Fixed Income Fund

FUND FACTS

OBJECTIVE

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

Share class	I
Inception	1/17/1995
Ticker	LSFIX
CUSIP	543495501

Market Conditions

- Nearly all asset classes saw positive returns in the second quarter, supported by "just right" macroeconomic and financial conditions. The US dollar weakened slightly despite a Federal Reserve (Fed) interest rate hike in June, corporate profits continued to recover and investors embraced the risk-on trade. Commodities were the only dark spot as the sector struggled with a volatile supply/demand backdrop.
- US investment grade corporate bonds generated positive returns. Longer-duration corporates led performance, aided by declines at the long end of the US yield curve (a curve that shows the relationship between bond yields across the maturity spectrum).
- High yield credit was a leading asset class as investors continued to search for yield. Improving corporate profits provided an additional tailwind to the sector.
- Emerging market assets built on year-to-date gains, benefiting from the low-yield environment, positive investor sentiment and accelerating corporate earnings. The weaker US dollar boosted many emerging and developed market currencies, and unhedged returns were broadly positive.

Portfolio Review

- The fund outperformed its benchmark, the Bloomberg Barclays US Government/Credit Index, primarily due to an out-of-benchmark allocation to high yield credit.

CLASS I PERFORMANCE AS OF JUNE 30, 2017 (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
FUND	2.54	5.78	8.73	2.08	5.71	6.76
BENCHMARK	1.69	2.66	-0.41	2.62	2.29	4.57

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 0.57% (Class I). Net expense ratio 0.57%. 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 1/17/1995. Class I shares are only available to certain institutional investors only; minimum initial investment of $3 million.

Winners

- High yield markets have experienced strong performance year-to-date. Industrial holdings were again a top contributor to excess return, with results benefiting from strong security selection and exposure to the non-cyclical consumer sector. Financials also supported performance, with results driven by selected finance companies.
- An allocation to non-US-dollar-denominated issues was a strong contributor to relative return, largely due to security selection among issues denominated in the Mexican peso and New Zealand dollar.
- A meaningful underweight to US Treasurys aided return as investors preferred riskier assets during the quarter.

Laggards

- Selected convertible holdings weighed on absolute and relative return.
- An underweight to investment grade credit limited relative results.
- The fund's shorter-than-benchmark duration detracted from relative performance (duration refers to a security's price sensitivity to interest rate changes).

Outlook

- We believe global and US GDP will continue to improve. North America continues to benefit from low inflation, low interest rates and contained energy prices. Europe has been improving, and emerging markets are stabilizing with generally better commodity prices. China is also exhibiting more stable growth. We believe this backdrop will support corporate credit fundamentals and risk asset valuations.
- The Fed is raising rates slowly and will likely wait until December to hike again. We believe the Fed will begin balance sheet normalization later this year, but the runoff path will be gradual and should have minimal impact on interest rates. US inflation remains contained; however, the stronger US economic backdrop, job growth and wage pressures should ultimately firm inflation. The yield curve will likely continue to flatten as longer rates remain more stable than shorter rates. We are maintaining a short duration relative to the benchmark.
- Oil prices declined in the first half of 2017 on concerns about US supply and the perception that OPEC has lost its ability to balance the oil market. US shale is a relatively new variable for oil markets, and it could create price volatility. However, over the long term, we believe extended OPEC cuts will lead to a more balanced market and firmer pricing. US energy companies have continued to repair their balance sheets and credit metrics are in much better shape. We are maintaining exposure to selected names in the sector that we believe offer attractive yields and total return potential.
- Given improving corporate profits and positive margin expansion, we expect low default rates and default losses from corporate bonds in the coming year. Overall, we expect the long, slow expansion to continue. Valuations in credit markets have risen modestly, but we still see no downturn or recession on the horizon for the next 12 to 18 months. Moderate new corporate bond issuance and the global search for yield should support credit markets. We are largely maintaining our exposures to carefully selected investment grade and high yield corporate credit.

- Our convertible allocation remains diversified across industries, including technology, healthcare and energy. We reduced the portfolio's equity exposure amid strong equity market performance earlier in 2017, and our convertible exposure is currently more bond-like in character.
- We are maintaining selected non-US dollar bond positions. We believe that selected developing country local-pay bonds offer attractive potential total return. We are seeking opportunities with higher nominal and real yields and stable-to-improving inflationary trends that could benefit from positive economic changes like political reform or stronger global growth.
- We have modestly increased reserves in the form of cash and short US Treasury debt. We have some concerns about underpriced geopolitical risk but remain comfortable with the fundamental global economic outlook. Reserves may dampen portfolio risk should volatility develop, and they can be quickly deployed if market dislocations create attractive buying opportunities.
- In this low yield, low volatility environment, we are focused on issue selection and using our flexible mandate to construct a portfolio that is structurally different from the benchmark. We advocate lower duration and higher yield relative to the broad investment grade fixed income market.

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.

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.

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