Strategic Alpha Fund

Fund Facts

OBJECTIVE

Seeks to provide an attractive absolute total return, complemented by prudent investment management designed to manage risks and protect investor capital. The secondary goal of the fund is to achieve these returns with relatively low volatility

Share class	Y
Inception	12/15/2010
Ticker	LASYX
CUSIP	63872T620

Market Conditions

- The global bond market recovered from last year's poor showing to post a solid gain in the first quarter of 2023. Inflation—while still high—continued to decline from its mid-2022 peak, creating optimism that central banks would soon be able to conclude their long series of interest rate hikes. Later in the quarter, the failure of three US banks and the collapse of the European institution Credit Suisse put significant stress on the financial system and raised the possibility of a crisis similar to that of 2008-2009. The US Federal Reserve (Fed) responded by providing liquidity to banks through the creation of the Bank Term Funding Program – a move widely seen as a form of monetary easing. The issues in the banking sector also prompted investors to begin pricing in multiple rate cuts before year end. Together, these events—as well as the "flight to quality" brought about by the specter of a financial crisis—helped the bond market recover some of the ground it had lost in 2022.
- Although the Fed acted quickly to head off a contagion, it also continued to raise interest rates. At its meeting on March 23, the Fed boosted short-term rates by a quarter-point to a range of 4.75%-5.0%. This move was actually a positive for the financial markets, as it was seen as an indication that the Fed believed the financial system was on a sound enough footing that it could raise rates without creating further near-term disruptions.
- US Treasurys benefited from the improving interest-rate outlook and investors' preference for safer assets. The yield on the two-year note fell from 4.41% to 4.06% over the course of the quarter, while the 10-year yield moved from 3.88% to 3.48%. (Prices and yields move in opposite directions.) The yield curve steepened as a result of the quarter's moves, with investors beginning to factor the possibility of Fed rate cuts into the prices of shorter-term debt.

Class Y Performance as of March 31, 2023 (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
FUND	1.65	1.65	-2.25	3.42	1.57	1.89
BENCHMARK*	1.07	1.07	2.50	0.89	1.41	0.87

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.

**ICE BofA ML 3 Month US Treasury Bill Index*

Gross expense ratio 0.72% (Class Y). Net expense ratio 0.72%. As of the most recent prospectus, the investment advisor has contractually agreed to waive fees and/or reimburse expenses (with certain exceptions) once the expense limitation of the fund has been exceeded. This arrangement is set to expire on 4/30/2023. When an expense limitation has not been exceeded, the fund may have similar expense ratios and/or yields.

The Class Y inception date is 12/15/2010. Class Y shares are sold to eligible investors without a sales charge; other Classes are available for purchase.

- The Treasury market displayed volatility well above historical norms. In mid-March, the ICE BofA MOVE Index—which gauges volatility in U.S. government bonds—climbed to its highest level since 2009. Notably, in the three trading days from March 9 to March 13, the yield on the two-year note experienced its largest decline since the stock market crash of 1987.
- Investment-grade corporate bonds gained ground and modestly outperformed US Treasuries. While yield spreads over government bonds rose—indicating that corporates lagged on a price basis—the deficit was more than offset by the effect of the category's higher average yield.
- High yield corporate bonds produced a positive return and outpaced investment-grade issues. After rising in mid-March, yield spreads fell considerably in the final days of the quarter to close below where they stood at the start of the year. The asset class gained a further boost from its high absolute yield relative to other segments of the market.
- Securitized credit generally posted strong positive total and excess returns. Commercial asset-backed securities (ABS) and residential mortgage-backed securities (MBS) provided the strongest total and excess returns over the period amidst improving fundamentals in aircraft ABS and receding fears of a significant home price decline. Consumer ABS and collateralized loan obligations (CLOs) also experienced positive total and excess returns, but to a lesser extent as fears waned regarding the potential spillover effect of banking stress. The outlier this quarter was commercial mortgage-backed securities (CMBS), which saw negative total and excess returns. Broader concerns about commercial real estate rose due to banking sector stress and increased likelihood of loan extensions and strategic defaults. Agency MBS saw positive total returns with the rate rally, but negative excess returns as high short-term rate volatility combined with fears of the FDIC selling agency MBS holdings from failed banks.
- Emerging-market bonds, while not keeping pace with the US market in the first quarter, nonetheless registered a positive total return. The category was well supported by the combination of its high absolute yield, its relative insulation from the banking issues in the developed markets, and continued optimism about the reopening of China's economy. Strength in a number of emerging currencies versus the US dollar was an additional tailwind for emerging-market debt.

Portfolio Review

- The fund outperformed its benchmark, the ICE BofAML 3 Month US Treasury Bill, primarily due to positioning within securitized assets, investment grade corporate bonds and high yield corporate bonds.

