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 bond market produced mixed returns in the third quarter, as investors began to look ahead to the point at which the US Federal Reserve (Fed) will start to taper its stimulative quantitative easing (QE) policy. In September, Fed Chairman Jerome Powell stated that the central bank was likely to announce a tapering program before the end of 2021. This change wouldn't mark an immediate end to the stimulus, but rather a gradual reduction over the course of the coming year. However, the markets also began to price in a significant likelihood that the Fed will enact its first rate hike in late 2022. The primary reason for the expected policy shift is not only that economic growth has been firmly in positive territory for over a year, but also signs that the recent increase in inflation is more than just a "transitory" phenomenon – particularly in light of increased bottlenecks in the global supply chain. Together, these factors dampened returns across the fixed-income market.
- The prospect of a change in Fed policy led to higher yields for US Treasurys with maturities of one year and above. The yield on the benchmark 10-year note rose from 1.45% at the beginning of the quarter to 1.52% at the end of September. All of the upward move occurred in September, as yields were flat to lower in the first two months of the quarter due in part to uncertainty about the trajectory of economic growth. Notably, Treasurys experienced day-to-day volatility that was well above historical levels as investors struggled to assess the various cross-cutting factors affecting the economic outlook.
- Investment-grade corporate bonds were flat over the past 3 months. After performing well in the first two months of the quarter, the asset class sold off in late September due to the spike in Treasury yields, rising new-issue supply and investors' reduced appetite for risk.

CLASS Y PERFORMANCE AS OF SEPTEMBER 30, 2021 (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
FUND	0.06	-1.14	0.78	6.04	4.01	4.54
BENCHMARK	0.05	-1.55	-0.90	5.36	2.94	3.01

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 0.47% (Class Y). Net expense ratio 0.47%. 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 1/31/2022. 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.

Still, corporates maintained their return advantage over government debt on a year-to-date basis.

- Securitized assets—including mortgage backed securities, asset backed securities and commercial mortgage backed securities—produced positive total returns as a group, outpacing other credit-oriented segments of the domestic market. The category's underlying fundamentals remained firm with continued strength in both real estate prices and consumer credit.
- High-yield bonds outpaced the broader fixed-income market. The category tends to have lower interest-rate sensitivity than investment-grade bonds, a key positive at a time in which concern about Fed policy was the key factor driving market performance. High yield further benefited from the combination of favorable credit conditions, continued gains for equities and an impressive rally in oil prices. Leveraged loans, many of which offer yields that adjust upward with prevailing interest rates, also outperformed. Emerging-market bonds lagged the US fixed-income market in the quarter. The category came under pressure from slowing economic growth in China, the mounting debt problems of the Chinese property developer Evergrande, and political uncertainty in Brazil. The sizable rally in the US dollar in September was an additional headwind for emerging-market assets.

Portfolio Review

- The fund outperformed its benchmark, the Bloomberg US Aggregate Index, primarily due to strong security selection.

Contributors

- The Fund's off-benchmark allocation to high yield corporate bonds buoyed relative performance, most notably holdings within industrials.
- Security selection within the Fund's allocation to investment grade corporate bonds boosted relative for the quarter.
- Within government-related issues, positioning in US Treasurys was essentially a neutral factor in performance, while security selection in agency-backed securitized assets was modestly additive.

Detractors

- The fund's allocation to non-US dollar bonds weighed on return, most notably issues denominated in the Mexican peso.
- The fund's positioning along the yield curve (which depicts the relationship among bond yields across the maturity spectrum) detracted from relative performance for the quarter.

Outlook

- We believe the Federal Reserve will remain accommodative for the foreseeable future, keeping the fed funds rate unchanged at the zero lower bound and anchoring the very front-end of the Treasury yield curve into late 2022 or early 2023. The Fed has now indicated that it intends to address balance sheet policy by late Fall, with a formal taper announcement expected in November or at latest in December. Our base case is for tapering to start around year-end and, based on Fed comments, be completed by mid-2022. A slowdown in vaccinations and the more recent resurgence in COVID cases has had a dampening effect on economic activity as we entered into the Fall, and yet the Fed has indicated that the improvement in employment and robust inflation data (while at least in part transient) has justified some reduction in extraordinary policy accommodation. Additionally, some disappointment around the US federal government's ability to push through a very aggressive fiscal agenda has also had a moderating effect on market sentiment in recent months, although we believe fiscal policy continues to remain a powerful stimulus tool.

