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

- 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 Treasurys 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, Treasurys 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.

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

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
FUND	0.04	-0.64	0.20	5.24	3.13	3.12
BENCHMARK	0.02	-0.87	-0.40	4.63	2.60	2.52

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 0.47% (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 (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.

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.

Still, corporates maintained their return advantage over government debt on a year-to-date basis.

- 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.

Portfolio Review

- The fund outperformed its benchmark, the Bloomberg US Intermediate Government/Credit Index, primarily due to security selection.

Contributors

- The fund's exposures to corporate bonds and securitized assets contributed positively to performance.
- Security selection was positive within corporate bonds and the overweight to the sector also contributed to performance on the margin.
- Holdings of commercial mortgage-backed securities (CMBS) led positive contributions within securitized assets.

Detractors

- Holdings of agency securities within securitized assets detracted from performance.
- Security selection within agency CMBS and collateralized mortgage obligations weighed on performance.
- Within corporate bonds, holdings of communication-related issues detracted.

Outlook

- We believe the Federal Reserve will remain accommodative for the foreseeable future, keeping the fed funds rate unchanged at the zero lower bound and anchoring the front-end of the Treasury yield curve into 2023. We expect the Fed to address balance sheet policy later this year and tapering of bond purchases could be completed sometime in 2022. We continue to expect economic activity to be healthy but expectations have moderated from earlier this year as recent data suggests some bumpiness due to increasing COVID-19 Delta variant cases nationwide.
- We believe the credit cycle is currently in the expansion phase, with strong corporate fundamentals and a healthy consumer supported by significant excess savings and easy financial conditions. We believe risk appetite should remain elevated given the strong expansionary environment, expectations for global growth and continued monetary accommodation.

- Inflation is expected to be in the 2% to 2.5% range but could be elevated for some time or settle above this range. We expect tighter monetary conditions if inflation trends toward the higher end of the range while lower inflation could keep the Fed at bay longer.
- Corporate debt levels are currently elevated but fundamentals are healthy with stable-to-improving margins and significant free cash flow in a number of industries. While valuations are not overly compelling, we may see some additional spread tightening given low expectations for losses.
- We continue to favor spread sectors, such as corporate bonds and securitized assets. However, we are maintaining a risk posture in the lower end of our range, in a similar posture to the beginning of 2020.
- We remain overweight both agency and non-agency commercial mortgage-backed securities, particularly senior parts of the capital stack.
- Within mortgage-backed securities, we remain focused on securities with limited prepayment risk.
- We favor asset-backed securities in the front end of the curve and prefer consumer related areas such as auto loans and credit card receivables.
- We continue to follow our process in building diversified exposures by asset class, industry and issuer.
- We continue to hold select high yield corporate names which we view as inexpensive.

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] *Source: Ice Data Indices, LLC, ICE BofA US Corporate Index Option-Adjusted Spread [BAMLC0A0CM], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/BAMLC0A0CM, July 1, 2021.*
[2] *A credit cycle is a cyclical pattern that follows credit availability and corporate health.*

Bloomberg US Intermediate Government/Credit Bond Index *is the intermediate component of the Bloomberg 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.

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