LOOMIS | SAYLES

MUTUAL FUND COMMENTARY

DECEMBER 31 2024

High Income Opportunities Fund

Fund Facts

OBJECTIVE

Seeks high current income with capital appreciation as the secondary objective

Share class	I
Inception	4/12/2004
Ticker	LSIOX
CUSIP	543495758
Brenchmark	Bloomberg US Corporate High Yield Index

Bloomberg US Corporate High Yield Index *covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included. Indexes are unmanaged and do not incur fees. It is not possible to invest directly in an index.*

Market Conditions

- Most segments of the US bond market lost ground in the fourth quarter, dampening returns for the full year. Although the US Federal Reserve (Fed) reduced interest rates by a quarter-point at its meetings in November and December, which followed a half-point cut in September, investors focused on Fed Chair Jerome Powell's indication that the central bank may slow its pace of rate cuts in the year ahead. With inflation not yet at the Fed's target and the incoming Trump administration anticipated to pursue policies that could prove inflationary, the number of rate cuts expected to occur in 2025 declined. Whereas the Fed projected as many as four quarter-point rate cuts in 2025 at its September meeting, that number fell to two in December. This shift in expectations weighed heavily on market performance in the quarter, with longer-dated issues experiencing the largest losses.

- The combination of an improving growth outlook, together with indications that the Fed would take a less accommodative policy path than investors had previously anticipated, pressured the performance of US Treasurys and other rate-sensitive assets in the fourth quarter. The yield on the two-year note rose from 3.66% to 4.25% (as its price fell), while the 10-year yield climbed from 3.81% to 4.58%. These price moves led to negative total returns across the maturity spectrum, with longer-term issues generally suffering the weakest performance. The Treasury yield curve continued to steepen (meaning the gap between longer- and shorter-dated issues widened), continuing a trend that began in the third quarter.

- Investment-grade corporate bonds posted a loss but slightly outperformed Treasurys. Although the increase in US Treasury yields was a headwind for performance, corporates were supported somewhat by a narrowing of yield spreads (the difference in yield over Treasurys). Spreads fell near the lowest level since the 1990s on the strength of hearty investor risk appetites, healthy corporate earnings, and optimism about the economic

Class I Performance as of December 31, 2024 (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
FUND	1.03	9.95	9.95	2.01	3.88	5.00
BENCHMARK	0.17	8.19	8.19	2.92	4.21	5.17

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 moh-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.

Shares of the fund are currently offered exclusively to investors in certain wrap fee programs or other institutional advisory clients of Loomis, Sayles & Company that meet criteria determined by Loomis Sayles.

The Class I inception date is 4/12/2004. Class I shares are available to certain institutional investors only.

outlook.

- High yield bonds logged a narrow gain and were one of the best-performing segments of the fixed-income market in the quarter. The asset class benefited from its above-average income and a decline in yield spreads toward historic lows. The narrowing of spreads reflected the combination of mounting optimism about the economy and the resulting strength in investor risk appetites. Bank loans also performed well, as the prospect of fewer interest-rate cuts in 2025 helped fuel renewed demand for floating-rate assets.

- Agency mortgage-backed securities (MBS) experienced negative total returns in the fourth quarter due to their sensitivity to rising US Treasury yields, but their performance was flat relative to duration-equivalent Treasurys. Securitized assets generally delivered gains and outperformed Treasurys, with higher yielding, credit-oriented market segments and less rate-sensitive bonds generally producing the best results. Asset-backed securities (ABS) and non-agency residential mortgage-backed securities (NARMBS) provided broadly positive returns. Collateralized Loan Obligations (CLO)s were strong performers, as well.

- Global developed-market bonds and emerging-markets debt both lost ground in US dollar terms in the quarter. In addition to being pressured by rising Treasury yields, the two categories were hurt by pronounced weakness in foreign currencies against the US dollar. The prospect of stronger relative growth in the United States and a potential pause in rate cuts during 2025 helped fuel an impressive rally in the dollar, weighing on the returns of non-dollar assets for US investors.

Portfolio Review

- The Fund outperformed its benchmark, the Bloomberg High Yield Index, primarily due to security selection.

Winners

- Security selection in high yield corporate credit was beneficial, as names in the communications space contributed to returns.
- Holdings in convertible securities were positive in the quarter. Here, our higher conviction names in the communication and cruise lines space continued to outperform.
- Our allocation to emerging market corporate credit was positive, led by names in energy along with our Chinese Property bucket as they rebounded in the quarter.

Laggards

- Selection to equities detracted as select names in consumer non-cyclical were laggards.

Outlook

- Fourth quarter market sentiment was largely driven by the much-anticipated US election, during which Donald Trump was elected as the 47th president. Republicans took majority control of the Senate and maintained the House of Representatives for a clean sweep. The initial reaction in risk assets was positive, likely driven by many investors being underweight risk coming into the election given the uncertain outcome, in our view. The decisive outcome of the election supported market sentiment due to the potential for pro-growth policies, such as tax cuts and deregulation. Post-election, the Federal Reserve (Fed) continued on its easing path with 25 basis points (bps) in interest rate cuts during November and December, however, the market re-priced expectations for fewer rate cuts in 2025 and beyond. The Treasury curve shifted higher during the quarter, with the 10-year US Treasury increasing from 3.78% to 4.57%. Investment grade and high yield spreads tightened, supported by higher expectations for a soft landing and strong investor demand for yield.

