Limited Term Government and Agency Fund

FUND FACTS

OBJECTIVE

Seeks high current return consistent with preservation of capital

Share class	Y
Inception	3/31/1994
Ticker	NELYX
CUSIP	543487326

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.
- 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.

CLASS Y PERFORMANCE (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
FUND	1.57	2.62	4.01	1.39	1.38	2.34
BENCHMARK	1.85	3.09	4.94	1.32	1.53	1.72

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 0.55% (Class Y). Net expense ratio 0.55%. 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.

The Class Y inception date is 3/31/1994. Class Y shares are sold to eligible investors without a sales charge; other Classes are available for purchase.

Portfolio Review

- The fund underperformed its benchmark, the Bloomberg Barclays US Government 1-5 Year Index, primarily due to interest rate sensitivity differences between the fund and the benchmark.

Contributors

- Security selection had a modest positive impact on the fund's performance relative to the benchmark for the period.
- In particular, security selection within agency commercial mortgage backed securities (CMBS) was a positive source of relative performance in the quarter.
- Selection within agency pass through MBS also proved beneficial.

Detractors

- The fund's positioning along the yield curve (which depicts the relationship among bond yields across the maturity spectrum) was the main detractor from relative return for the quarter. In addition, the portfolio's slightly below-benchmark stance with respect to overall duration (and corresponding sensitivity to changes in interest rates) weighed on results as Treasury yields declined.
- Security selection within in government-backed collateralized mortgage obligations detracted from performance.
- The fund's cash position also held back returns during the period.

Outlook

- Agency mortgage-backed security (MBS) spreads (the difference in yield between agency MBS and Treasurys of similar maturity) are becoming more attractive as valuations are approaching longer-term averages. Mortgages issued in recent years are relatively high quality compared with those issued in prior years. Therefore, we favor an underweight to recently issued 30-year MBS and prefer sectors less likely to face refinancing and extension risk, such as low loan balance mortgages and home equity conversion mortgages.
- Within the commercial real estate sector, top-tier assets and markets have generally recovered and are at or above prior peak levels. We believe investment grade commercial mortgage-backed securities (CMBS) remain attractive.
- We believe asset-backed securities (ABS) currently offer an attractive combination of strong credit quality and enhanced yield. We favor higher-yielding securities and bonds of less frequent issuers within ABS. Our analysis indicates the credit risk of these securities is inefficiently priced and they offer potentially attractive opportunities for additional yield.

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. **US government agency securities** are not insured and may not be guaranteed by the US government. **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.

Bloomberg Barclays US 1-5 Year Government Bond Index *is an unmanaged, market-weighted index of bonds issued by the US government and its agencies, with maturities between one and five years. 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 800-225-5478 for a prospectus and a summary prospectus, if available, containing this and other information. Read it carefully.

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