

Institutional High Income Fund

FUND FACTS

OBJECTIVE

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

Share class	I
Inception	6/5/1996
Ticker	LSHIX
CUSIP	543495600

Market Conditions

- The bond market produced mixed returns in the third quarter, as investors began to look ahead to the point at which the US Federal Reserve (Fed) will start to taper its stimulative quantitative easing (QE) policy. In September, Fed Chairman Jerome Powell stated that the central bank was likely to announce a tapering program before the end of 2021. This change wouldn't mark an immediate end to the stimulus, but rather a gradual reduction over the course of the coming year. However, the markets also began to price in a significant likelihood that the Fed will enact its first rate hike in late 2022. The primary reason for the expected policy shift is not only that economic growth has been firmly in positive territory for over a year, but also signs that the recent increase in inflation is more than just a "transitory" phenomenon - particularly in light of increased bottlenecks in the global supply chain. Together, these factors dampened returns across the fixed-income market.
- The prospect of a change in Fed policy led to higher yields for US Treasuries with maturities of one year and above. The yield on the benchmark 10-year note rose from 1.45% at the beginning of the quarter to 1.52% at the end of September. All of the upward move occurred in September, as yields were flat to lower in the first two months of the quarter due in part to uncertainty about the trajectory of economic growth. Notably, Treasuries experienced day-to-day volatility that was well above historical levels as investors struggled to assess the various cross-cutting factors affecting the economic outlook.
- Investment-grade corporate bonds were flat over the past 3 months. After performing well in the first two months of the quarter, the asset class sold off in late September due to the spike in Treasury yields, rising new-issue supply and investors' reduced appetite for risk. Still, corporates maintained their return advantage over government debt on a year-to-date basis.
- High-yield bonds outpaced the broader fixed-income market. The category tends to have lower interest-rate sensitivity than investment-grade bonds, a key positive at a time in

CLASS I PERFORMANCE AS OF SEPTEMBER 30, 2021 (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
FUND	0.31	6.84	15.16	4.66	5.48	7.29
BENCHMARK	0.89	4.53	11.28	6.91	6.52	7.42

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 0.69% (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 1/31/2022. When an expense limitation has not been exceeded, the fund may have similar expense ratios and/or yields.

The Class I inception date is 6/5/1996. Class I shares are only available to certain institutional investors only; minimum initial investment of \$3 million.

which concern about Fed policy was the key factor driving market performance. High yield further benefited from the combination of favorable credit conditions, continued gains for equities and an impressive rally in oil prices. Leveraged loans, many of which offer yields that adjust upward with prevailing interest rates, also outperformed.

- Securitized assets-including mortgage backed securities, asset backed securities and commercial mortgage backed securities-produced positive total returns as a group, outpacing other credit-oriented segments of the domestic market. The category's underlying fundamentals remained firm with continued strength in both real estate prices and consumer credit.
- Emerging-market bonds lagged the US fixed-income market in the quarter. The category came under pressure from slowing economic growth in China, the mounting debt problems of the Chinese property developer Evergrande, and political uncertainty in Brazil. The sizable rally in the US dollar in September was an additional headwind for emerging-market assets.

Portfolio Review

- The fund underperformed its benchmark, the Bloomberg US Corporate High Yield Index, primarily due to sector allocation and security selection.

Winners

- Exposure to convertible securities, particularly within the energy, technology and communications sectors, was a positive contributor to performance during the quarter.

Laggards

- Despite posting positive returns earlier in the quarter, equity markets stumbled in September, a month that is typically volatile for stocks. As such, selected communications, energy and transportation names within the fund's equity exposure weighed on returns.
- Our overweight allocation to emerging market credit was a laggard during the period. Holdings of selected Chinese property securities were negative for relative performance as well.
- Non-USD securities underperformed, with holdings denominated in the Brazilian real detracting from relative return.

Outlook

- While our fundamental economic outlook remains positive, the world appears less synchronized than we expected at this point in the recovery. Leading indicators remain strong, financial conditions appear easy and monetary/fiscal policies continue to be a tailwind to economic activity. This macroeconomic backdrop, coupled with strong credit fundamentals, appears positive for risk assets. However, we are mindful of the risks inherent to our outlook, such as the lingering impact of the COVID variant, slowing Chinese growth (and deleveraging within its property sector) and ongoing global supply chain disruptions that could lead to a bumpier, if still solid, global growth environment.
- Under our base case of a gradual economic expansion, we anticipate a slow rise in interest rates as the Fed likely initiates a taper of QE purchases later this year and into 2022. While the most recent FOMC statement sent a strong signal that we are approaching the end of the road on QE, the Fed has stated their belief that inflation has been boosted by transitory factors which will presumably fade over time. We believe supply disruptions should work out over time and energy prices could ease in 2022, which would support the Fed's view. While we expect rate lift-off in 2023, the Fed may find it necessary to delay hiking if growth is weaker or accelerate hiking if inflation is persistently higher than expected. Adding to the uncertainty of the timing and magnitude of the Fed's taper and rate lift-off includes the early

retirement of two Fed presidents over their 2020 trading activities, which adds risk to Fed Chair Powell's renomination and the future composition of the FOMC. Given our views, we remain defensive on interest rates and positioned shorter than broad market benchmarks from a duration perspective.

- In our view we remain fully embedded in the expansion phase of the credit cycle¹ with credit fundamentals, technical factors and default expectations continuing to appear attractive. We remain “pro risk” on credit for higher carry and potential outperformance of our best ideas. In this environment, we continue to focus on issue selection, which drives our investment process. Specifically, we are seeking out “rising star” candidates that possess strong balance sheets and catalysts to help drive upgrades. We believe accommodative global monetary policies coupled with the tailwind of fiscal support could drive a wave of credit upgrades going forward. From a sector perspective, we are targeting those that have strong carry, less interest rate sensitivity and positive convexity (i.e. a favorable risk/reward profile in a changing rate environment). As such, we currently favor high yield corporates and convertible securities along with securitized debt, which can provide diversification away from pure corporate risk, relatively attractive yield potential and shorter duration profiles.
- During the quarter, credit markets were generally resilient to macroeconomic events, including Fed taper talk and concerns over Chinese growth and property sector challenges, suggesting to us that there could be a strong demand for yield. We suspect this dynamic will likely hold going forward given our outlook for downgrades, defaults and losses to trend notably below long-term averages. However, we recognize current elevated valuations and tight credit spreads, and have built flexibility into our portfolios in seeking to take advantage of opportunities that may arise as a result of short-term disruptions.

About Risk

Below investment grade 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. Equity securities are volatile and can decline significantly in response to broad market and economic conditions.

***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.*

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