Intermediate Municipal Bond Fund

FUND FACTS

OBJECTIVE

Seeks a high level of federal tax-exempt current income, consistent with the preservation of capital

Share class	Y
Inception	12/31/2012
Ticker	MIMYX
CUSIP	63872T455

Market & Economic Overview

Rate markets continued to rally sharply in the quarter, more than doubling the decline in Treasury yields registered during the first quarter. Messaging from the Federal Reserve (the Fed) led to a ratcheting downward of expectations for the benchmark overnight lending rate, an underpinning for rate market gains while also fueling a strong bounce back from a mid-quarter correction in risk markets. For the period, most Treasury yields declined 30 to 50 basis points, and the yield curve (which depicts the relationship among bond yields across the maturity spectrum) steepened. Municipal yields declined to a lesser degree and the municipal curve flattened. The recovery in risk sentiment garnered strength from the steep decline in Treasury yields which saw the 10-year yield move to 2%, its lowest level in more than two-and-a-half years. A catalyst for the bond rally was a renewed bout of rate pessimism emanating most strongly from Europe. Ten-year German Bund yields sank into steeply negative territory, and outgoing European Central Bank President Mario Draghi indicated that fresh monetary stimulus might be required. The failure of interest rates to normalize more than 10 years into the expansion remains both a conundrum and a challenge for monetary policymakers.

CLASS Y PERFORMANCE (%)

	CUMULATIVE RETURN		AVERAGE ANNUALIZED RETURN			
	3 MO	YTD	1 YEAR	3 YEAR	5 YEAR	SINCE INCEPTION
FUND	1.93	4.64	6.21	1.98	2.90	2.49
BENCHMARK	2.14	5.09	6.71	2.55	3.64	3.30

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.

Effective June 30, 2019, Loomis Sayles became the new Sub-adviser to the fund. The fund was previously sub-advised by McDonnell Investment Management, LLC.

Effective May 1, 2019, Steve Wlodarski is no longer a portfolio manager of the Fund.

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 1.05% (Class Y). Net expense ratio 0.46%. 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 4/30/2020. When an expense cap has not been exceeded, the fund may have similar expense ratios and/or yields.

The global economy decelerated during the first half of the year. Trade tensions exerted downward momentum on global output generally, and the uncertainty surrounding a meaningful resolution of the future US – China trading relationship has developed into a malignancy that threatens to linger in the atmosphere for an extended period ahead. Separately, the cloud of Brexit continues to enshroud the UK as it attempts to extricate itself from membership in the European Union. Either situation in isolation would be of concern for investors and policymakers broadly, but these simultaneous disruptions add to the general risk level for the long-term health of the economic expansion. While a temporary US – China trade truce was announced at the G20 Summit in June, the fracture in the relationship has resulted in portions of the global production chain already moving out of China into other manufacturing areas across Southeast Asia. The global production chain has become increasingly intertwined in recent years, and attempting to 'target' individual trading competitors is fraught with unintended and unknowable consequences. The increasing friction in global trade flows is likely to both restrain output and add cost to the production process. We believe neither country will ultimately be able to dictate the terms of the relationship unilaterally and expect that any significant deterioration in growth could heighten the political pressure to 'resolve' the standoff and move forward.

Domestically, US economic conditions remained mostly positive as the expansion lengthened to the longest of the post-war era, reaching the 10-year mark at the end of the second quarter. Uncertainty regarding its sustainability has grown, however, as global conditions and tensions depress business and consumer confidence. The simmering trade issues and the dampening effect on global growth have heightened investor concerns and will likely elicit a policy response from the Fed over the near-term. If the Fed does act, it will be in the unenviable position of reacting more in response to capital market conditions rather than to deteriorating economic fundamentals. On balance, however, we expect the Fed would rather err on the side of easier policy rather than risk a more significant deceleration in economic activity. Forward prices are indicative of expectations of two quarter-point cuts to the policy rate over the second half of the year.

