Bond Fund

FUND FACTS

OBJECTIVE

Seeks high total investment return through a combination of current income and capital appreciation

Share class	I
Inception	5/16/1991
Ticker	LSBDX
CUSIP	543495840

Market Conditions

- A synchronized pickup in global economic activity supported risk appetite during the quarter. Most asset classes generated positive returns, led by high yield credit, equities and unhedged emerging market bonds. The Federal Reserve (Fed) raised rates in March, a widely anticipated move that acknowledged the strengthening US economy. Corporate profits improved and volatility remained very low. Commodity performance was mixed; metals rallied while oil prices dropped.
- US Treasury yields reached year-to-date highs ahead of the Fed interest rate hike and then retreated to finish the quarter essentially flat. The yield curve (a curve that shows the relationship between bond yields across the maturity spectrum) flattened as shorter-maturity Treasury yields rose while longer-maturity Treasury yields were nearly unchanged.
- US investment grade corporate bonds generated positive performance across most sectors. However, the rise in US Treasury yields during March eroded some of the asset class's overall return for the quarter.
- The US high yield credit rally that began in 2016 continued into the first quarter, with spreads (the difference in yield between Treasury and non-Treasury securities of similar duration) reaching multi-year tights in early March. Though spreads widened somewhat during the last weeks of the quarter, the asset class handily outperformed Treasurys of similar duration (duration refers to a security's price sensitivity to interest rate changes).

CLASS I PERFORMANCE AS OF MARCH 31, 2017 (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
FUND	3.44	3.44	9.30	2.12	4.63	6.04
BENCHMARK	0.96	0.96	0.54	2.69	2.47	4.34

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.

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.

Gross expense ratio 0.66% (Class I). Net expense ratio 0.66%. As of the most recent prospectus, the investment advisor has contractually agreed to waive fees and/or reimburse expenses once the expense cap of the fund has been exceeded. This arrangement is set to expire on 1/31/2018. When an expense cap has not been exceeded, the fund may have similar expense ratios and/or yields.

The Class I inception date is 5/16/1991. Class I shares are only available to certain institutional investors only; minimum initial investment of $100,000.

- Many foreign currencies rallied versus the US dollar as risk appetite remained strong, fears about China's economy eased and the Trump administration backed off its negative trade rhetoric. Hurt by higher yields globally, developed market government bonds were one of the few areas to post broadly negative total returns. Emerging market performance was broadly positive, aided by a weaker US dollar and positive investor sentiment. Emerging market GDP growth has been slowly trending up over the last few quarters and corporate profits improved. Latin American countries and South Africa were notable outperformers in the space.

Portfolio Review

- The fund outperformed its benchmark, the Bloomberg Barclays US Government/Credit Index, primarily due to an allocation to non-US-dollar-denominated securities.

Winners

- An allocation to non-US-dollar-denominated securities produced positive absolute and relative performance, largely due to exposure to the Mexican peso.
- High yield industrial holdings contributed to relative return, benefiting from strong security selection and exposure to the basic industry sector. Selected finance names also supported results.
- Convertible holdings aided performance, led by a selected basic industry name that generated significant positive return.

Laggards

- Exposure to common stock weighed on performance as a selected pharmaceutical name detracted.
- Yield curve positioning limited relative return, largely due to the fund's shorter-than-benchmark duration.

Outlook

- We think global GDP will improve to about 3.3% this year, up from 3.1% in 2016. While we maintain a favorable view of the US economy, we are cautious about potential changes in US government policy that could spark market volatility.
- The world's major economies are starting to see firmer growth and inflation, and central banks are slowly shifting gears. The Fed is moving toward interest rate normalization and we anticipate five more rate hikes between now and the end of 2018. Based on our rate outlook, we are maintaining a shorter-duration position to rein in the portfolio's interest rate sensitivity.
- We anticipate oil prices will inch higher over the next year but remain largely range-bound due to the competing factors of OPEC cuts and growing US production. The improved commodity outlook has raised our expectations for higher inflation. Yields could move higher as inflation conditions begin to build, but we think the transition is likely to be slow and uneven.

- We are generally maintaining exposure to investment grade and high yield corporate bonds. Strong risk appetite, potential fiscal stimulus and an improved profit outlook give us confidence that the current stage of the credit cycle[1] can be extended. Within investment grade, we continue to focus on lower-quality issues and selected credits that offer yield and upside potential. We continue to monitor risk factors such as lower risk premiums and higher leverage. In our view, the high yield sector enjoys an attractive yield advantage relative to US Treasurys, supportive fundamentals and fair valuations, but the downside risks are increasing. We are seeking pockets of value in certain industries, including energy, pharmaceuticals, and selected consumer-oriented issues.
- Our convertible bond allocation is diversified across industries, including energy, technology, financials, and healthcare. Though the sector has experienced some volatility, we expect convertible bonds to perform well over the next year.
- Markets outside of the US may see volatility tied to central bank activity, election cycles and policy. Our exposure is focused on stable, high-quality currencies that we believe offer long-term growth potential. We are also maintaining selected developing country local-pay bonds that we believe represent long-term value. We are seeking value in markets that have experienced some dislocation but offer yield, a reform agenda and a stable growth outlook.
- We plan to maintain a higher level of reserves in the form of cash and short-maturity US Treasury debt. Our investment philosophy is rooted in the belief that markets are inefficient, especially over the short term. We will seek to use our reserves as a source of liquidity as political and policy events unfold. We intend to focus on areas where we believe the market is mispricing risk and invest where we see significant dislocation.
- We think now is a critical time to be structurally different than traditional fixed income benchmarks; we believe the flexibility to broaden exposures will be key to preserving capital and generating attractive, long-term, above-market returns.
- Fund officers have analyzed the fund's current portfolio of investments, schedule of maturities and the corresponding amounts of unrealized currency losses that may become realized in the fiscal year ending on September 30, 2017. Based on this analysis, fund officers believe that realized currency losses may have less of an impact on this fund's distributions in the 2017 fiscal year. This analysis is based on certain assumptions, including but not limited to, the level of foreign currency exchange rates, security prices, interest rates and the net asset level of the fund. Changes to these assumptions could impact the analysis and the amounts of future fund distributions. Fund officers will continue to monitor 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.

[1] *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. **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. **Currency** exchange rates between the US dollar and foreign currencies may cause the value of the fund's investments to decline. **Equity securities** are volatile and can decline significantly in response to broad market and economic conditions.

Bloomberg Barclays US Government/Credit Index *includes securities in the Government and Credit Indices. The Government Index includes Treasurys (i.e., public obligations of the US Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of US Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the US Government). The Credit Index includes publicly issued US corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. Indexes are unmanaged and do not incur fees. It is not possible to invest directly in an index.*

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.

Before investing, consider the fund's investment objectives, risks, charges, and expenses. Please visit 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.

NGAM Distribution, L.P. (fund distributor) and Loomis, Sayles & Company L.P. are affiliated.