- Our base case continues to call for trend/above trend US economic growth and we do not anticipate a recession at this time. Low unemployment and healthy financial markets (i.e., strong equity performance and real estate appreciation through COVID) are supporting the mid-to-upper tier consumer, who drive much of the US economy. In addition, corporate fundamentals have remained stable, and earnings growth is robust, which are also supportive of economic activity. These factors are helping to provide a floor to economic activity, and we expect growth consistent with a "soft landing" in the coming quarters. On a global basis, European growth is gradually improving but momentum has slowed, and we see inflationary risks persisting. We expect European Central Bank (ECB) rate cuts to be more gradual than market expectations as a result. We also anticipate a rise in government borrowing, as we believe an investment-oriented set of fiscal measures is required to boost growth. In Japan, we expect increased tolerance for higher yields by the Bank of Japan (BOJ) if the bank's confidence grows regarding the achievement and sustainability of 2% inflation. Lastly, the People's Bank of China (PBOC) has stepped up stimulus efforts to address economic challenges, ensuring necessary fiscal spending to bolster growth; however, we believe uncertainty remains regarding the scale and effectiveness of such measures.
- Cyclically, we are anticipating US inflation to decline in the coming months before leveling out somewhere just above the Fed's 2% target. In the short-term, we believe there is a potential upside risk to inflation as a result of Trump policies, specifically tariffs, and that inflationary pressures could begin to build with a lag now that the Fed has embarked on a rate-cutting cycle and the economy potentially builds momentum. On a long-term basis, we have been suggesting that inflation may remain unstable and potentially experience higher lows in future cycles due to structural factors, such as the fiscal deficit, trade protectionism, deglobalization, decarbonization and aging demographics.
- Combining our cyclical and structural views suggests the level of interest rates and the shape of the yield curve could take a number of different paths. On the front end of the curve, we recognize the risk that the Fed could be compelled to hold rates or to lean against stimulating fiscal spending and inflationary tariff hikes. It is possible we could see an initial short-term boost in growth and inflation from government policies, which could potentially put the Fed on hold in the second half of 2025, in our view. The dual mandate of the Fed is back in focus, so a measured response is likely, and we have moderated our view of future Fed cuts for a shallower cycle with a trough rate expectation of 3.75-4.25%, likely reached in 2026. We see little scope for the 10-year and longer maturities to rally as we believe the US deficit is structural in nature and do not expect a hawkish stance on fiscal responsibility under the new administration. We believe Treasury supply will continue to be a topic of heavy discussion, which could increase interest rate volatility and put a floor under long-term Treasury yields or potentially push them higher. We believe long-term fair value for the 10-year US Treasury is approximately 4.50%, based on a 1.50-2.00% real rate and 2.25-2.50% breakeven rate; however, Trump's policies could push the fair value target slightly higher.
- In our view, the credit cycle[1] is firmly in the late cycle stage. Corporate fundamentals appear stable, technicals have remained supportive and earnings growth is robust, which should fuel investor appetite in 2025. In our opinion, corporate balance sheets have remained healthy and can weather potential volatility in the macroeconomic backdrop. Our Credit Health Index (CHIN) and risk premium framework within investment grade and high yield suggest defaults/losses will be below historical averages for this part of the cycle. Even though credit spreads appear optically on the richer side, it is difficult to see any real signs of credit deterioration. Credit risk premiums may not be cheap, but we do view them as being adequate given a benign loss backdrop. Technicals have remained supportive as investment grade issuance has surprised to the upside but has been met with strong investor demand, and we continue to see this trend going forward where demand outpaces

supply. In addition, specific to the high yield market, defaults may have already peaked for this cycle and most signs of distress seem idiosyncratic, in our view. The high yield maturity wall also seems manageable through 2026, not posing a major threat after a wave of refinancing in 2024. Lastly, we are encouraged by corporate profitability and believe that earnings growth will be more inclusive across sectors in 2025.

- We believe that long-term value has returned to fixed income markets with a combination of discount-to-par (positive convexity) and favorable yields. As investors sit on record levels of cash, we expect strong demand will likely support bond markets. We believe spreads have moved to the tightest levels of this cycle. Our view is that investors can feel comfortable going for the extra spread pick-up available in the credit markets. Spreads will likely live in a range that is typical of a non-stressed market, which for high yield corporates tends to be in the +275 to +425bps range, and we are being patient and selective in deploying capital. We are mindful of the risks going forward, such as a growing US deficit, trade protectionism (tariffs) and geopolitical risk. We continue to maintain some reserves as each of these risks could elevate market volatility and create potential buying opportunities in credit, interest rates and currencies, for which we would consider redeploying reserves faster. We believe our best approach is to maintain a yield advantage in our portfolios rather than waiting on the sidelines for a "risk-off" environment that may never materialize.

About Risk

Below investment grade (high yield) fixed income securities may be subject to greater risks (including the risk of default) than other fixed income securities. **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. **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. **Derivatives** involve risk of loss and may entail additional risks. Because derivatives depend on the performance of an underlying asset, they can be highly volatile and are subject to market and credit risks.

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

Important Disclosure

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.

This marketing communication is provided for informational purposes only and should not be construed as investment advice. Investment decisions should consider the individual circumstances of the particular investor Investment recommendations may be inconsistent with these opinions. Information, including that obtained from outside sources, is believed to be correct, but we cannot guarantee its accuracy. This information is subject to change at any time without notice.

Market conditions are extremely fluid and change frequently.

Diversification does not ensure a profit or guarantee against a loss.

Commodity, interest and derivative trading involves substantial risk of loss.

Any investment that has the possibility for profits also has the possibility of losses, including the loss of principal.

There is no guarantee that the investment objective will be realized or that the Fund will generate positive or excess return.

Past performance is no guarantee of future results.

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.

Natixis Distribution, LLC (fund distributor, member FINRA|SIPC) and Loomis, Sayles & Company L.P. are affiliated.

NIM-01152025-cqsama76
LSHIO03-1224