Municipal Market

New issue municipal supply continued to disappoint while demand remained robust. Volume for the first half of the year was essentially flat compared to the already constrained pace of 2018. Low rates have proven an insufficient catalyst to motivate state and local issuers to add debt as the overhang of underfunded long-term liabilities continues to constrain fiscal policy. Evidencing strong demand, municipal mutual funds experienced record inflows attracting more than $42 billion of net purchases during the first half of the year. The compression in credit spreads (the incremental yield provided by lower quality bonds) continued as lower quality credits and weaker trading issuers generated the strongest returns during the quarter. Despite the imbalance in supply/demand conditions, the municipal market underperformed both Treasurys and corporate credit across the intermediate portion of the yield curve. The consequences of the 2017 Tax Act continue to exert a strong impact on municipal market conditions. Prohibiting tax-exempt advanced refunding has eliminated roughly a quarter of total issuance and limiting state and local tax deductions has further exacerbated the supply/demand imbalance in 'specialty' high tax states.

Contributors to Performance

An underweight posture with respect to duration (and corresponding sensitivity to interest rate changes) on the longer part of the municipal curve hampered Fund performance for the quarter. However, some of this underperformance was offset by curve positioning which maximized the Fund's 10-year average maturity limitation. Another factor which hindered Fund performance was an underweight to the industrial development revenue/pollution control revenue and lease sectors. A positive component of performance was the overweight exposure to the BBB and single-A quality categories. In addition, the Fund's overweight to spread sectors such as hospital, higher education and transportation positively impacted performance. State weightings in general were additive, however an underweight to the state of California as well as higher quality exposure within lower quality states such as Illinois, Pennsylvania and New Jersey represented drags on performance.

Outlook

While the near-term US economic outlook appears relatively benign, particularly given easing financial market conditions, longer-run prospects are beginning to appear less sanguine. Placid capital market conditions are reassuring on the surface but ultimately belie what is brewing beneath, particularly given the unorthodox mix of fiscal and monetary policy late in the economic cycle. The US is running a fiscal deficit of more than 4% of GDP despite unemployment being at a 50-year low. Debt as a percentage of GDP is the highest since the 1950s and on a trajectory to exceed the record levels attained following World War II. Free trade is in retreat with the US leading the charge. The pursuit of protectionism has ramped up US weighted-average tariffs to more than double that of other developed market economies. Business fixed-investment is moving sideways, productivity has been disappointing and demographic trends are unfavorable. Added to the list of worries are recurring attempts to politicize the Fed. We expect the economy and the capital markets to weather the near-term challenges but remain vigilant for any signs of deterioration over the horizon.

About Risk

Municipal markets may be volatile and can be significantly affected by adverse tax, legislative or political changes and the financial condition of the issuers of municipal 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.

*The fund's primary index, the **Bloomberg Barclays US Municipal Bond Index**, is a market value–weighted index of investment-grade municipal bonds with maturities of one year or more.*

*The fund's secondary index, the **Bloomberg Barclays 3-15 Year Blend Municipal Bond Index**, is an unmanaged index of municipal bonds issued after January 1, 1999 with a minimum credit rating of at least Baa, been issued as part of a deal of at least $50 million, have a maturity value of at least $5 million and a maturity range of 12 to 17 years. As of January 1996, the index also includes zero coupon bonds and bonds subject to the Alternative Minimum Tax. It is a subindexof the U.S. Municipal Index and covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefundedbonds. Many of the indices have historical data to January 1980.*

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.

These perspectives are as of the date indicated and may change based on market and other conditions. Actual results may vary. Please refer to the Fund prospectus for a comprehensive discussion of risks.

Before investing, consider the fund's investment objectives, risks, charges, and expenses. Please visit www.loomissayles.com or call 800-225-5478 for a prospectus and a summary prospectus, if available, containing this and other information. Read it carefully.

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