# Securitized Asset Fund

### Fund Facts

OBJECTIVE

Seeks a high level of current income consistent with capital preservation

| | |
|---|---|
| Share class | I |
| Inception | 3/2/2006 |
| Ticker | LSSAX |
| CUSIP | 543495741 |
| Benchmark | Bloomberg US Securitized Bond Index |

***Bloomberg US Securitized Bond Index*** *is an unmanaged index of asset-backed securities, collateralized mortgage-backed securities (ERISA eligible) and fixed rate mortgage-backed securities. Indexes are unmanaged and do not incur fees. It is not possible to invest directly in an index.*

## Market Conditions

- Agency mortgage-backed securities (AMBS) registered positive total returns in the first quarter due to their sensitivity to falling US Treasury yields, with higher-coupon issues outperforming duration-equivalent Treasurys and lower-coupon securities underperforming. Securitized credit generally produced positive total returns that exceeded those of Treasurys, with some pockets of underperformance for subsectors affected by policy uncertainty. Asset-backed securities (ABS), commercial mortgage-backed securities (CMBS), and non-agency residential mortgage-backed securities (NARMBS) provided broadly positive returns, while lower-mezzanine collateralized loan obligations (CLOs) lagged.
- The US bond market produced a gain in the first quarter, with positive total returns across all major segments of the asset class. The Trump administration announced a series of tariffs on the United States' global trading partners, raising concerns that the US economy could fall into a recession in the second half of the year if the policies aren't reversed. The prospect of slower growth revived expectations that the US Federal Reserve would be compelled to cut interest rates as 2025 progresses. This marked a meaningful contrast to the start of the year, when the consensus view was that the White House was likely to pursue pro-growth policies that would limit the Fed's ability to reduce rates. The shift in tone led to a decline in government bond yields, providing a tailwind for the credit sectors.
- The US Treasury market delivered positive returns in the first quarter as investors began to factor in the possibility that slowing growth would allow the US Federal Reserve to cut interest rates more aggressively than the markets expected at the beginning of 2025. The yield on the two-year note fell from 4.25% at the start of the year to 3.89% on March 31, while the 10-year yield declined from 4.58% to 4.23%. On a total return basis, longer-term issues outpaced short-term debt.

### Class I Performance as of March 31, 2025 (%)

| | CUMULATIVE TOTAL RETURN | | ANNUALIZED TOTAL RETURN | | | |
|---|---|---|---|---|---|---|
| | 3 MONTH | YTD | 1 YEAR | 3 YEAR | 5 YEAR | 10 YEAR |
| FUND | 3.29 | 3.29 | 7.50 | 2.13 | 1.60 | 2.27 |
| BENCHMARK | 3.00 | 3.00 | 5.46 | 0.69 | -0.52 | 1.19 |

***Performance data shown represents past performance and is no guarantee 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.*

***Shares of the Fund are currently offered exclusively to investors in certain wrap fee programs or other institutional advisory clients of Loomis, Sayles & Company that meet criteria determined by Loomis Sayles.***

*The Class I inception date is 3/2/2006. Class I shares are available to certain institutional investors only.*

## Portfolio Review

- The fund outperformed its benchmark, the Bloomberg US Securitized Index, primarily due to agency CMBS, agency CMOs, and CMBS.

### Contributors

- The portfolio allocation to agency CMBS derivatives, such as interest-only tranches of ginnie mae project loan securitizations and freddie mac multifamily k deals, were significant contributors of return.
- Out-of-benchmark agency CMOs contributed positively to performance, driven by holdings of front sequential CMOs that have attractive short-term bond yields.
- CMBS was a top-performing sector within securitized credit this quarter, largely driven by the strong performance of conduit subordinate bonds.
- Consumer ABS contributed marginally to portfolio performance in Q1, with in-school and refinanced private student loans performing best.
- Commercial ABS significantly contributed to securitized credit excess returns, driven by overweight positions in senior aircraft and whole business ABS.
- RMBS performance was neutral during Q1, with subordinate re-performing loan (RPL) tranches underperforming and subordinate single-family rental (SFR) tranches outperforming.

### Detractors

- Within the allocation to agency pass-thru MBS, the portfolio underweight to higher coupons was the main detractor of excess returns.

