

# Risk-Adjusted Income: A Prescription for Yield-Starved Investors

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## WHY CONSIDER THE LOOMIS SAYLES MULTI-ASSET INCOME FUND?

- Many income-seeking investors may need a new approach in today's low-yield environment, and we believe our fund can offer a unique solution.
- We strive to generate risk-adjusted income—consistent, moderate income that considers prevailing economic conditions, return estimates and volatility expectations.
- We believe intelligent risk-taking can help bolster income when backed by research-based tactical shifts, broad diversification across income-producing assets and integrated risk management.

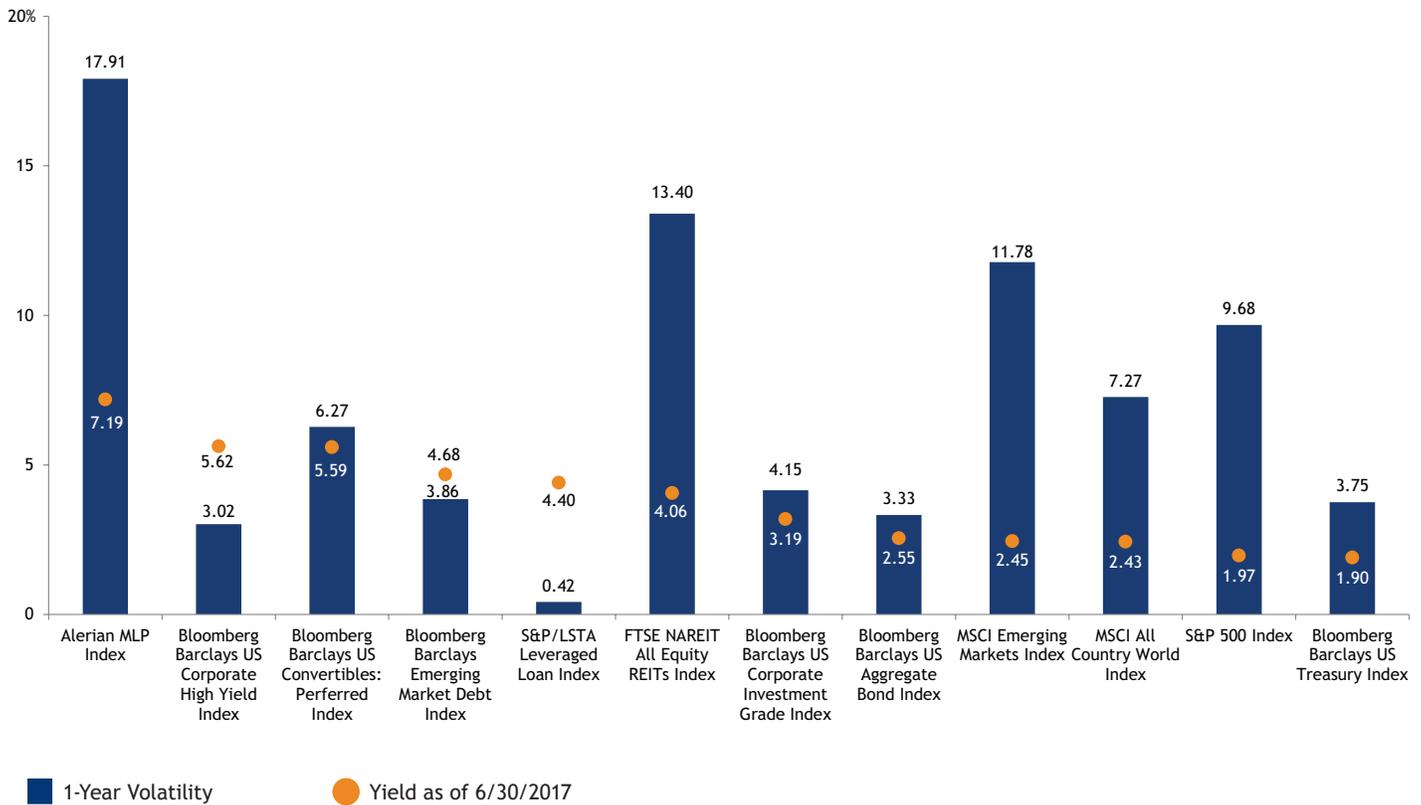
Many investors seek income for its consistency and ability to dampen volatility. High-quality fixed income securities historically provided investors with a reasonable income stream, but since the 2008 financial crisis, global economic conditions and central bank policies have caused yields to fall to historic lows. To realize even modest income levels, investors may need to consider assuming more risk. We believe a multi-asset income portfolio can generate income while seeking to mitigate risk; we strive for risk-adjusted income.

