

# Fixed Income Fund

## FUND FACTS

### OBJECTIVE

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

Share class	I
Inception	1/17/1995
Ticker	LSFIX
CUSIP	543495501

## Market Conditions

- The third quarter was another broadly positive quarter for most asset classes. The US dollar moved lower, global economic activity continued to improve and central banks remained accommodative. High yield credit, emerging markets and equities led performance as investors sought yield in riskier assets.
- US Treasuries performed well but lagged riskier assets. The yield curve (a curve that shows the relationship among bond yields across the maturity spectrum) flattened slightly during the period.
- Investment grade corporate bonds generated positive returns, supported by a bid for longer-duration securities (duration refers to a security's price sensitivity to interest rate changes). Spreads (the difference in yield between Treasury and non-Treasury securities of similar duration) remained tight but still above the lows of 2014.
- High yield credit continued to perform well. The sector benefited from healthy risk appetite and improving corporate profits.
- The weaker US dollar fueled currency rallies in many emerging and developed markets. Emerging markets also benefited from the search for yield, positive risk sentiment and improving fundamentals.

## Portfolio Review

- The fund outperformed its benchmark, the Bloomberg Barclays US Government/Credit Index, primarily due to an out-of-benchmark allocation to non-US-dollar-denominated securities.

### CLASS I PERFORMANCE AS OF SEPTEMBER 30, 2017 (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
<b>FUND</b>	1.68	7.55	6.96	3.34	5.03	6.65
<b>BENCHMARK</b>	0.81	3.49	-0.01	2.83	2.10	4.34

*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](http://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 0.57% (Class I). Net expense ratio 0.57%. 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 1/31/2018. When an expense cap has not been exceeded, the fund may have similar expense ratios and/or yields.*

*The Class I inception date is 1/17/1995. Class I shares are only available to certain institutional investors only; minimum initial investment of \$3 million.*

## Winners

- Non-US-dollar-denominated issues were the largest positive contributors to the fund's relative performance. Security selection within holdings denominated in the Canadian dollar and Brazilian real was the primary driver of results.
- A meaningful underweight to US Treasurys, combined with a shorter-than-benchmark duration stance, benefited results.
- High yield corporate bonds produced another positive quarter and built on year-to-date gains. Within the segment, the fund's industrial holdings were among the top contributors to excess return, benefiting from strong security selection and exposure to the energy and basic industry sectors. Selected finance companies also supported results.
- Selection among convertible securities contributed to absolute and relative return.

## Laggards

- An allocation to reserves weighed on performance.
- The fund's overall yield curve positioning limited relative return, largely due to a shorter-than-benchmark duration stance.

## Outlook

- Fund positioning reflects our outlook for stable economic growth and inflation. US and global GDP growth are steadily improving, and US inflation indicators are below Fed and consensus expectations. These inflationary trends support the Fed's gradual shift to less accommodative monetary policy. The Fed's balance sheet normalization program formally starts in October, and one more interest rate hike looks possible by year-end.
- Steady economic growth is also supporting risk assets, and we are maintaining our exposure to corporate bonds. While spreads have tightened significantly and the risk premiums for the investment grade and high yield markets are lower with increasing downside risks, we see further upside potential given the outlook for earnings growth and the low probability of defaults or economic recession. At this stage of the credit cycle,<sup>1</sup> we are focusing on undervalued issues and looking for areas where we can move up in quality.
- We have been taking a highly selective approach to non-US exposure. We are primarily maintaining current allocations to selected developed market sovereign and credit positions, along with emerging market local-pay bonds that we believe offer attractive yields and total return potential. The risk profile of the global market has been largely driven by anticipated central bank action, election cycles, geopolitical risks and trade policy uncertainty. In the current global growth environment, the US dollar is likely to be range bound and it may trend lower over the near term.
- Looking ahead, our investment themes are centered on broadening portfolio diversification, generating income, lowering duration and reducing overall interest rate sensitivity. In terms of asset allocation, the fund is structurally very different from the benchmark and is well-positioned going into the final quarter of 2017 in our view. We are also comfortable keeping a larger allocation to reserve-type positions, and we will patiently monitor market developments for better buying opportunities where we feel we can add long-term value for our investors.

<sup>1</sup>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.

***Bloomberg Barclays US Government/Credit Index** includes securities in the Government and Credit Indices. The Government Index includes Treasuries (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.*

***Before investing, consider the fund's investment objectives, risks, charges, and expenses. Please visit [www.loomissayles.com](http://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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