Contributors

- The fund's allocation to securitized assets led positive contributions to relative performance during the period including ABS, NARMBS and CLOs. Housing, auto loans and student loans particularly aided returns. While the quarter closed with the Fed hiking interest rates, hopes that the central bank may pause its tightening cycle in the near future led to decreasing mortgage rates, which is directly correlating with an increasing number of buyers making offers on listed houses. With tight supply and sellers reluctant to lose their low mortgage rates, new listings of US homes for sale dropped 22% from the prior year.

Additionally, while President Biden's student loan forgiveness plan hangs in the balance with the Supreme Court, a further lawsuit is being initiated seeking to end the pause on student loan payments that has been extended eight times through August 2023.

- The allocation to investment grade corporate bonds bolstered performance for the period. Holdings within banking, technology and energy proved additive to performance. Silicon Valley Bank collapsed during March and the government followed up by shutting down Signature Bank, which is a regional bank that was close to downfall. In addition, European banking giant Credit Suisse was bought out by UBS to prevent collapse. President Joe Biden told Americans during the turmoil that they "can rest assured that our banking system is safe." The fund's exposure to Credit Suisse led performance within the banking subsector during the quarter.
- Exposure to high yield corporate bonds was additive to relative performance as credit spreads (the incremental yield provided by lower quality bonds) narrowed during the quarter. In sector terms, holdings within consumer cyclicals and non-cyclicals, finance companies and basic industry boosted return. After sustaining their worst returns in history last year, bond markets slightly recovered in the first quarter as yields declined. High yield primary market issuance increased by approximately $3.9 billion from February to March, and the three top-performing sectors were restaurants, electric and lodging.

Detractors

- The fund's positioning with respect to duration (and corresponding interest rate sensitivity) and non-US dollar currency exposure both weighed on performance for the quarter. The yield on the benchmark 10-year Treasury note finished the quarter 41 basis points lower at 3.47%. In this environment, our short position in US Treasury interest rate futures weighed on performance. Despite these developments, there is a level of optimism that the Fed is near the end of its rate hiking cycle and US Treasurys remain a favorable asset class.
- Exposure to convertible securities detracted for the period due to exposure to Dish Network in the communications subsector.
- The fund's allocation to equities slightly detracted from returns for the quarter, driven by energy, communications and consumer non-cyclicals holdings. Many stocks have been hit hard by the Fed's aggressive interest-rates hikes, which have especially weighed on companies with premium valuations. As the failure of three U.S. banks in March created further concerns among investors, US stocks showed signs of resilience, with the S&P finishing higher despite volatility and Nasdaq posting its largest quarterly rise since the fourth quarter of 2020.

Outlook

- As a result of the Fed's aggressive monetary policy to fight inflation in 2022, investors realized some of the worst fixed income performance in the past several decades. After more than 400 basis points of rate hikes, financial markets experienced further fallout from Fed policy. Credit concerns at US regional banks sparked stress in the banking sector that spilled over into global markets, highlighted by the failures of Silicon Valley Bank and Signature Bank, and the eventual takeover of Credit Suisse by UBS. Market volatility spiked initially and risk assets sold off; however, measures were quickly taken by central banks, governments and regulators to instill confidence, stem capital flows and ensure

financial markets continued to function. The macroeconomic environment and outlook remains challenging. Global growth forecasts continue to trend lower as tight financial conditions, hawkish central banks, geopolitics and the war in Ukraine weigh on future expectations.

- In our view, the credit cycle[1] is firmly in the late stage and the risk of downturn has increased. The ability of the Fed to manufacture a soft landing is becoming more difficult as inflation remains sticky even as economic data has turned lower. While we are not expecting a systemic banking crisis, recent volatility in the banking system will likely lead to higher funding costs for banks, both wholesale funding and retail deposits, which we believe may lead to tighter lending standards that could further exacerbate already weakening economic projections. One area in particular that we are monitoring to determine if growth could slow more quickly than expected is corporate earnings. We expect earnings to contract in 2023, with the potential for a profits recession. In the event that margins come under further pressure and companies need to cut costs via job cuts, we could foresee an environment where the pace at which growth is declining increases materially and ultimately leads to recession. In addition, housing metrics have deteriorated and manufacturing data indicates contraction; however, in our view the US consumer and corporate fundamentals continue to be bright spots. The consumer appears on solid footing, maintaining strong levels of excess savings and continuing to spend at a healthy rate. Labor markets remain tight, as reflected in higher wages, cost of living adjustments, an elevated number of job openings and employers who are reluctant to shed workers in industries where they may have trouble getting them back. We believe these factors should help support consumer confidence. Corporate fundamentals also remain strong, highlighted by strong leverage and interest coverage ratios, along with a high yield corporate market maturity schedule that seems manageable through 2025. We believe a healthy consumer combined with positive corporate fundamentals should serve to avoid a hard landing by helping to provide a floor to economic activity.