## Yield in the Context of Volatility and Diversification

Not all yield is built the same. As shown in the chart on the next page, the yield for the Bloomberg Barclays US Treasury Index is 1.90% with a 1-year historical volatility of 3.75%. The S&P 500® Index has an annual yield of 1.97%, with a 1-year historical volatility of 9.68%. By mirroring the S&P, an investor could realize an additional 0.07% in yield but would also assume almost twice the volatility. An income-seeking investor should consider the impact volatility can have on total return while not blindly shying away from risk.



## BALANCING YIELD AND VOLATILITY



Source: Bloomberg, data as of 6/30/2017.

To complicate matters, most high-quality assets, such as Treasuries, mortgage-backed securities (MBS) and investment grade corporate debt, are highly correlated.<sup>1</sup> In our minds, the current combination of low yields and similar risk exposures among these assets may, at best, result in disappointing income streams and, at worst, produce negative total returns. We believe generating a higher level of income necessitates expanding the opportunity set.

In addition to high-quality government bonds, investment grade issues and MBS, we focus on non-correlated income-generating assets, including high yield debt, preferred stock, US real estate investment trusts (REITs), master limited partnerships (MLPs), emerging market debt, and global and domestic dividend-paying equities. Historically, different fundamentals have driven these asset classes, which has created disparate correlations. For example, Treasury yields are driven by the federal funds rate and expected Federal Reserve (Fed) policy, but MLPs are more linked to energy fundamentals, specifically oil. A portfolio constructed from these asset classes can be naturally diversified. We believe a broader opportunity set expands and improves our ability to generate risk-adjusted income.

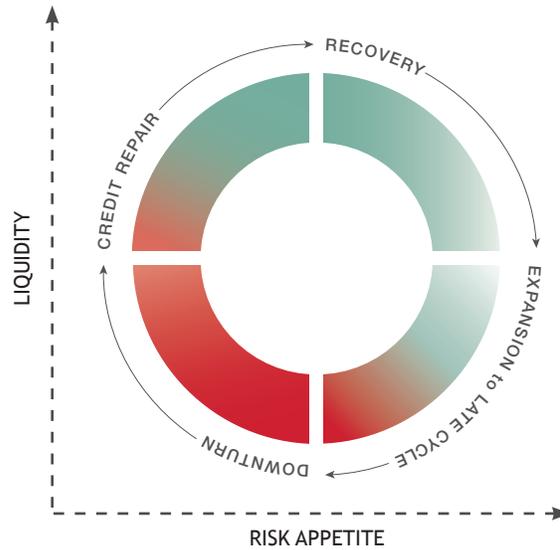
<sup>1</sup>Correlation is the degree to which different sectors or asset classes move together. Ranging from +1 to -1, positive correlations mean movement in the same direction, and negative correlations mean movement in opposite directions.



## The Importance of a Tactical Approach

We believe there are times when it makes sense to assume volatility to potentially increase total return and yield, but strong cyclical views must inform these shifts. Our economic cycle framework analyzes changing credit conditions over time and guides tactical asset allocation shifts. In practice, countries, sectors and companies simultaneously move through different economic phases, which increases complexity, but can help create relative value investment opportunities. Given the challenges in identifying cycle phases, a well-developed framework is integral to tracking the interaction between capital access and asset prices.

### PHASES OF THE ECONOMIC CYCLE



*Source: Loomis Sayles, views as of 6/30/2017. Investment decisions should consider the individual circumstances of the particular investor. This reflects the current opinions of the authors and views are subject to change at any time without notice. Other industry analysts and investment personnel may have different views and assumptions.*

We believe investors have opportunities to enhance income and manage risk when guided by a robust, research-driven cyclical view. As shown in the table below, yield, total return and volatility have very different characteristics throughout the cycle. Returns and volatility tend to be high during credit repair, when companies begin to releverage, balance sheets are still weak, and most investors still shun risk. In recovery, volatility tends to be moderate, but returns can be strong. During expansion to late cycle, valuations often become rich, and the market may be complacent; we tend to be more cautious. During downturn, volatility spikes, and returns are generally poor. We are most conservative during this phase of the cycle in an effort to protect capital.

