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

- Global fixed-income markets delivered healthy gains in the second quarter, reflecting a combination of slowing economic growth, persistently low inflation and the US Federal Reserve's (Fed's) shift toward increasingly accommodative monetary policy. As late as the fourth quarter of last year, the markets generally anticipated that the Fed would continue to raise interest rates for at least another 12 months. As growth slowed both in the United States and overseas in late 2018 and into the first quarter, the Fed indicated that it would move to a neutral policy. More recently, the continued weakness in the global economy gave rise to expectations that the Fed would in fact cut rates at least once before the end of 2019. The change in the outlook for Fed policy fueled a strong, broad-based rally in bonds, the bulk of which occurred from mid-May onward.
- US Treasurys performed particularly well in this environment, with positive total returns across the maturity spectrum. The two-year yield, which tends to be more sensitive to shifts in Fed policy than longer-term issues, slid over fifty basis points. Longer duration segments of the curve produced the strongest price performance. The yield curve steepened as a result, with the gap between the two- and ten-year notes rising compared with its level at the end of the first quarter.
- Investment grade corporate bonds generated robust returns and outperformed duration matched US Treasuries. In addition to benefiting from the rally in rate-sensitive assets, corporates were aided by the backdrop of favorable investor risk appetites, rising equity markets and expectations that corporate earnings growth will remain in positive territory.
- High yield bonds posted positive absolute returns but finished somewhat behind investment-grade debt. The category's relative performance was affected by the sharp

CLASS I PERFORMANCE (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
FUND	2.77	8.10	5.57	4.83	2.25	7.25
BENCHMARK	3.53	6.90	8.52	2.41	3.11	4.09

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 1/31/2021. 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.

decline in oil prices, which dampened the earnings prospects for the many energy-related high yield issuers. Still, high yield retains a sizable performance advantage in the year-to-date period through June 30.

- Domestic inflation remained calm in the second quarter, mirroring a trend that was in place across the globe. US core personal consumption expenditure inflation, after moving toward the 2% level late last year, settled back into a range between 1.5% and 1.7% thus far in 2019. Low inflation has been one of the key factors fueling expectations for Fed rate cuts.
- Emerging market bonds delivered healthy total returns that outpaced US high yield. The asset class benefited from its sensitivity to US monetary policy expectations and a weak US dollar in June.

Portfolio Review

- The fund underperformed its benchmark, the Bloomberg Barclays US Government/Credit Index, primarily due to its shorter duration positioning.

Winners

- The fund's underweight exposure to and longer duration positioning within US Treasurys positively contributed to performance.
- An allocation to equities was helpful for performance during the quarter. Security selection within the communications and consumer cyclical sectors added to excess return.
- Exposure to convertible securities added modestly to relative performance, led by communications and REIT names.

Laggards

- An allocation to high yield corporate credit limited performance for the quarter, led by holdings in the basic industry and energy sectors.
- Exposure to non-US dollar denominated issues detracted from the fund's performance, with holdings denominated in the New Zealand dollar and Iceland krona weighing most heavily on return.
- Underweight exposure to investment grade corporate bonds detracted from overall performance for the period.

Outlook

- Economic activity has not progressed as positively as we had anticipated. Global and US manufacturing have come under pressure and trade war concerns have increased. Combined with the fact that inflation has been tame, these factors will likely lead the Fed to cut interest rates. While we don't believe that the Fed is facing a regime shift, we do expect it to provide accommodation with multiple rate cuts to help ward off recession and extend this cycle.
- The net effect of these potential cuts should be to support economic growth and relieve the modest inversion at the short end of the yield curve as those rates decline. We do not believe a US recession will occur over the next twelve months given the solid employment

conditions and outlook for corporate profits. In addition, fundamentals remain intact and we still do not anticipate any significant uptick in corporate bond defaults.

- The US corporate bond markets have performed well year to date, supported by declining US rates. Spreads in both investment grade and high yield markets have contracted, largely reversing the difficult close to 2018.
- As valuations have shifted higher, we have taken some gains and have become increasingly patient and selective. However, yields in the US credit markets remain high relative to the rest of the developed world. More accommodative central banks should support economic growth and the demand for yield.
- We continue to maintain a level of reserves in our portfolios for future opportunities should markets experience a sharp pullback. This happened at the end of 2018 and to a lesser degree in May of this year, and both reversals were followed by rallies. We do strive to maintain as much yield as possible in these reserve-like positions.
- Our credit strategy remains focused on higher quality issues given the late expansion phase of the credit cycle.[1] We continue to be positive on the energy sector based on improved balance sheets and a favorable outlook for the price of oil. We are also maintaining exposure to the banking/financial sector as the overall credit quality remains positive, supported by tightened capital requirements.
- Our convertible allocation is focused on idiosyncratic stories, predominantly within energy, technology, and healthcare. We maintain a selective, patient approach to this sector due to valuations.
- Non-dollar exposure remains very low relative to historical allocations. We are watching for any inflection point on global growth relative to US growth for potential investment opportunities. Any escalation of trade wars would likely be largely positive for the US dollar. Notwithstanding any individual non-dollar opportunities we anticipate the value of the dollar to be range bound.
- Trade wars, specifically with China, and softening global manufacturing remain the principal risks to our outlook. We expect some modest controlled escalation in the trade situation. Any such escalation and further weakness in global manufacturing could drive volatility and create potential opportunity.
- We believe our portfolios are well positioned with an appropriate balance of risk, yield, liquidity and diversification to drive returns in the current environment. Our defensive or reserve positions give us future flexibility to adapt to changing markets and to identify opportunities as they arise.
- During periods in which the US dollar appreciates relative to foreign currencies, funds that hold non-US-dollar-denominated bonds may realize currency losses in connection with the maturity or sale of certain bonds. 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 these 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 will impact periodic ordinary income distributions for the fund. Based on the most recent quarterly analysis (as of June 30, 2019), fund officers believe that realized currency losses will have an impact on the distributions in the 2019 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, 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. **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.

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.

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