Loomis Sayles Global Bond Fund Distribution Policy Change
September 2017

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Effective October 1, 2017, the Loomis Sayles Global Bond (the "fund") will change its distribution policy from a monthly to an annual distribution schedule. The following document provides additional background and context regarding this change.

Background

The fund invests primarily in investment grade fixed income securities worldwide, providing access to the potential diversification benefits of owning global fixed income securities as more than 50% of the world's bond markets are located outside of the United States. Typically, there is a sizable portion of non-US dollar allocations in the fund (roughly 60% non-US dollar exposure, on average, over the past several years). Such allocations can play multiple roles in the portfolio such as diversifying sources of income, adding incremental yield, enhancing liquidity or adding flexibility.

What impact has the fund's non-US dollar allocations had on recent income distributions?

Given the fund's global nature, the portfolio owns a considerable amount of non-US-dollar-denominated debt, which subjects it to fluctuations in exchange rates between the US dollar and foreign currencies. Over the past few years, the US dollar has appreciated in value relative to most foreign currencies. This has resulted in realized currency losses that have impacted the fund's ability to pay normal monthly income distributions. Specifically, from January 2015 through September 2016, the fund did not pay a monthly distribution. And despite monthly distributions made in late 2016 and early 2017, the fund's foreign currency losses increased thereafter, which has again eliminated its monthly distributions.

Why can't the fund continue to distribute the same level of income despite the currency losses?

The US tax code determines how income and gains and losses from securities transactions are recognized and reported by mutual funds. This can include foreign-denominated bonds, forward currency contracts and foreign currency. When a non-US-dollar-denominated bond matures or is sold, the resulting gain or loss is made up of two components: a capital gain/loss and a currency gain/loss. A recognized currency loss, in accordance with federal tax rules, decreases the amount of ordinary income the fund has available to distribute, even though these bonds continue to generate coupon income.

To compensate for realized currency losses, the fund's ordinary income must be adjusted to ensure that the fund does not distribute too much income early in its fiscal year. If currency losses are not factored into ongoing distributions, the fund risks distributing more income to shareholders than it earned during the year. This would result in a return of capital to shareholders, effectively reducing the amount of principal that shareholders have in their accounts. Fund management seeks to avoid return of capital distributions and the related tax recordkeeping and reporting requirements for shareholders.

Given the recent strength of the US dollar, did the fund's portfolio management team consider selling or hedging the fund's non-US-dollar-denominated debt exposure?

The fund has not sold or fully hedged its non-US-dollar-denominated debt exposure because the fund is managed relative to its benchmark, the Bloomberg Barclays Global Aggregate Bond Index.[1] As such, the fund maintains an exposure to non-US-dollar-denominated debt as this is a considerable weight within the unhedged index. Many global fixed income investors are also seeking potential diversification, income and total return opportunities associated with non-US dollar securities as part of a broader asset allocation strategy. Even though the portfolio managers have the flexibility to over/underweight or hedge selected currencies based on their conviction, a sizable portion of the fund will still remain invested in non-US dollar securities for these reasons.

What changes are being made to the fund's distribution policy?

As a result of the above discussion points and the possibility of future foreign currency losses, the fund's distribution policy has been changed from a monthly to an annual distribution schedule, effective October 1, 2017. Fund management believes that this will reduce the inconsistency of the monthly income distribution amounts, which can fluctuate greatly depending on market conditions and other circumstances. In addition, having an annual distribution will reduce the risk of return of capital for shareholders.

Is an annual distribution policy consistent with other competitive offerings in the space?

Upon review, fund management determined that there isn't necessarily a standard industry best practice as it relates to the distribution policies of global fixed income funds. While several funds make distributions on a monthly basis, there are a number of others that pay on a quarterly or annual basis. For those products which do distribute on a more frequent basis, it was noted that some are knowingly making distributions of return of capital to their shareholders.

Going forward, when will the fund's annual distribution occur?

As necessary, the fund's annual distribution will occur in December of each year. To assist in year-end tax planning, estimates (and dates) of the fund's annual distributions (if any) will be posted to the fund's website in the November-to-early December timeframe.

Do the reduced (or lack of) income distributions mean that the fund's bonds are earning less income?

Not necessarily. As noted previously, the reduced (or lack of) monthly income distributions is a result of currency losses experienced by the fund, not a change in what the fund's underlying bonds are earning.

Do the reduced (or lack of) income distributions impact the fund's yield?

The reduced (or lack of) income distributions impact the fund's distribution payment yield. However, they do not impact the fund's SEC yield.

[1] The Bloomberg Barclays Global Aggregate Bond Index provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this Index are the US Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices.

Why is the 30-day SEC yield different from the distribution payment yield?

The 30-day SEC yield is a standardized industry calculation that is designed to provide current and prospective fund shareholders with a theoretical, uniform, formula-based calculation of yield. This formula is designed to annualize the amount of current (30-day) income, net of actual expenses, that can be theoretically generated from the securities maintained in the fund's portfolio, assuming, among other things, that they are all held to call date or maturity.
The primary reasons that the 30-day SEC yield can differ from a distribution payment yield are as follows:

1. 30-day SEC yield does not reflect currency gains or losses, or other forms of income that are not predictable or necessarily repeatable, such as loan commitment fees and premiums received from writing options.
2. Distribution payment yield can be significantly affected by subscriptions into and redemptions from a fund.
3. 30-day SEC yield is calculated as of a point in time on a theoretical basis, and the distribution payment yield is calculated based on actual experiences over a similar time period. The actual experience (distribution payment yield) of a fund includes changes in the portfolio holdings and may include, among other things, currency gains and losses.

Do the reduced (or lack of) income distributions mean that the fund's total return has declined?

The total return experienced by shareholders will not be impacted by the elimination or reduction of any fund distribution as realized currency losses are an integral component of the fund's net asset value.

RISKS

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. **Below investment grade** fixed income securities/bonds may be subject to greater risks (including the risk of default) than other fixed income securities. **Currency** exchange rates between the US dollar and foreign currencies may cause the value of the fund's investments to decline. **Foreign securities** may involve heightened risk due to currency fluctuations. Additionally, they may be subject to greater political, economic, environmental, credit, and information risks. Foreign securities may be subject to higher volatility than US securities, due to varying degrees of regulation and limited liquidity. Diversification does not ensure a profit or guarantee against loss.

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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