### IMPACT OF CYCLE ON YIELD, TOTAL RETURN AND VOLATILITY

	EXPANSION TO LATE CYCLE	DOWNTURN	CREDIT REPAIR	RECOVERY
YIELD	Low to Rising	High and Rising	High but Stable	Falling
TOTAL RETURN	Low	Low or Negative	High	Strong
VOLATILITY	Lowest	High	High	Moderate

*Source: Loomis Sayles, views as of 6/30/2017. This table 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. This reflects the current opinions of the authors and views are subject to change at any time without notice. Other industry analysts and investment personnel may have different views and assumptions.*



## The Potential Impact of a Tactical Approach

We believe even small shifts based on a cyclical economic view can improve total return and yield. Over the past 14 years, indices performed differently through the cycle, as shown in the table below. Understanding the relative performance of income-generating assets based on the cycle helps us identify investment opportunities. We tend to favor higher-volatility, higher-income assets during our preferred points in the economic cycle when risk-taking should be rewarded. During downturn, however, we typically seek to protect capital and reduce volatility. We believe an active, tactical approach has a strong theoretical basis for adding value over an economic cycle and our research-backed framework provides us real-time, actionable insights.

### HISTORICAL ASSET CLASS RETURNS THROUGH THE CYCLE

	EXPANSION TO LATE CYCLE	DOWNTURN	CREDIT REPAIR	RECOVERY
BLOOMBERG BARCLAYS US TREASURY INDEX	3.7%	5.8%	5.6%	1.9%
BLOOMBERG BARCLAYS US AGGREGATE	3.8%	4.7%	7.1%	2.5%
BLOOMBERG BARCLAYS US CORPORATE INVESTMENT GRADE	4.1%	2.6%	11.8%	3.4%
BLOOMBERG BARCLAYS US CORPORATE	4.8%	0.1%	20.5%	7.7%
ALERIAN MLP INDEX	-0.1%	-16.7%	24.6%	8.8%
MSCI EMERGING MARKETS INDEX	7.3%	-25.6%	20.5%	12.3%
BLOOMBERG BARCLAYS US CONVERTIBLES: PREFERRED	5.8%	-26.3%	29.9%	8.7%
S&P 500 INDEX	6.6%	-30.3%	19.0%	9.6%
MSCI ALL COUNTRY WORLD INDEX	5.4%	-31.9%	17.4%	10.0%
FTSE NAREIT ALL EQUITY REITS INDEX	5.4%	-36.0%	28.9%	10.1%

Source: Bloomberg data with Loomis Sayles analysis. The entire period is from 1/1/2003 to 12/31/2016. Downturn is from 1/1/2008 to 6/30/2009. Credit repair periods are from 1/1/2003 to 5/31/2003 and 7/1/2009 to 5/31/2011. Recovery periods are from 6/1/2003 to 2/28/2006 and 6/1/2011 to 12/31/2013. Expansion to late cycle periods are from 3/1/2006 to 12/31/2007 and 1/1/2014 to present. Other industry analysts and investment personnel may have different views and opinions. Sorted by downturn returns.

Indexes are unmanaged and do not incur fees. It is not possible to invest in an index.

Performance is shown for illustrative purposes only and is based on historical index returns for the periods outlined. Other periods selected may have different results, including losses. The table does not represent actual or future performance of any investment option. The information presented has been obtained from sources believed to be reliable, but it is not guaranteed.

Performance results shown do not represent actual results, which may significantly differ from the hypothetical returns being presented.



## The Role of High-Conviction Security Selection and Risk Management

Our economic cycle framework guides top-down asset allocation. Once established, we use Loomis Sayles' research capabilities to populate the portfolio with our best ideas. Generally, we are comfortable when our highest-conviction securities are large contributors to fund volatility because we believe will be compensated for the additional risk. Our conviction rests in the deep fundamental research we conduct across the equity and fixed income markets.

Leveraging our broad credit and equity research, we develop and actively review forward-looking yield and total return expectations, including base, bull and bear outcomes, at the asset class, sector and security level. We generally seek to build positions with asymmetric upside potential relative to downside risk using these forecasts. Our yield and return expectations also drive positioning. As we approach our base case return target, we usually reduce position sizing in favor of other securities with more upside potential. If factors favor a bull case, we may initiate or grow a position while closely monitoring fundamentals. If a security is trading closer to its bear case scenario, we assess the macro landscape, valuations and technicals to determine whether to close, maintain or add to a position. This optimization helps us manage portfolio diversification and volatility.

A robust suite of risk management tools complements our fundamental research. These tools guide our portfolio construction and management. For example, scenario analysis simulates hypothetical portfolio impacts based on a variety of historical environments, both positive and negative. Information gleaned from scenario analysis allows us to optimally position the portfolio based on the next anticipated macro environment. In our view, fundamental research and strong risk management are both important, complementary engines in the production of risk-adjusted income.

## Why Consider the Loomis Sayles Multi-Asset Income Fund?

### TACTICAL ASSET ALLOCATION WITH A FOCUS ON INCOME

We are focused on generating income throughout an economic cycle. We believe tactical shifts based on prevailing economic conditions can help generate consistent income and preserve total return. Our macroeconomic and fundamental research aims to enhance portfolio returns while also managing volatility.