- We believe the credit cycle is currently in the early expansion phase, with continued strong corporate earnings and a healthy consumer supported by significant excess savings and easy financial conditions. We believe risk appetite should remain elevated given the strong expansionary environment, expectations for robust global growth and continued monetary and fiscal policy support.
- The inflationary pressure we have seen recently, while in part transitory due to base effect, may prove more lasting in our view. We expect core inflation to remain above the Fed's target of 2% for at least the next several quarters or perhaps longer. The Fed's continued hawkish tone at the September Open Market Committee (FOMC) meeting indicates that the Fed has become less patient and has started to plot out an eventual removal of extraordinary monetary policy accommodation. Traditional monetary policy tightening is expected to start in late 2022 or early 2023 based on the current Fed "dot plot" chart which displays individual FOMC member expectations for the trajectory of fed funds. This is in line with our expectations.
- The more recent regulatory moves by China against technology and financial firms, including those in the all-important property sector, bear watching and are expected to have a moderating effect on China's growth over the next several years. However, we anticipate that the government will be quite mindful of continuing to support growth and consumer-friendly policies, particularly ahead of the Communist Party Congress next Fall.
- We believe corporate fundamentals are currently healthy, reflecting the recovery in the US and, now to a greater degree, the global economy, where vaccine rollouts have caught up to or even exceeded levels achieved in the US. Additionally, we believe very accommodative global central bank and fiscal policy have been a significant tailwind, although that may also be changing as heightened inflation concerns, elevated leverage and extended risk valuations have become a greater focus for central banks globally. In the US, corporate bond and equity valuations are at or near historic highs reflecting this very strong environment, and we believe may be vulnerable to some near-term profit-taking or volatility.
- In the Core Plus product, we believe we are positioned for a continued recovery in the US and global economies, with a pro-cyclical bias to the portfolio. We currently favor spread sectors, including agency mortgage-backed securities, securitized credit, high yield corporate credit and emerging market credit, versus sectors more vulnerable to interest rate and valuation risk, such as Treasury's and high-grade corporate bonds. We are managing interest rate risk by maintaining a relatively short overall portfolio duration, and are seeking to achieve better carry and roll-down by employing a bulleted yield curve strategy with more in the belly of the curve.

- Tactical duration and curve positioning, active sector and security selection, as well as the inclusion of various plus sector positions will be key parts of the Core Plus strategy during the coming year of "transition" in the market and within the US and global economies in our view.
- Nominal duration remains about 1.2 years short of the benchmark, while empirical duration is much more defensively positioned at approximately 2.2 years shorter than the benchmark. We expect to remain biased towards a shorter empirical duration stance at least through the next several quarters, as we anticipate interest rates will resume their push higher in a post-COVID environment in which vaccines are increasingly available across all demographic groups in the US and globally.
- We expect overall portfolio credit quality to remain high, although it has come down from pre-pandemic levels when we were more concerned about preserving capital. Average credit quality currently stands at A2. Approximately 40% of the portfolio remains in AAA government issues, although we have a broad overweight to BBB and BB/B credits as well, balancing liquidity with total return opportunities in lower-rated securitized and corporate credits. Holdings in nominal Treasury's continue to be significantly underweight on both a market value and contribution-to-duration basis. Our goal is to minimize interest rate risk in this current reflation environment.
- Within agency mortgage-backed securities, we continue to position for potential better-than-market convexity (i.e., a favorable risk/reward profile in a changing interest rate environment) and continue to maintain a modest underweight to the sector. With the recent underperformance of the MBS sector, we believe valuations have become more attractive, and we may consider adding back some exposure, in particular relative to corporate credit.
- Within securitized credit, we remain overweight non-agency commercial mortgage-backed securities, but more recently sold our agency CMBS exposure due to very tight valuations. We currently favor asset-backed securities as a high-quality substitute for government bonds, and prefer auto loans and credit card receivables within the sector, particularly with the improved employment and the continued strength of the consumer balance sheet.
- Regarding investment grade corporate credit, we are approximately market neutral to the benchmark and about 0.6 years short on a contribution-to-duration basis versus the benchmark. While corporate fundamentals are healthy, we believe valuations are not as compelling and we now favor a lower use of our risk budget for the asset class. We continue to participate in what we believe are attractively priced new issues in industries we feel should benefit as the US economy continues to reopen. We will also continue to look for swap opportunities by identifying both under- and over-valued bonds along an individual issuer's credit curve to help maximize total return potential.
- Within the Plus sector allocation, we continue to favor a mix of fixed rate high yield, bank loan, emerging market Yankee and non-dollar emerging market exposure as a way to seek portfolio yield and return potential in this improving, low-yielding economic environment. At the end of the quarter we had just under 13% in fixed rate high yield securities, just over 5% in high quality bank loans, and 3.5% in investment grade emerging market non-dollar bonds.

- During periods in which the US dollar appreciates relative to foreign currencies, funds that hold non-US-dollar-denominated bonds, foreign currency orforeign 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 extentthat 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 –dollardenominated 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 analysisis 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 September 30, 2021), realized currency losses will continue to havean impact on the distributions in the 2022 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 currencyexchange 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. **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. **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. **Inflation-protected securities** move with the rate of inflation and carry the risk that in deflationary conditions (when inflation is negative) the value of the bond may decrease.

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

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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