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

- Volatility roared back with a vengeance during the first quarter of 2018. After 15 months of relatively calm markets, broad trade war fears and Federal Reserve (Fed) rate hike repricing triggered risk-off sentiment that wiped out year-to-date gains from most asset classes.
- Global growth remained resilient and slightly above-trend across major developed and developing economies. The pace of rising output moderated somewhat among some major world growth engines, such as the US and euro zone. In our view, this deceleration is not yet concerning.
- Corporate profits and fundamentals remained healthy; however, credit spreads generally widened during the period (spreads are the difference in yield between corporate credits and treasuries of similar maturity). President Trump's imposition of tariffs stoked fears of a trade war and contributed to negative sentiment, but the softer markets seen later in the quarter were ultimately due to reduced buying appetites from key US credit investors, such as non-US investors and mutual funds.
- US dollar weakness persisted in the quarter despite rising GDP projections for the year ahead and the recent Fed rate hike. Fears of a potential US trade war with China and concerns about the potential long-term pressure from rising US fiscal and current account deficits caused the dollar to decline against G4 peers and the currencies of several commodity-exporting countries.
- Emerging market (EM) assets continued to post solid returns in the period, especially local-currency EM bonds. EM assets were roiled by the rise in market volatility but proved to be fairly resilient given the generally limited pressure on EM currencies and beneficial terms of trade for commodity exporters.

CLASS I PERFORMANCE AS OF MARCH 31, 2018 (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
FUND	1.50	1.50	7.82	3.40	1.43	3.29
BENCHMARK	1.36	1.36	6.97	3.14	1.50	2.57

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 0.80% (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.

Portfolio Review

- The fund outperformed its benchmark, the Bloomberg Barclays Global Aggregate Index, primarily due to a combination of yield curve (a curve that shows the relationship among bond yields across the maturity spectrum) positioning and security selection.

Winners

- Duration and yield curve positioning contributed to relative performance during the quarter. In particular, defensive positioning in the US dollar-pay market proved beneficial. In addition, our preference for longer duration in emerging markets added to performance, especially in the Brazilian real- and South African rand-pay markets.
- Selection within global treasuries was additive to performance, especially exposure to emerging markets such as South Africa and Argentina. Individual bond selections within the energy sector, particularly oil field services and midstream issuers, also contributed.
- Out-of-benchmark exposure to South African government bonds added value as these bonds avoided a credit rating downgrade by Moody's. The country's recent election of new President Cyril Ramaphosa has been viewed positively, leading to a reduction in the political risk premium.
- From a sector allocation perspective, our overweight positions in the home equity and selected asset-backed security (ABS) sectors and an underweight in the agency mortgage-backed securities (MBS) outperformed during the period.
- Among currencies, the Norwegian krone, Colombian peso and Danish krone contributed the most to performance.

Laggards

- Underweight exposure to the Japanese yen, euro and British pound sterling detracted from performance as these currencies appreciated versus the US dollar over the period.
- The fund's spread sector (sectors that trade at a yield differential relative to global treasuries) allocation detracted from performance as spreads widened. In particular, overweights in the insurance and banking sectors and an underweight to euro zone peripheral country treasuries, such as those of Italy, detracted from performance.
- While security selection was positive overall, individual bond selections within the banking and communication sectors weighed modestly on results for the quarter.

Outlook

- We expect synchronized global growth to continue, with strong earnings estimates and no US recession anticipated in the near term. Fundamentals should remain supportive of risk assets, as long as the Fed does not over-tighten and trade frictions remain limited in scale. White House policy uncertainty has been a headwind but shouldn't derail positive economic momentum.
- We expect the Fed will continue to raise rates at a gradual pace, with two additional rate hikes this year and a terminal federal funds rate of 2.75% to 3.00% by the end of 2019.

- Rising corporate profits and improving fundamentals should help mitigate the effects of late-cycle Fed tightening. Global earnings growth is projected to be 10% in 2018 and 9% in 2019, with the US leading the way, mainly due to corporate tax reform. A rise in yields coincident with resilient equities should support demand for long-term credit from liability-driven investors.
- We expect the US dollar to remain weak relative to developed market currency peers. The dollar has not rallied in response to either higher GDP projections or the projected path of US interest rates, but an improving inflation trajectory in the euro zone and Japan may be needed to drive the dollar down meaningfully from here. A weaker or range-bound dollar is supportive of EM; therefore, we believe EM assets can continue to perform well in this environment.

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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