Core Plus Bond Fund

Fund Facts

OBJECTIVE

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

Share Class	Y
Inception	12/30/1994
Ticker	NERYX
CUSIP	63872R764

Market Conditions

- The global fixed-income market staged a modest recovery in the fourth quarter, recapturing some of the losses incurred over the previous nine months. Signs of cooling inflation, together with slightly more dovish commentary from US Federal Reserve (Fed) officials, raised hopes that the Fed may be nearing the end of its long series of interest rate hikes. Still, current policy remained restrictive: the Fed hiked rates by three-quarters of a percentage point in November and another half point in December, bringing the benchmark fed funds rate to a range of 4.25% - 4.50%.
- Optimism that the end of the hiking cycle is near contributed to a rally across the financial markets in October and November. However, risk appetites waned somewhat in December as investors began to anticipate a pronounced slowdown in economic growth in the year ahead.
- US Treasurys posted a modest gain in the quarter, with the benefit of income offsetting a small decline in prices. Short-term bonds underperformed, increasing the extent of the yield curve's inversion. (An inverted yield curve occurs when yields on short-term bonds are higher than those on longer-term debt.) The yield on the two-year note rose from 4.22% to 4.41% as its price fell, while the yield on the 10-year issue climbed from 3.83% to 3.88%. The market continued to experience high volatility, with sell-offs in early October and late December offset by a mid-quarter rally. Despite its positive showing in the fourth quarter, the Treasury market finished with its second consecutive year of negative returns – the first time this has happened since 1958-59.
- Investment-grade corporate bonds gained ground and outpaced Treasurys in the quarter, largely as a result of a decline in yield spreads over government bonds from late October onward. The spread on the ICE BofA US Corporate Index closed the year near its lowest

Class Y Performance as of December 31, 2022 (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
FUND	2.39	-12.75	-12.75	-1.64	0.58	1.70
BENCHMARK	1.87	-13.01	-13.01	-2.71	0.02	1.06

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 0.46% (Class Y). Net expense ratio 0.46%. 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 1/31/2024. When an expense limitation has not been exceeded, the fund may have similar expense ratios and/or yields.

The Class Y inception date is 12/30/1994. Class Y shares are sold to eligible investors without a sales charge; other Classes are available for purchase.

level since June.

- Securitized assets—including agency mortgage-backed securities (MBS), asset-backed securities (ABS), and commercial mortgage-backed securities (CMBS)—posted positive total returns but trailed both investment grade and high yield corporates. Agency MBS performed particularly well as interest rate volatility decreased from its recent historic highs.
- High yield bonds registered positive returns, as the broader rebound in risk assets contributed to a compression of yield spreads. The category outperformed the investment-grade market over the full year due in part to its lower interest-rate sensitivity and a larger contribution from income. Senior loans generated a narrow gain in the quarter and finished as the best performing segment of the fixed-income market for 2022.
- Emerging market bonds outperformed the US market. Optimism about China's move away from its zero-COVID policy helped results, as did the general improvement in risk assets. Strength in foreign currencies against the US dollar also provided a significant boost to the category.

Portfolio Review

- The fund outperformed its benchmark, the Bloomberg U.S. Aggregate Index, primarily due to sector allocation.

Contributors

- The fund's out-of-benchmark exposure to "Plus" sectors including high yield corporate bonds, floating rate bank loans and non-US dollar bonds contributed positively to performance over the quarter.
- In particular, non-US dollar positions in Mexico and Uruguay proved additive to performance, while offering diversification and attractive incremental income.
- Overall security selection had a positive impact on relative performance, led by the government-related sector.

Detractors

- The fund's overweight to securitized credit and security selection within agency securitized assets detracted slightly from relative performance for the period.

Outlook

- The Federal Reserve continues to tighten monetary policy as inflation remains above the Fed's preferred range and the unemployment rate has remained at or near its cycle lows for past three quarters. Market expectations for the terminal fed funds rate are presently just below 5%, roughly in line with our base case view. However, we believe the range of outcomes can be as low as 4.75% to as high as 5.5%, depending on the lagged effect of past increases on the economy and inflation over the next few quarters, largely due to tighter financial conditions. The yield curve remains inverted with higher yields on shorter maturities relative to longer-dated notes and bonds. Depending on the data, we anticipate another 50 to 75 basis points of additional tightening through late Spring before the Fed pauses. If financial conditions and the economy warrant, the first opportunity for the Fed to ease policy could come in the Fall of 2023.

