Securitized Asset Fund

FUND FACTS

OBJECTIVE

Seeks a high level of current income consistent with capital preservation

Share class	I
Inception	3/2/2006
Ticker	LSSAX
CUSIP	543495741

Market Conditions

- After experiencing volatility in the first three months of the year, the bond market stabilized during the second quarter. Two factors contributed to the shift in tone. First, labor market data out of the United States and the rest of the world indicated that the economic growth—while still robust—may take longer to fully recover than initially expected. Second, investors appeared to gain confidence in the US Federal Reserve's (Fed's) assertion that the recent spike in inflation is in fact "transitory." Although inflation numbers have indeed been running hot in the past six months, the markets seem assured that supply-chain bottlenecks will ease and inflation will soon return closer to its typical level. While the Fed has continued to communicate its intention to keep short-term interest rates near zero for an extended period, their "dot-plot" now indicates they forecast two hikes in the Fed Funds Rate in 2023, which signals to the market that they will act to reduce inflation if it does appear to remain persistent. More immediately, the Fed also signaled the possibility that it could begin planning tapering quantitative easing purchases in the near future.
- These factors played out in the US Treasury market, where the yield on the ten-year note—which tends to track growth expectations—fell from 1.74% to 1.45% over the course of the quarter. On the other hand, the yield on the two-year note moved from 0.16% to 0.25% in anticipation of eventual tapering. Treasury Inflation Protected Securities (TIPS) outperformed nominal treasury bonds due to the persistent concerns about inflation.
- Securitized assets—including mortgage backed securities (MBS), asset backed securities (ABS) and commercial mortgage backed securities (CMBS)—also posted positive total returns, but as a group they lagged other segments of the bond market given their shorter duration. CMBS generated the strongest total return of the three categories, while ABS and MBS total returns were more muted.

CLASS I PERFORMANCE (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
FUND	0.92	1.05	3.36	4.97	3.51	4.12
BENCHMARK	0.44	-0.74	-0.20	3.93	2.35	2.71

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.

Shares of the Fund are currently offered exclusively to investors in certain wrap fee programs or other institutional advisory clients of Loomis, Sayles & Company that meet criteria determined by Loomis Sayles.

The Class I inception date is 3/2/2006. Class I shares are available to certain institutional investors only.

Portfolio Review

- The fund outperformed its benchmark, the Bloomberg Barclays US Securitized Index, primarily due to positioning within agency pass-through MBS, ABS and CMBS.

Contributors

- The fund's underweight allocation to agency pass-through MBS added significantly to relative performance for the period.
- The fund's overweight positioning with respect to ABS was a positive contributor to relative performance due to allocations to issues backed by aircraft-related, subprime auto and whole business debt.
- The fund's allocation to CMBS bolstered relative return with positive contributions highlighted by overweight exposures to single asset/single borrower fixed and floating rate securities, as well as holdings of conduit (i.e. collateralized by many loans) issues.

Detractors

- Within agency collateralized mortgage obligations, derivative-based exposures weighed on return.

Outlook

- We find MBS attractive versus Treasuries, as agency MBS offer favorable risk-adjusted expected returns in spite of the elevated supply. With the Fed sponsorship expected to continue for the foreseeable future, we believe the environment remains favorable for mortgages, which offer a strong carry (incremental income) proposition for patient investors over the short to medium term. Mortgage carry should remain relatively strong as the Fed is expected to purchase the majority of the net supply in 2021 and to continue cleaning up the float of cheapest-to-deliver bonds. Furthermore, the strong bank demand from the prior year has continued into 2021. While we do not see banks maintaining the same purchase pace throughout the year, they should remain the second largest driver of demand.
- Consumer ABS fundamentals remained stable through the first half of the second quarter of 2021 even with elevated unemployment levels as fiscal stimulus continued to provide a strong backstop for the consumer. Currently, consumer ABS sectors are not showing much evidence of a stressed consumer. Even under our "stress case" scenario (no additional stimulus, unemployment levels reverting to the pandemic peak) consumer ABS structures are well protected, benefiting from high levels of credit support, especially at the investment grade rated level. Despite spreads tightening year to date, the sector still offers attractive carry and lower volatility making it an attractive alternative to short maturity corporates. The aviation sector remains challenged with base rent collections tracking at 60 – 70% of pre-COVID rates. As airlines look to re-tool their fleets coming out of COVID, we expect that demand for mid and end of life aircraft will lag the demand for newer technology. We remain selective on aircraft ABS sponsors and believe the best value is currently found in the senior portion of the capital stack.
- Commercial real estate was adversely impacted by the COVIDd-19 pandemic. Lockdowns, travel restrictions and social distancing had a large negative impact on the retail and lodging sectors. Private commercial real estate staged a dramatic recovery during the first half of 2021, resulting in real estate values now being down only 1% from pre-COVID levels. However, the recovery has not been uniform as hotels and shopping mall values (which were down as much as 25% in the depths of the crisis) are still down meaningfully relative to last year.

- We remain fundamentally positive on the long-term trends of US housing and residential MBS. We temper our optimism somewhat in the face of reduced wage growth, high unemployment and the exceptionally strong performance of the sector over the first half of 2021, although we acknowledge risks to the upside. While we do not envision a large drop in home prices, we also do not view the current pace of appreciation as sustainable.
- Collateralized loan obligation spreads have tightened markedly from the wides seen early last year to the point where prices across the stack are now close to par and further appreciation potential is limited. However, we remain constructive on the carry potential and stable return profile provided in AAA and senior mezzanine tranches. While near-term loan defaults are expected to be above long-term averages, flushing out many of the weakest credits, longer term default rates should continue to improve.

About Risk

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. **US government agency securities** are not insured, and may not be guaranteed by the US government. **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. **Derivatives** involve risk of loss and may entail additional risks. Because derivatives depend on the performance of an underlying asset, they can be highly volatile and are subject to market and credit risks.

Bloomberg Barclays US Securitized Bond Index *is an unmanaged index of asset-backed securities, collateralized mortgage-backed securities (ERISA eligible) and fixed rate mortgage-backed securities. 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.

For investment professional use only.

Natixis Distribution, L.P. (fund distributor, member FINRA|SIPC) and Loomis, Sayles & Company L.P. are affiliated.

LS Loomis | Sayles is a trademark of Loomis, Sayles & Company, L.P. registered in the US Patent and Trademark Office.

1037331.29.1