### HARVEST INCOME FROM DIVERSIFIED SOURCES

Our fund seeks to provide exposure to a broad asset class mix in a single investment portfolio with a focus on generating risk-adjusted income. We believe the broad flexibility to invest in uncorrelated assets is a distinct advantage of our approach. We seek to harvest multiple income sources, capture capital appreciation and reduce volatility by combining numerous asset classes with low or negative correlations.



## INTEGRATED RISK MANAGEMENT

We believe our focus on risk-adjusted income is crucial. Assessing volatility and managing risks are integrated through each phase of portfolio construction. We use a tactical, diversified approach to manage the Multi-Asset Income Fund. Incorporating robust risk management allows us to assess portfolio sensitivities, manage exposures and effectively allocate capital in an effort to generate attractive risk-adjusted income in each phase of the economic cycle.

## A NEW APPROACH FOR INCOME GENERATION

We believe income-seeking investors need a new approach to realize desired levels of income. We strive to bolster income by intelligently taking risk when we believe we will be compensated for doing so. Our economic cycle framework informs top-down asset allocation decisions, and the portfolio is populated with high-conviction securities based on bottom-up fundamental research. The pillars of our fund are research-based tactical shifts, broad diversification across income-producing assets, and integrated risk management.

## About Risk

**Asset allocation strategies** do not guarantee a profit or protect against a loss. **Equity securities** are volatile and can decline significantly in response to broad market and economic conditions. **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. **Foreign securities** may involve heightened risk due to currency fluctuations. Additionally, they may be subject to greater political, economic, environmental, credit and information risks. Foreign securities may be subject to higher volatility than US securities, due to varying degrees of regulation and limited liquidity. **Real estate** investing may be subject to risks including but not limited to declines in the value of real estate, risks related to general economic conditions, changes in the value of the underlying property owned by the trust and defaults by borrowers. **Master Limited Partnerships (MLPs)** may trade less frequently than traditional investments such as equities, which may result in erratic price movement or difficulty in buying or selling. MLPs are subject to significant regulation and may be adversely affected by changes in the regulatory environment including the risk that an MLP could lose its tax status as a partnership. **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.

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## Index Definitions

**Alerian MLP Index** is the leading gauge of energy Master Limited Partnerships (MLPs). The index is float adjusted and capitalization weighted. Constituents represent approximately 85% of total float-adjusted market capitalization.

**Bloomberg Barclays Emerging Market Debt Index** is a flagship hard currency emerging market debt benchmark that includes US-dollar-denominated debt from sovereign, quasi-sovereign and corporate emerging market issuers. The index is broad-based in its coverage by sector and country.

**Bloomberg Barclays Mortgage-Backed Securities (MBS) Index** is a component of the Barclays US Aggregate Index covering mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA) and Freddie Mac (FHLMC). The MBS Index is formed by grouping the universe of over 600,000 individual fixed-rate MBS pools into approximately 3,500 generic aggregates.

**Bloomberg Barclays 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.

**Bloomberg Barclays US Convertibles: Preferred Index** is a subset of the Bloomberg Barclays US Convertibles Index, which tracks the performance of the US-dollar-denominated convertibles market and includes all four major classes of convertible securities (i.e., cash-pay bonds, zeros/OIDs, preferreds and mandatories). These bonds offer upside participation with an equity component (usually a non-detachable common stock warrant) and downside protection with a fixed income component (usually a bond or preferred stock) and can offer various degrees of equity exposure.

**Bloomberg Barclays US Corporate High-Yield Index** covers the universe of fixed-rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC-registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included.

**Bloomberg Barclays US Corporate Investment Grade Index** covers publicly issued US corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity and quality requirements. To qualify, bonds must be SEC-registered.

**Bloomberg Barclays US Treasury Index** includes public obligations of the US Treasury with at least one year until final maturity, excluding certain special issues such as state and local government series bonds (SLGs), US Treasury TIPS and STRIPS.

**FTSE NAREIT All Equity REITs Index** is a free-float adjusted, market capitalization-weighted index of US equity REITs. Constituents of the Index include all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets other than mortgages secured by real property.

**MSCI All Country World Index** is a market capitalization-weighted index of stocks from developed and emerging markets providing a broad measure of global equity market performance.

**MSCI Emerging Markets Index** is a free float-adjusted market cap index measuring equity market performance of emerging markets.

**Standard & Poor's 500 (S&P 500®) Index** is a market capitalization-weighted Index of approximately 500 common stocks chosen for market size, liquidity and industry group representation to measure broad US equity performance. S&P 500® is a registered service mark of McGraw-Hill Companies, Inc.

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

***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 800-633-3330 for a prospectus and a summary prospectus, if available, containing this and other information. Read it carefully.***

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