- We believe we remain in the late expansion phase of the credit cycle[1] and are at risk of entering into a downturn. Corporate and consumer balance sheets entered this part of the cycle in a strong position, but have been showing strains from higher inflation, tightening credit conditions and greater economic uncertainty. The underlying health of corporations and consumers and our observation that labor remains in short supply support the idea that if there is a recession, it should be fairly shallow. If the economy experiences demand destruction, profit degradation and rising unemployment, risk premiums may retrace some of their recent tightening, in recognition of the potential for the increases in downgrades and defaults that typically accompany recessions.

- We continue to see the primary market risk as an over-tightening of monetary policy by the Fed in response to inflation that is moderating too slowly in its view, likely resulting in an eventual, more severe downturn. We believe ongoing COVID concerns in the US and abroad, instability associated with China's reopening of its economy, and the ongoing Russia-Ukraine conflict will serve to create uncertainty and market volatility.

- Year-to-date, we have shifted from a focus on interest rate risk to a focus on the impact of tighter financial conditions on economic growth. We have significantly increased our exposure to US Treasurys as we have reduced overall credit beta, primarily through reducing our exposure to high yield corporates, emerging markets and investment grade credit. Looking ahead, we expect Treasurys to be supported by slowing economic activity and decelerating inflation, and for some pull back in credit spreads as markets reckon with tangible signs of economic weakness this year. As a result, we are keeping powder dry for potentially better opportunities ahead, while emphasizing relative value among and within sectors.

- We have incrementally added to our Treasury allocation to add quality, liquidity and duration to the portfolio, but seek to maintain significant excess carry versus our benchmark (Bloomberg US Aggregate), with a yield advantage of approximately 75 basis points. Average credit quality has continued to be increased, and is currently high A to low AA, consistent with where we are typically positioned ahead of a potential downturn.

- Nominal duration and corresponding interest rate sensitivity is now approximately 0.75 years long relative to the benchmark. Recently we have moved to a more bulleted curve positioning by adding more US Treasury exposure in the 5-10 year part of the curve, although we have maintained a meaningful exposure to the 20-year part of the curve which retains strong relative value.

- We have maintained a modest underweight to agency mortgage-backed securities (MBS), but have re-positioned our exposures within the sector for a regime where the Fed is neither purchasing nor imminently selling agency MBS. We continue to emphasize convexity and structure through coupon and specified pool selection.

- Within investment grade corporate credit, we remain underweight, both in terms of market value and in terms of contribution to duration. While we continue to have a bias towards BBB-rated securities, we have selectively reduced the overall credit sensitivity of this allocation, and tend to favor industries that we believe are less economically sensitive and positioned for a tighter Fed policy environment.

- We have a large overweight to investment grade securitized credit, primarily in the front end of the yield curve, for more defensive, non-corporate carry. We continue to favor higher-rated asset-backed securities related to consumer receivables, as well as whole loan ABS.

- Within the Plus sectors, we have continued to reduce our overall allocation to high yield, which is currently at 6.5%, down slightly from last quarter. This exposure is split between 5% in fixed rate high yield corporates, including 2% in emerging market high yield corporates, and approximately 1.5% in floating rate bank loans. We have been incrementally reducing high yield exposure in response to a more aggressive Fed tightening path, as well as growing signs of economic slowdown. Where permitted, we added some investment grade, higher quality collateralized loan obligations to add additional floating rate carry to the portfolio.
- We continue to hold an approximately 3.7% allocation to non-US dollar local government emerging market bonds. Two-thirds of the exposure is to Mexico and the remainder to Uruguay. Notably, this has been to be an important source of diversification, helping to generate significant carry and total return for calendar year 2022.

[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.

The Bloomberg US Aggregate Bond Index *represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the US investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. 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 800-225-5478 for a prospectus and a summary prospectus, if available, containing this and other information. Read it carefully.

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