Inflation Protected Securities Fund

Fund Facts

OBJECTIVE

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

Share class	I
Inception	5/20/1991
Ticker	LSGSX
CUSIP	543495766

Market Conditions

- Optimism that the end of the hiking cycle is near contributed to a rally across the financial markets in October and November. However, risk appetites waned somewhat in December as investors began to anticipate a pronounced slowdown in economic growth in the year ahead.
- The global fixed-income market staged a modest recovery in the fourth quarter, recapturing some of the losses incurred over the previous nine months. Signs of cooling inflation, together with slightly more dovish commentary from US Federal Reserve (Fed) officials, raised hopes that the Fed may be nearing the end of its long series of interest rate hikes. Still, current policy remained restrictive: the Fed hiked rates by three-quarters of a percentage point in November and another half point in December, bringing the benchmark fed funds rate to a range of 4.25% - 4.50%.
- US Treasurys posted a modest gain in the quarter, with the benefit of income offsetting a small decline in prices. Short-term bonds underperformed, increasing the extent of the yield curve's inversion. (An inverted yield curve occurs when yields on short-term bonds are higher than those on longer-term debt.) The yield on the two-year note rose from 4.22% to 4.41% as its price fell, while the yield on the 10-year issue climbed from 3.83% to 3.88%. The market continued to experience high volatility, with sell-offs in early October and late December offset by a mid-quarter rally. Despite its positive showing in the fourth quarter, the Treasury market finished with its second consecutive year of negative returns – the first time this has happened since 1958-59.

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	1.94	-12.46	-12.46	1.57	2.16	1.02
BENCHMARK	2.04	-11.85	-11.85	1.21	2.11	1.12

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 0.52% (Class I). Net expense ratio 0.40%. 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 5/20/1991. Class I shares are only available to certain institutional investors only; minimum initial investment of $100,000.

The fund revised its investment strategies on 12/15/2004; performance may have been different had the current investment strategies been in place for all periods shown.

Portfolio Review

- The fund underperformed its benchmark, the Bloomberg TIPS Index, primarily due to yield curve positioning.

Contributors

- Security selection was the main positive contributor to the fund's performance relative to the benchmark for the quarter.
- A small out-of-benchmark allocation to investment grade corporate bonds contributed positively to performance for the quarter.
- Small positions in high yield corporates and cash positioning also helped boost return.

Detractors

- The fund's positioning along the yield curve (which depicts the relationship among bond yield across the maturity spectrum) was the most significant detractor from performance for the quarter.
- Non-US dollar positioning acted as a slight constraint on returns.

Outlook

- As the fourth quarter of 2022 opened, incoming inflation data was above expectations. However, subsequent readings showed moderate easing, suggesting we may have passed peak inflation. The positive news appeared to usher in optimism that perhaps the Fed's aggressive rate hiking cycle is finally working to bring inflation down. As we moved closer to the potential peak in Fed policy tightening, risk assets stabilized and spreads on investment grade and high yield corporates finished the quarter at tighter levels.
- In our view, the credit cycle is firmly in the late cycle stage and the risk of downturn has become more balanced. We expect growth to continue to trend lower as manufacturing and housing metrics have deteriorated. However, in our view the US consumer appears on solid footing, maintaining strong levels of excess savings and continuing to spend at a healthy rate. Labor markets remain tight. We've observed higher wages, cost of living adjustments, an elevated number of job openings and employers who are reluctant to shed workers in industries where they may have trouble getting them back, which could help to support consumer confidence. We believe a healthy consumer combined with positive corporate fundamentals and a strong banking system should help provide a floor to economic activity and support credit fundamentals to some degree.
- While inflation has likely peaked and positive real rates should have the effect of slowing growth and rolling inflation down over time, we believe inflation will likely remain sticky and above the Fed's target throughout 2023, primarily as a result of wage pressures. We now believe much of the movement from the Fed has occurred or is currently being priced into the market, which in turn may also put a cap on the Treasury curve. We're currently expecting an additional 50 basis points of tightening in the first quarter of 2023, which would bring the policy rate up to 5.00% after the March meeting. In our view, the market continues to want to compress this cycle and lean towards a Fed policy pivot, but we believe inflation is structural at this point. We see it as difficult for the Fed to begin cutting rates

when inflation remains above their target. As a result, we're anticipating a Fed pause after the March meeting which would likely extend into the latter stage of 2023. Throughout the year, the Fed will likely be driven by the extent to which there is firm evidence of inflation moderating, and at this point we have not eliminated the possibility that the next Fed move could be another rate hike. We continue to be positioned defensively on rate risk, but to a lesser extent than during much of 2022 as we expect the US 10-year bond yield to move only modestly higher from current levels.

- We believe that value has returned to US fixed income markets. Bond structures (price, yield and spread) appear relatively attractive. While corporate bond spreads in both investment grade and high yield are currently tighter than their long-term averages, we believe overall yields remain favorable in post 2008 Great Financial Crisis (GFC) terms. Dollar prices on bonds are also currently at post-GFC lows. We believe the combination of discount-to-par and attractive yield suggests a potential value opportunity in bonds. We remain mindful of the risks to the global economy, such as tighter financial conditions, slowing Chinese growth, the Eastern Europe conflict, disruptions to the global supply chain and the lingering effects of the COVID pandemic. All of the turmoil around the world leaves us with a wide range of potential outcomes for growth, inflation and central bank policy response. With the likelihood of a downturn in 2023 rising, we have been holding larger than average liquid reserves and seeking to maintain an up-in-quality bias. If volatility increases and we see what we view as more attractive yields and spreads, we would consider redeploying reserves. At the same time, short-term yields have risen meaningfully and we are comfortable with how we are being compensated as we wait for opportunities to potentially develop.

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. **Inflation protected securities** move with the rate of inflation and carry the risk that in deflationary conditions (when inflation is negative) the value of the bond may decrease. **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. **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. **Currency** exchange rates between the US dollar and foreign currencies may cause the value of the fund's investments to decline. **Commodity-related** investments, including derivatives, may be affected by a number of factors including commodity prices, world events, import controls and economic conditions, and therefore may involve substantial risk of loss.

Bloomberg US Treasury Inflation Protected Securities Index *covers the most liquid portion of the global investment grade fixed-rate bond market, including government, credit and collateralized securities. The liquidity constraint for all securities in the index is $300 million. 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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