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

- Most segments of the global financial markets staged a recovery in the fourth quarter, reducing the extent of their losses for the full year.
- Upbeat investor sentiment helped lift financial assets in the final three months of 2022. The tone was especially positive early in the quarter, as a consensus emerged that the Fed had enacted the majority of its interest-rate increases for this cycle and was likely to pivot toward a more accommodative posture in 2023. In Europe, warmer than average temperatures helped ease concerns of a potential energy crisis as many countries set record highs in recent weeks. The Bank of Japan surprised markets by announcing that it would adjust the yield curve control target 25bps upward widen the band for 10 year bond yields and led to a strengthening of the JPY. In addition, China began to move away from the zero-COVID policy that had impeded economic growth in both the nation and the world as a whole in 2022. Not least, inflation—while still high—showed signs of cooling. Investors appeared to grow more cautious in December, however, due to mounting worries that economic growth and corporate earnings could decline in the year ahead.
- Global equities moved higher in the fourth quarter, but a downturn in December caused the major indexes to finish well off of their mid-quarter highs. Continuing the trend that has been in place for most of 2022, the value style strongly outperformed growth due to persistent weakness in mega-cap US technology stocks. At the regional level, Europe rebounded nicely and was the quarter's top performer.
- The US dollar, which had become vulnerable to selling pressure after moving decidedly higher through most of 2022, weakened considerably in the fourth quarter. The combination of cooler inflation data and the shift in expectations toward a more dovish Fed caused the currency to decline sharply and close the year approximately 10% below its September high.
- All segments of the bond market posted gains in the quarter, with Treasurys and the credit sectors both generating positive total returns. The lower than expected CPI print in October surprised to the downside and sparked a rally in November, but was tempered in December as global central banks reiterated their intentions to continue hiking rates.

Class I Performance as of December 31, 2022 (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
FUND	4.99	-17.18	-17.18	-3.68	-1.43	-0.28
BENCHMARK	4.55	-16.25	-16.25	-4.48	-1.66	-0.44

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 0.75% (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 (with certain exceptions) once the expense limitation of the fund has been exceeded. This arrangement is set to expire on 1/31/2023. When an expense limitation 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.

International bonds in general, and the emerging markets in particular, were especially strong thanks to the declining US dollar and the headlines regarding China's likely reopening. Despite the late rally, all major fixed-income categories finished the year in the red.

Portfolio Review

- The fund outperformed its benchmark, the Bloomberg Global Aggregate Index, primarily due to positioning with respect to interest rates and corporate credit.

Contributors

- The fund's positioning with respect to the yield curve (which depicts the relationship among bond yields across the maturity spectrum) as well as duration and corresponding interest rate sensitivity was the largest contributor to performance during the quarter. Local market positioning in the British pound sterling, Japanese yen, South African rand and Mexican peso markets proved most beneficial. In particular, the portfolio's positioning along the long end of the British pound sterling-pay curve was additive to performance.
- Within corporate credit, allocations to the transportation, insurance and financial other sectors contributed positively to performance during the quarter. In particular, holdings of transportation service companies and airlines proved additive as the recovery in air traffic continues as capacity increases and routes are reopened.
- Select issuers within banking, consumer non-cyclical and owned no guarantee aided performance during the quarter. The fund remained overweight select banks on the view that strong balance sheets, the benefit of rising rates and attractive valuations outweighed geopolitical uncertainty and a weakening economic outlook.

Detractors

- Overall currency allocation was the largest detractor during the quarter. Underweight allocations to the euro and British pound sterling were the main detractors. The US dollar strength softened during the quarter as the consumer price inflation surprised to the downside in October and the Fed signaled a slower pace of rate hikes.
- Overall security selection was a positive contributor to performance. However, select issuers within the home equity, financial other and insurance sectors hindered performance. The home equity sector has experienced inconsistent cash flows as the housing market broadly has slowed given the rise in interest rates.
- Although spread sector allocation was positive overall, underweight allocations to consumer non-cyclical, supranational, and covered bond sectors were a constraint on performance during the quarter.

Outlook

• Our "base case" scenario now favors a slowdown in global economic growth, as seven of the 10 leading economic indicators were indicating a recession as of year-end, but the timing and depth are uncertain. The inversion of the US yield curve was particularly notable, in that is has been one of the most accurate indicators of a recession over time. (An inverted yield curve occurs when yields on short-term bonds are higher than those on longer-term debt.) A drop in Purchasing Managers Indexes below 50 was a further sign of a contraction, as was the decline in housing prices. On the other hand, the labor market remains strong, wages continue to rise, and consumer savings remains healthy. While we believe unemployment is likely to climb from its current levels, we think the increase will be mild relative to history.

• Headline inflation has improved due to declining energy prices, but core inflation (which removes food and energy) has stayed stubbornly high. Long-term inflation expectations have remained anchored and short-term expectations have fallen, a positive sign that inflation can trend lower in 2023. Moreover, supply-chain bottlenecks have largely eased. Inflation pressures will likely keep central bankers uncomfortable throughout the first half of 2023 but is expected to decelerate as labor markets and demand take a hit. With that said, we don't see inflation reaching the Fed's target until 2024.

• The Fed raised interest rates twice, with a three-quarter point hike in November and another half-point move in December. The fed funds rate stood at a range of 4.25% - 4.50% at the end of December, up from 0.0% - 0.25% at the start of the year. The Fed is set to deliver another hike in February, likely 25 basis points, but it could pause thereafter should inflation continue to head lower. Other major world central banks, with the notable exception of Japan, also continued to tighten monetary policy. Looking ahead, we believe the potential for stubbornly high inflation and/or a mistake in Fed policy is a key risk for the markets.

• We expect sticky inflation and rising recession concerns to lead to another period of USD strength in the near term. If a downturn becomes reality, we would expect "safe-haven" flows to ensue and contribute to continued US dollar strength. A potential pause in the Fed's tightening cycle later in the year could take some upward pressure off the dollar, especially if other developed market central banks remain engaged in hiking.

• Near-term concerns about an energy crisis in Europe have abated, as above-average temperatures have led to increased storage of natural gas contributed to lower prices for the commodity. Europe does not have enough capacity to store all the gas it needs in the winter, however, so an adverse shift in weather conditions could still represent a challenge for the region. European inflation is not yet decisively retreating, which keeps pressure on the ECB. Despite the mild winter, a recession in Europe is likely given the Russian gas cutoff and ensuing energy issues for households and businesses.

• China's abandonment of its zero-COVID policy has led to a spike in virus cases in the country. While mobility trends have held up thus far, it's possible that new supply-chain challenges could arise. We anticipate that the country will emerge from the current wave of infections late in the second quarter, but developments on this front remain an important near-term risk for the 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. 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.

Bloomberg 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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