Investment Grade Bond Fund

Fund Facts

OBJECTIVE

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

Share class	Y
Inception	12/31/1996
Ticker	LSIIX
CUSIP	543487136

Market Conditions

- 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%.
- 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.
- 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.
- Investment-grade corporate bonds gained ground and outpaced Treasurys in the quarter, largely as a result of a decline in yield spreads over government bonds from late October onward. The spread on the ICE BofA US Corporate Index closed the year near its lowest level since June.
- High yield bonds registered positive returns, as the broader rebound in risk assets contributed to a compression of yield spreads. The category outperformed the investment-grade market over the full year due in part to its lower interest-rate sensitivity and a larger

Class Y Performance as of December 31, 2022 (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
FUND	1.98	-11.31	-11.31	-0.24	1.54	2.14
BENCHMARK	1.80	-13.58	-13.58	-2.57	0.21	1.16

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 0.54% (Class Y). Net expense ratio 0.49%. 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 4/30/2024. When an expense limitation has not been exceeded, the fund may have similar expense ratios and/or yields.

The Class Y inception date is 12/31/1996. Class Y shares are sold to eligible investors without a sales charge; other Classes are available for purchase.

contribution from income. Senior loans generated a narrow gain in the quarter and finished as the best performing segment of the fixed-income market for 2022.

- Securitized assets—including agency mortgage-backed securities (MBS), asset-backed securities (ABS), and commercial mortgage-backed securities (CMBS)—posted positive total returns but trailed both investment grade and high yield corporates.
- Emerging market bonds outperformed the US market. Optimism about China's move away from its zero-COVID policy helped results, as did the general improvement in risk assets. Strength in foreign currencies against the US dollar also provided a significant boost to the category.

58-59 source: https://www08.wellsfargomedia.com › investing

- IG Corp yield spread source: https://fred.stlouisfed.org/series/BAMLC0A0CM

Portfolio Review

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

Winners

- Exposure to emerging market credit was positive, aided by selected holdings in Mexico (capital goods sector) and Chinese property developers. For China property, bond prices have been under continued pressure given delayed re-openings due to Covid and limited governmental measures taken thus far to alleviate stresses on this sector. Recently, however, we have started to see more coordinated efforts here as Chinese authorities have released rounds of policies to support the property sector.
- An underweight to US Treasurys was beneficial as this sector did not keep pace with corporate credit.
- The fund's shorter than benchmark duration positioning within investment grade corporate credit was a contributor to performance. An overweight to the sector aided returns as well.

Laggards

- An allocation to securitized credit, particularly within ABS (asset-backed securities) was a detractor of relative performance
- Holdings of defensive, reserve-like positions was a laggard as riskier asset classes outperformed.

Outlook

- Initial inflation data in the beginning of the fourth quarter of 2022 came in above expectations, however, subsequent readings were moderately positive, 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, risk assets stabilized and spreads on investment grade and high yield corporates finished the quarter at tighter levels.
- In our view, the credit cycle[1] 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 result of wage pressure. 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 bps 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 pivot but we believe inflation is structural at this point. We find it 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 a rate hike. We expect the US 10-year bond yield to move only modestly higher from here and we continue to be positioned defensively on rate risk, but to a lesser extent than earlier in 2022.

- 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 post the 2008 Great Financial Crisis (GFC). Dollar prices on bonds are also currently at post-GFC lows. We believe the combination of discount-to-par and attractive yield could be increasing the 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 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. **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. **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.

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

Bloomberg 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 US 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.

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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