------|
| | Year-to-Date | 1 Year | 5 Year | 10 Year |
| Loomis Sayles Bond Fund (R shares) | -28.22% | -13.44% | 4.86% | 7.34% |
| Loomis Sayles Bond Fund (I shares) | -28.01% | -13.14% | 5.14% | 7.62% |
| Lehman Gov't/Credit Index | 1.13% | 2.41% | 3.34% | 5.00% |

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 call 1-800-633-3330 or visit www.loomissayles.com

Performance returns do not reflect a 2.00% redemption fee on shares held for 60 days or less. If fee were reflected performance would have been lower.

The Lehman Government/Credit Index is composed of all bonds that are investment grade (rated Baa or higher by Moody's or BBB or higher by S&P, if unrated by Moody's). Issues must have at least one year to maturity. The index is rebalanced monthly by market capitalization. Indexes are not actively managed. You may not invest directly in an index.

Gross Expense Ratio

Loomis Sayles Bond Fund R: 0.97%

Loomis Sayles Bond Fund I: 0.67%

The gross expense ratio does not reflect any potential reimbursement/waiver of expenses as stated in the most recent fund prospectus. The net expense ratio reflects the reimbursement/waiver 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 1/31/09. Investors should consult the most recent fund prospectus for more detailed information.

Because the Fund(s) 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(s) 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

Lehman High Yield Index covers the universe of fixed rate, non-investment grade debt. Pay-in-kind bonds, Eurobonds, and debt issues from countries designated as emerging markets (e.g. Argentina, Brazil, Venezuela, etc.) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-

emerging market countries are included. Original issue zeroes, step-up coupon structures and 144As are also included. Indexes are unmanaged, do not incur fees and it is not possible to invest directly in an index.

Lehman US Investment Grade Corporate Bond Index covers all publicly issued, fixed-rate, nonconvertible, investment-grade corporate debt. Issues are rated at least Baa by Moody's Investors Service or BBB by Standard & Poor's, if unrated by Moody's. Collateralized Mortgage Obligations (CMOs) are not included. Total return comprises price appreciation/depreciation and income as a percentage of the original investment. Indexes are rebalanced monthly by market capitalization.

Lehman Treasury Bond Index composed of all US Treasury publicly issued obligations. Includes only notes and bonds with a minimum outstanding principal amount of \$50 million and a minimum maturity of one year. Flower bonds are excluded. Total return consists of price appreciation/depreciation plus income as a percentage of the original investment. Indexes are rebalanced monthly by market capitalization.

Lehman Global Emerging Markets Index consists of the fixed and floating-rate USD-denominated US Emerging Markets Index and the primarily EUR and GBP-denominated fixed-rate Pan-European Emerging Markets Index and includes emerging markets debt from the following regions: Americas, Europe, Asia, Middle East, and Africa. For the index, an emerging market is defined as any country that has a long term foreign currency debt sovereign rating of Baa1/BBB+/BBB+ or below using the middle rating of Moody's, S&P, and Fitch. The index does not overlap with the US Corporate High-Yield Index or the Pan Euro Corporate High-Yield Index, but may overlap with other investment-grade Aggregate Indices if the securities meet their index eligibility rules.

Citigroup World Government Bond Index (WGBI) ex- US is an unmanaged index comprised of approximately 600 high-quality bonds issued in several different securities and gives a broad indication at how foreign bonds have performed. It is a market capitalization weighted index consisting of the government bond markets of the following: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, Portugal, Spain, Sweden, Switzerland and the United Kingdom. Country eligibility is determined based on market capitalization and investability criteria. All issuers have a remaining maturity of at least one year. Rebalanced monthly. This index represents the WGBI ex- US hedged back to the US dollar.

For more complete information about the Loomis Sayles Bond Fund, or any other Loomis Sayles fund, including charges and expenses, please write or call Natixis Distributors, L.P. at 1-800-633-3330 for a free prospectus. Investors should consider a fund's objective, risks and expenses carefully before investing. This and other information can be found in the Fund's prospectus. Please read the prospectus carefully before you invest or send money. Natixis Distributors, L.P., 399 Boylston Street, Boston, MA 02111

113008_3