Global Bond Fund

FUND FACTS

OBJECTIVE

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

Share class	I
Inception	5/10/1991
Ticker	LSGBX
CUSIP	543495782

Market Conditions

- As widely expected, the Federal Reserve (Fed) raised policy rates by 25 basis points in December. Bond markets outside the US were unshaken, given continued easy monetary policies and generally below-target inflation. The European Central Bank (ECB) announced its asset purchase program will continue past its December 2017 expiration date at a tapered pace of €30 billion per month. The Bank of Japan (BoJ) maintained quantitative easing and yield curve target (a yield curve shows the relationship among bond yields across the maturity spectrum).
- Despite temporary widening in November, corporate credit spreads (the difference in yield between corporate securities and comparable-maturity global treasuries) generally narrowed in the quarter, driven by insatiable investor demand for securities offering higher yields relative to global treasuries. Solid economic numbers, stronger oil prices and the US Republican Party's tax plan contributed to the risk-on tone. Corporate profits, stable and synchronized global economic conditions and low interest rates created a supportive environment for credit market performance.
- The US dollar failed to sustain modest mid-quarter gains and ended the period largely unchanged. US dollar buying on the back of tax policy prospects, the potential for a more hawkish composition of members on the Federal Open Market Committee (FOMC) and tight funding markets failed to overwhelm outflows into currencies of other improving countries. Investors remain focused on the prospects for the BoJ and the ECB to begin shifting away from quantitative easing policies later in 2018 and beyond—a key shift that many perceive as more significant for the yen and euro than near-term shifts in short-term policy rates or tax-related US dollar flows.

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	0.89	8.87	8.87	2.31	0.89	3.57
BENCHMARK	1.08	7.40	7.40	2.02	0.79	3.09

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 0.81% (Class I). Net expense ratio 0.72%. 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 1/31/2019. When an expense cap has not been exceeded, the fund may have similar expense ratios and/or yields.

The Class I inception date is 5/10/1991. Class I shares are only available to certain institutional investors only; minimum initial investment of $100,000.

- Emerging market (EM) assets shrugged off a wave of geopolitical noise and navigated through a current of idiosyncratic events to post strong positive returns. Low US Treasury yields, a weak US dollar and strong risk appetite continue to support EM. Synchronized global growth has also been a positive tailwind for EM corporate profitability, particularly for Asian assets.

Portfolio Review

- The fund underperformed its benchmark, the Bloomberg Barclays Global Aggregate Index due to the negative influence of active currency allocations which weighed on performance, despite successful yield curve and credit sector strategies.

Winners

- From a sector allocation perspective, industry overweights to the insurance and energy sectors proved beneficial, as both were among the top performing credit sectors on an excess return basis.
- The allocation to select European bank bonds and strong performing high yield corporate bonds such as those of independent energy producers were particularly helpful.
- Selection within global treasuries added value, especially emerging market positions (e.g., South Africa and Indonesia).

Laggards

- Underweight exposure to the euro detracted from performance, as the euro advanced against most major currencies. The European economy is growing at its strongest pace since the 2011 Eurozone crisis, and both consumer and business confidence gauges point to more solid growth ahead.
- The fund's underweight to the South Korean won had a moderately negative impact on performance. Despite growing political tensions between South Korea and North Korea, the won rallied and was among the top performing emerging market currencies during the quarter.
- The underweight to select peripheral Eurozone treasuries dampened results as the yield spread between peripherals and German bunds tightened.

Outlook

- Our 2018 outlook is for continued solid and synchronized global growth. Euro area GDP can be sustained at above-trend levels, even if it decelerates modestly, while the UK will likely lag the rest of Europe somewhat. China's GDP is also expected to slow modestly due to slower property growth, tighter financial regulation, environmental cleanup and some fiscal discipline at the local government level. But non-China EM growth should prove resilient, with recovery continuing in Brazil and Russia and economic expansion remaining firm in the rest of Asia.
- The US tax reform package is expected to be positive for asset classes like credit in 2018. Any reductions in corporate borrowing due to higher after-tax borrowing costs or foreign cash repatriation may help preserve balance sheet health for investment grade borrowers. Limited risk of a buildup in leverage among European corporates remains.

- We expect the combination of technical support and healthy fundamentals to continue driving spreads tighter in 2018, at least to start the year. We believe the primary risks to the credit markets include the pace of global growth, the pace and timing of Fed tightening, shareholder-friendly activity and commodity price volatility.
- We expect central banks to remain supportive of risk appetite. Developed market inflation has picked up; however, we expect it to remain benign, implying easier Fed policy than might otherwise be the case. Moreover, a stronger euro and limited underlying inflation pressure will likely encourage the ECB to cautiously proceed with reversing accommodative monetary policies.
- Government bond yields are expected to rise, but not substantially. We believe that the Fed will tighten monetary conditions in a gradual and measured way as aggregate demand remains healthy, with three hikes in 2018. The ECB may conclude quantitative easing in 2018, but we do not expect serious talk about rate hikes until 2019. A more hawkish-than-expected tone from central banks would likely add some volatility in the year, but we anticipate central banks will remain cautious as long as inflation rises only modestly.
- We expect the US dollar to be range bound relative to global peers, given limited currency valuation misalignments and generally attractive prospective returns on capital in the US and globally. The US dollar should gain some support from higher short-term yields, tax cuts and repatriation. However, stronger growth in the US may come hand-in-hand with a worsening trade, income and fiscal balance, which could weigh on the US dollar—especially if non-US investors simultaneously increase their focus on investment opportunities in their home markets.

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. **Currency** exchange rates between the US dollar and foreign currencies may cause the value of the fund's investments to decline. **Foreign securities** may involve heightened risk due to currency fluctuations. Additionally, they may be subject to greater political, economic, environmental, credit and information risks. Foreign securities may be subject to higher volatility than US securities due to varying degrees of regulation and limited liquidity.

Bloomberg Barclays Global Aggregate Index *provides a broad-based measure of the global investment grade fixed income markets. The three major components of this Index are the US Aggregate, the Pan-European Aggregate and the Asian-Pacific Aggregate Indices. The Index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and USD investment grade 144A securities. 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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