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

- Risk assets continued to rally during the fourth quarter, fueled by improving fundamentals across the globe. Performance was broadly positive across many asset classes, led by US and global equities. Fixed income performance was also strong as domestic and global credit, US bank loans, sovereign bonds and local-currency emerging market bonds earned positive total returns for the quarter.
- The Federal Reserve (Fed) hiked interest rates in December. The US yield curve (a curve that shows the relationship among bond yields across the maturity spectrum) continued to flatten as shorter maturities absorbed most of the impact. The long end of the yield curve was relatively stable, partly due to subdued inflation expectations.
- The US investment grade corporate sector posted broadly positive performance, led by value-oriented industries like basic industry, energy and transportation. Excess returns over Treasurys were mainly derived from income as spreads (the difference in yield between non-Treasury and Treasury securities of similar maturity) remained tight.
- High yield corporate credit performed well, benefiting from strong risk appetite, accelerating corporate profits, stable economic conditions and low interest rates. Spreads spiked in November but closed the quarter nearly unchanged.
- The US dollar finished the quarter a bit lower than where it started. A modestly weak to slightly range-bound US dollar was broadly supportive for global financial conditions, and represented a positive catalyst for certain emerging and developed market foreign currencies.

CLASS I PERFORMANCE AS OF DECEMBER 31, 2017 (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
FUND	0.79	8.40	8.40	3.85	4.60	6.61
BENCHMARK	0.49	4.00	4.00	2.38	2.13	4.08

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 0.57% (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.

Portfolio Review

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

Winners

- On an absolute and relative basis, high yield credit continued to positively contribute to performance. The sector generated the greatest relative return within the fund. Security selection in the energy and consumer non-cyclical industries drove performance.
- Exposure to convertibles generated positive return during the quarter. Security selection contributed the most within the sector. Throughout the period, capital goods, consumer non-cyclical and insurance names provided the bulk of positive performance.
- Underweight exposure to US Treasurys benefited relative return as investors preferred riskier assets during the period.

Laggards

- Our allocation to non-US-dollar-denominated issues limited performance for the quarter; the sector's performance had the greatest negative impact on the fund. Our holdings denominated in the Mexican peso and New Zealand dollar were the worst performers within the allocation.
- Our exposure to a municipal holding reduced return during the period.

Outlook

- Economic conditions in the US and globally suggest that positive momentum is building, which we expect will lead to higher GDP growth over the next year. Major indicators supporting growth include employment gains, strong manufacturing data, rising consumer confidence and the potential for fiscal stimulus. These trends, along with a gradual shift toward less accommodative central bank policies, favor higher growth conditions in 2018.
- Inflation has been below the Fed's target level as wage pressures show some acceleration, but generally remain tame. We see the Fed's preferred inflation measure, core PCE,[1] coming in below the Fed's 2% target in 2018 and 2019, which should allow the Fed to maintain its current slow and steady approach to monetary policy. Given our inflation expectations, we are forecasting three interest rate hikes next year. Jerome Powell is set to succeed Janet Yellen as Fed Chair in February 2018, which introduces some uncertainty to our outlook. However, Powell's views appear to be largely consistent with Yellen's, which will likely translate to a continuation of recent market trends, including the growth-friendly environment for risk assets and demand for yield.

[1] *Personal Consumption Expenditures*

- We are maintaining our exposure to credit; however, we have become more cautious as valuations have risen. As a result, our portfolio structure is positioned more defensively and we have been holding a higher reserve allocation over the past 12 to 18 months. Our strategy is to stay broadly diversified while maintaining a yield advantage and holding less duration risk than the broader market indices (duration refers to the fund's price sensitivity to interest rate changes). Credit fundamentals are generally favorable; we believe low default risk and rising profits can extend the credit cycle[2] and lead to additional upside. We are emphasizing security selection rather than broad sector themes, but we do see areas of opportunity in financials, technology, healthcare, communications and cable. These industries have stable-to-moderately improving outlooks, along with some defensive characteristics that could support performance in the later stages of the expansion. In addition, these industries could benefit from tax reform in varying degrees.
- Valuations are also elevated within convertible debt. We anticipate that convertibles can generate attractive returns in the year ahead, but we have reduced our exposure and shifted toward issues with a more balanced profile within the pharmaceutical, energy and technology industries. At this stage of the credit cycle, we believe balanced issues may offer better risk-adjusted return potential.
- Our non-US dollar allocation reflects a combination of developed market sovereign bonds and emerging market local- and hard-currency positions. We expect trade policy uncertainty, interest rate differentials and capital flows to contribute to volatility and the overall risk profile of the sector. In this environment, we anticipate the US dollar will be range bound. We remain highly selective, emphasizing undervalued currencies with improving fundamentals, relatively attractive yields and regions that offer potential for fiscal and economic reforms.
- Our positioning reflects our outlook for stable growth and inflation conditions. We are comfortable keeping a higher level of reserves in the fund in exchange for liquidity and the flexibility to buy opportunistically if we experience a rise in market volatility.

[2] *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 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.

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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