LOOMIS | SAYLES

MUTUAL FUND COMMENTARY

JUNE 30 2019

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

- Confidence in global economic growth has dwindled and inflation expectations have declined worldwide. Although the world's two largest economies – the US and China – both recorded solid Q1 GDP growth, major export-driven economies such as Germany and South Korea continued to struggle.
- The benchmark 10-year US Treasury yield fell below 2% in mid-June, marking the first time it had reached that level since late 2016. The Federal Reserve kept its target rate on hold, but keeping the door open for a rate cut at its next meeting in late July. Global government bond yields have seen a broad decline so far in 2019, given increased concerns about global economic growth while inflation remains mild.
- Heightened US-China tensions dominated headlines in May as President Trump announced the US would raise tariffs on $200 billion of Chinese imports from 10% to 25%. China responded by raising duties on $60 billion of US goods. Markets had expected the two sides to strike a deal that would not only stop new tariffs from being implemented but also roll back previous tariffs. The inability of the two sides to reach an agreement roiled markets and significantly dampened risk sentiment.

Portfolio Review

- The fund underperformed its benchmark, the Bloomberg Barclays Global Aggregate, primarily due to currency allocation.

CLASS I PERFORMANCE (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
FUND	3.15	5.84	5.36	2.29	1.10	3.81
BENCHMARK	3.29	5.57	5.85	1.62	1.20	2.89

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 0.77% (Class I). Net expense ratio 0.69%. 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 1/31/2020. 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.

Contributors

- The fund's overweight to investment grade credit, particularly in the BBB space, and underweight to global treasuries were among the largest drivers of relative performance.
- The fund's overweight positions to the insurance and banking industries added value as both outperformed the broader benchmark. European banks have maintained strong asset quality while strengthening balance sheets to satisfactory levels. As a result, dividend payouts and share buybacks have increased. In the US, Dodd-Frank stress testing in June showed that banks remain well capitalized, which is a positive sign for the credit outlook.
- Security selections in the food and beverage, automotive, healthcare and communications categories contributed positively to relative performance. Anheuser-Busch and CVS Health Corp were among the top individual picks as they both have well-diversified business portfolios and have shown a propensity for deleveraging.

Detractors

- Currency allocation weighed on performance overall, with overweight positions in the Japanese yen and Colombian peso and an underweight position in the euro representing the main detractors. Despite a return by the European Central Bank (ECB) to an easing tone, dovish comments from the Fed drew the focus of currency markets and drove the euro to a three-month high against the dollar. As a result, the fund's underweight position in the euro during the quarter weighed on performance.
- The fund's positioning in euro-pay markets with respect to portfolio duration (and corresponding interest rate sensitivity) and along the yield curve (which depicts the relationship among bond yields across the maturity spectrum) detracted from relative performance in the quarter. ECB President Mario Draghi's Sintra speech in June signaled the potential for both rate cuts and a fresh round of asset purchases under quantitative easing from the ECB later in the year. Yields declined as a result, and the fund's underweight positions in 10-, 20- and 30-year euro-pay maturities hurt performance.
- Issuer selections in the home equity (securitized), owned no guarantee and insurance sectors modestly held back relative performance.

Outlook

- We still expect stabilization in global growth, but the outlook is being challenged by poor manufacturing data. Uncertainty on the US-China trade conflict continues, but markets recently rallied on the prospect of a more dovish Fed. We don't view the recent bond rally as a sign that a deep slowdown is imminent, but rather as a function of low inflation and accommodative central banks.
- We maintain our cautious outlook on risk sentiment. The Fed is likely to cut rates in July and China continues to provide stimulus. However, there is potential for manufacturing activity to weaken further and there are elevated risks to profit growth. Spreads have not yet widened to a point where we would feel comfortable adding material credit risk to portfolios, given the late cycle background, declining earnings momentum and trade policy uncertainties.

- In our view, the US dollar should be weakening on lower expected US interest rates and growth prospects. However, global risk appetite is expected to remain challenged by weak growth and geopolitical uncertainties, and negative yields in Europe and Japan are likely to persist. Absent better non-US growth, we do not yet predict a significant dollar bear market.

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. **Currency** exchange rates between the US dollar and foreign currencies may cause the value of the fund's investments to decline. **Below investment grade fixed income securities** may be subject to greater risks (including the risk of default) than other fixed income securities. **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. **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.

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

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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