### Outlook

- Agency MBS prepayment speeds had bottomed in 2023 and are expected to increase for “in-the-money” borrowers if we enter a lower rate environment. We believe specified pools, particularly among high coupons, offer compelling convexity advantages compared to worst-to-delivery pools that could face faster prepayments if rates fall from current levels.
- In Consumer ABS market, recent risk market volatility has created some softness in spreads for certain sectors. Spreads movement has been mixed so far. We think better entry points will come in the near term. Primary market issuance in 2025 is expected to meet or exceed the elevated levels from 2024. Year-to-date, elevated supply has been met with robust investor demand, likely fueled by fixed income inflows and under-allocated investors increasing their exposure to ABS. However, recent risk market volatility could quickly change both the demand and supply in new issue. Secondary liquidity right now is only marginally weaker.
- Commercial ABS Auto Rental Fleet fundamentals are challenging for rental car sponsors, especially Hertz, given high depreciation expense, interest expense, and operating expenses of electric vehicles. Aviation: Fundamentals are strong as demand for air travel has fully recovered and now above pre-COVID levels while aircraft supply remains constrained due to a combination of Boeing’s quality issues, significant production delays, and engine shortages.. Primary issuance has begun to increase. Solar ABS has notably underperformed this year, presenting attractive entry points in discounted senior bonds from deals issued by distressed sponsors. Most other sectors are only marginally wider and we think better entry points will come in the near term.
- CLO: Some highly leveraged corporate issuers will face challenges as rising costs (goods, labor, and debt service) hit margins. Increased market volatility will reduce repricing activity, keeping the interest burden elevated. This will likely result in increased bank loan defaults and/or restructurings. Weakened loan covenants will keep Liability Management

Exercise (LMEs) elevated, weighing on recoveries. However, the number of loans with near-term maturities remain low and any rate cuts would provide some relief to leveraged borrowers. We remain confident in the structural credit protection provided by CLOs. Despite recent deterioration in the pricing of the lowest-rated loans, CLO deal quality remains robust, supported by managers' active management of the collateral.

- In CMBS valuations, recent market momentum has inflated CMBS valuations, creating a disconnect between current asset prices and their underlying fundamentals. This divergence compels us to adopt a more cautious investment stance. While CMBS spreads remain attractive relative to investment-grade corporate bonds, we believe the current market environment necessitates a selective approach. We favor top-tier investments, such as AAA-rated tranches from high-quality conduit and SASB deals, which offer a more favorable risk-reward profile. Select seasoned subordinate conduit bonds and distressed subordinate SASBs may present potential value opportunities for higher-risk investors. However, careful security selection is crucial given the potential for weaker operating earnings across the commercial real estate sector.
- In RMBS, increased for-sale inventory should bolster home sales growth, offsetting the impact of elevated mortgage rates. While recent housing sentiment has softened due to tariff concerns, rate volatility, and localized inventory increases, strong underlying supply constraints and robust underwriting practices should mitigate any near-term price declines. Long-term, favorable demographics and continued supply limitations are expected to drive sustained home price and rent growth. Distressed sales are not anticipated, given strong borrower equity, GSE forbearance programs, and high-quality credit. We anticipate regional home price dispersion as post-Covid gains normalize in certain markets. We remain confident in the protections provided in the deals' structures to prevent losses from impacting held positions. We think broadly spreads are compensatory for the risk associated with softening in home prices, though we are more cautious on the riskiest securities exposed primarily to markets with significant appreciation over the prior cycle. New issue RMBS supply remains healthy to start the year and pricing has remained resilient. We expect to have continued supply, particularly in Non-QM, Non-Performing Loans, and Residential Transition Loans, if spread levels are conducive to issuance and origination for sponsors.

## About Risk

**Mortgage-related and asset-backed securities** are subject to the risks of the mortgages and assets underlying the securities. Other related risks include prepayment risk, which is the risk that the securities may be prepaid, potentially resulting in the reinvestment of the prepaid amounts into securities with lower yields. **US government agency securities** are not insured, and may not be guaranteed by the US government. **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. **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.

## Important Disclosure

*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.*

*This marketing communication 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 Investment recommendations may be inconsistent with these opinions. Information, including that obtained from outside sources, is believed to be correct, but we cannot guarantee its accuracy. This information is subject to change at any time without notice.*

***Market conditions are extremely fluid and change frequently.***

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

***Commodity, interest and derivative trading involves substantial risk of loss.***

***Any investment that has the possibility for profits also has the possibility of losses, including the loss of principal.***

***There is no guarantee that the investment objective will be realized or that the Fund will generate positive or excess return.***

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

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