- The Fed may be in a precarious position to fight inflation as we believe it must balance future policy action against its potential to create financial market instability. While inflation seems to have peaked and should roll down over time, we believe inflation will likely remain sticky and above the Fed's target throughout the second half of 2023, primarily as the result of wage pressure. Job gains have been robust in recent months, and the unemployment rate has remained low. In addition, we maintain longer-term structural concerns that could support higher levels of inflation, including the impact of de-globalization, de-carbonization, changing demographics and growing government deficits. In our view, investors are tending to condense the cycle, expecting inflation to return to the Fed's target in time for the Fed to begin cutting rates by the end of 2023 to support growth. Up to this point, however, the Fed has remained hawkish and while we are likely at or near the terminal fed funds rate, we believe the potential for an extended Fed pause before beginning to cut rates remains. Throughout the remainder of the year, the Fed will likely be driven by the extent to which there is firm evidence of inflation moderating, and we believe the higher the Fed's terminal rate is, the sooner it will be compelled to start cutting it. We expect the US 10-year bond yield to be range-bound between 3% and 4% in the near-term and have become more neutral in our duration posture over the past several quarters.

- We believe that value has returned to US fixed income markets. Bond structures (price, yield and spread) appear relatively attractive. We believe the combination of discount-

to-par and favorable yields increases the potential value opportunity in bonds. We expect defaults and accompanying losses to remain low, while slowly increasing to more normal levels associated with a 'late-cycle' environment. With the likelihood of downturn in 2023 and 2024 rising, we have been holding larger than average liquid reserves and seeking to maintain an up-in-quality bias. If volatility increases and we see what we view as more attractive yields and spreads, we would consider redeploying reserves. We are mindful of the risks to the global economy, such as tighter financial conditions, slower Chinese growth, the Eastern Europe conflict, disruptions to the global supply chain and the lingering effects of the COVID pandemic. All of the turmoil around the world leaves us with a wide range of potential outcomes for growth, inflation and central bank policy response. Short-term yields have risen meaningfully and we are comfortable with how we are being compensated as we patiently wait for opportunities to develop.

- During periods in which the US dollar appreciates relative to foreign currencies, funds that hold non-US-dollar-denominated bonds, foreign currency or foreign currency-based derivative securities ("Foreign Currency Exposures") may realize currency losses in connection with the maturity or sale of certain Foreign Currency Exposures. These losses impact a fund's ordinary income distributions (to the extent that losses are not offset by realized currency gains within the fund's fiscal year). A recognized currency loss, in accordance with federal tax rules, decreases the amount of ordinary income a fund has available to distribute, even though non-US-dollar-denominated bonds continue to generate coupon income.
- Fund officers have analyzed the fund's current portfolio of investments, realized currency gains and losses, schedule of maturities, and the corresponding amounts of unrealized currency losses that may become realized during the current fiscal year. This analysis is performed regularly to determine how realized currency losses have and will impact periodic ordinary income distributions for the fund. Based on the most recent quarterly analysis (as of March 31, 2023), realized currency losses could continue to have an impact on the distributions in the 2023 fiscal year. This analysis is based on certain assumptions including, but not limited to, the amount of Foreign Currency Exposures held by the funds', the level of foreign currency exchange rates, security prices, interest rates, the fund advisers' ability to manage realized currency losses, and the net asset level of the fund. Changes to these assumptions could materially impact the analysis and the amounts of future fund distributions. Fund officers will continue to monitor these amounts 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.

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. **Currency** exchange rates between the US dollar and foreign currencies may cause the value of the fund's investments to decline. **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. **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. **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. **Commodity-related** investments, including derivatives, may be affected by a number of factors including commodity prices, world events, import controls and economic conditions, and therefore may involve substantial risk of loss. **Non-diversified funds** invest a greater portion of assets in fewer securities and therefore may be more vulnerable to adverse changes in the market. **Short exposures** using derivatives may present various risks. If the value of the asset, asset class or index on which the Fund holds short investment exposure increases, the Fund will incur a loss. The potential risk of loss from a short exposure is theoretically unlimited, and there can be no assurance that securities necessary to cover a short position will be available for purchase.

[1]*A credit cycle is a cyclical pattern that follows credit availability and corporate health.*

***ICE BoA Merrill Lynch US Dollar 3-month LIBOR Constant Maturity**. The 3-Month US LIBOR represents the London interbank offered rate (LIBOR) with a constant 3-month average maturity. LIBOR is a composite of the rates of interest at which banks borrow from one another in the London market, and it is a widely used benchmark for short-term interest rates. Indexes are unmanaged and do not incur fees. It is not possible to invest directly in an index.*

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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 800-225-5478 for a prospectus and a summary prospectus, if available, containing this and other information. Read it carefully.

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