Intermediate Duration Bond Fund

FUND FACTS

OBJECTIVE

Seeks above-average total return through a combination of current income and capital appreciation

Share class	Y
Inception	1/28/1998
Ticker	LSDIX
CUSIP	543495709

Market Conditions

- Global fixed-income markets delivered healthy gains in the second quarter, reflecting a combination of slowing economic growth, persistently low inflation and the US Federal Reserve's (Fed's) shift toward increasingly accommodative monetary policy. As late as the fourth quarter of last year, the markets generally anticipated that the Fed would continue to raise interest rates for at least another 12 months. As growth slowed both in the United States and overseas in late 2018 and into the first quarter, the Fed indicated that it would move to a neutral policy. More recently, the continued weakness in the global economy gave rise to expectations that the Fed would in fact cut rates at least once before the end of 2019. The change in the outlook for Fed policy fueled a strong, broad-based rally in bonds, the bulk of which occurred from mid-May onward.
- US Treasurys performed particularly well in this environment, with positive total returns across the maturity spectrum. The two-year yield, which tends to be more sensitive to shifts in Fed policy than longer-term issues, slid over fifty basis points. Longer duration segments of the curve produced the strongest price performance. The yield curve steepened as a result, with the gap between the two- and ten-year notes rising compared with its level at the end of the first quarter.
- Investment grade corporate bonds generated robust returns and outperformed duration matched US Treasuries. In addition to benefiting from the rally in rate-sensitive assets, corporates were aided by the backdrop of favorable investor risk appetites, rising equity markets and expectations that corporate earnings growth will remain in positive territory.

CLASS Y PERFORMANCE (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
FUND	2.65	5.55	7.30	2.41	2.59	4.25
BENCHMARK	2.59	4.97	6.93	1.99	2.39	3.24

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 0.45% (Class Y). Net expense ratio 0.40%. 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 1/31/2020. When an expense cap has not been exceeded, the fund may have similar expense ratios and/or yields.

Effective August 31, 2016, the fund's Institutional Class shares were redesignated as Class Y shares. Accordingly, the returns shown in the table for Class Y shares prior to August 31, 2016 are those of Institutional Class shares. The fund revised its investment strategies on 5/28/2010; performance may have been different had the current investment strategies been in place for all periods shown.

- Securitized assets (which include mortgage backed securities, asset backed securities, and commercial mortgage backed securities) produced solid total returns but trailed other segments of the fixed-income market. The category is supported by strong yield demand, offsetting headwinds from Fed balance sheet runoff, supply hit and other technical aspects.

Portfolio Review

- The fund outperformed its benchmark, the Barclays US Intermediate Government/Credit Index, primarily due to sector allocation.

Contributors

- Over the quarter we maintained a meaningful underweight to US Treasurys as we continue to favor risk assets. This positioning proved beneficial as risk assets outperformed US Treasurys.
- The fund's corporate bond exposure boosted relative performance during the period as credit spreads (the incremental yield offered by lower quality bonds relative to Treasurys) tightened significantly. Positive contributions within the fund's allocation to corporates were driven by an overweight to financial sectors, most notably banks and insurance. Additionally, security selection within holdings from industrial related segments like communications, consumer non cyclical and consumer cyclical also contributed to performance.
- We maintained an out-of-benchmark positioning in commercial mortgage backed securities (CMBS), which proved to be beneficial to performance during the quarter.

Detractors

- Security selection within the ABS sector was the biggest detractor from the fund's relative performance over the period. In particular, selection within ABS backed by car loan receivables weighed on returns.
- Selection within high yield energy names detracted slightly from relative performance during the quarter.

Outlook

- We believe that the Federal Reserve (Fed) will cut rates two times in 2019 depending on the progress of trade talks and economic indicators. The cuts should help yield curve inversions, stimulate activity and ease concerns about the end of the cycle. We do not expect the Fed will go into a full easing mode.
- Corporate industries continue to exhibit profiles consistent with late expansion of the credit cycle[1] with slowing margin growth, increased mergers and acquisitions activity and rising leverage. Our view is that the cycle will continue to evolve slowly. Corporate credit remains in demand due to investors' need for yield and positive fundamentals including healthy corporate earnings. We continue to favor corporate credit over risk-free assets as we move further into the late expansion phase of the credit cycle. We believe the primary risks include uncertainties surrounding the pace of global growth, US trade policy, global central bank policy accommodation and the potential for further escalation of Middle East tensions.

- We remain underweight government bonds given low yields, and continue to favor sectors offering higher yield potential than Treasurys.
- We continue to be overweight credit. We are focused on security selection opportunities, buying new issues with favorable concessions and secondary market bonds that offer potentially favorable risk/return profiles.
- We remain overweight in commercial mortgage-backed securities (CMBS), particularly senior parts of the capital stack.
- We think valuations in mortgage-backed securities (MBS) have improved and are becoming more interesting. Within MBS we are focused on securities with limited prepayment risk.
- The high-quality asset-backed securities (ABS) sector remains attractive relative to government bonds. Consumer fundamentals continue to be healthy and we still favor auto loans and credit card receivables within ABS.
- We have been maintaining a higher yield and exposure to more credit-sensitive sectors relative to the benchmark.
- We continue to monitor the portfolio and diversify our holdings with an eye toward minimizing undue exposure to macroeconomic risk and/or issuer-specific events.

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. **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. **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. **Below investment grade fixed income securities** may be subject to greater risks (including the risk of default) than other fixed income securities.

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

***Bloomberg Barclays US Intermediate Government/Credit Bond Index** is the intermediate component of the Bloomberg Barclays US Government/Credit Index. The US Government/Credit Index includes securities in the Government and Credit Indices. The Government Index includes Treasurys (i.e., public obligations of the US Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the US Government). The Credit Index includes publicly issued US corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. 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.