Strategic Alpha Fund

Fund Facts

OBJECTIVE

Seeks to provide an attractive absolute total return, complemented by prudent investment management designed to manage risks and protect investor capital. The secondary goal of the fund is to achieve these returns with relatively low volatility

Share class	Y
Inception	12/15/2010
Ticker	LASYX
CUSIP	63872T620

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.
- 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.
- 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-

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	2.22	-7.97	-7.97	0.91	1.43	1.95
BENCHMARK*	0.84	1.46	1.46	0.72	1.26	0.76

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.

**ICE BofA ML 3 Month US Treasury Bill Index*

Gross expense ratio 0.72% (Class Y). Net expense ratio 0.72%. 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 4/30/2023. When an expense limitation has not been exceeded, the fund may have similar expense ratios and/or yields.

The Class Y inception date is 12/15/2010. Class Y shares are sold to eligible investors without a sales charge; other Classes are available for purchase.

grade market over the full year due in part to its lower interest-rate sensitivity and a larger 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.
- 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.

Portfolio Review

- The fund outperformed its benchmark, the ICE BofAML 3 Month US Treasury Bill, primarily due to positioning within emerging markets, investment grade corporates and high yield corporates.

Contributors

- The fund's allocation to emerging markets led positive contributions to relative performance. Of note, positions in Chinese property developers Agile Group Holdings and KWG Group Holdings elevated returns as Chinese authorities made major strides in the quarter to end a crisis that has dampened the economy over the past year. A few key measures taken were reducing the size of down payments and cutting mortgage rates, extending maturing loans to developers, ensuring the delivery of pre-sold homes to buyers, and boosting other funding outlets such as bond issues.
- The allocation to investment grade corporate bonds aided performance for the period. In what was considered the most difficult year on record for fixed income markets and specifically US bond investors, bond yields began the period at their lowest levels in 150 years. Despite a challenging 2022, there remains some optimism as corporate bonds look more compelling going forward from a total return perspective. Compared to government bonds, many investors view corporate bonds as offering better long-term value. Within the portfolio, holdings within banking, consumer cyclicals and finance companies proved additive to performance.
- Exposure to high yield corporate bonds was additive to relative performance as credit spreads (the incremental yield provided by lower quality bonds) narrowed during the quarter. In sector terms, holdings within consumer cyclicals and non-cyclicals, finance companies and capital goods boosted return. At the December Federal Reserve meeting, the Fed signaled that it anticipated rate hikes to take the fed funds rate above 5% (from the current 4.375%), which was higher than market expectations. High yield primary market issuance increased by approximately $2.5 billion from November to December, and the three top-performing sectors were pharmaceuticals, banking and home construction.

Detractors

- The fund's holdings of high yield credit default swaps indices and a position in Singapore-based geotechnical engineering firm CSC Holdings LLC were detractors within the high yield corporate bond allocation.

Outlook

- Inflation data in the beginning of the fourth quarter of 2022 came in above expectations. However, subsequent readings showed moderate easing, 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 the potential peak in Fed policy tightening came into view, 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 stage and the risk of downturn has become more balanced. While we expect growth to continue to trend lower as manufacturing and housing metrics have deteriorated, 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 pressures. 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 basis points 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 to more dovish policy, but we believe inflation is structural at this point. We believe it will be difficult for the Fed to begin cutting rates when inflation remains above its target. As a result, we're anticipating a Fed pause after the March meeting which would likely extend into the latter stages 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 yet another rate hike. We expect the US 10-year bond yield to move only modestly higher from here, and while we continue to be positioned defensively on rate risk it is to a lesser extent than for much of 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 relative to post the 2008 Great Financial Crisis (GFC) levels. 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 a downturn in 2023 increasing, 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.

- During periods in which the US dollar appreciates relative to foreign currencies, funds that hold non-US-dollar-denominated bonds, foreign currency or foreign currency-based derivative securities ("Foreign Currency Exposures") may realize currency losses in connection with the maturity or sale of certain Foreign Currency Exposures. These losses impact a fund's ordinary income distributions (to the extent that losses are not offset by realized currency gains within the fund's fiscal year). A recognized currencyloss, in accordance with federal tax rules, decreases the amount of ordinary income a fund has available to distribute, even though non-US-dollar-denominated bonds continue to generate coupon income.
- Fund officers have analyzed the fund's current portfolio of investments, realized currency gains and losses, schedule of maturities, and the corresponding amounts of unrealized currency losses that may become realized during the current fiscal year. This analysisis performed regularly to determine how realized currency losses have and will impact periodic ordinary income distributions for the fund. Based on the most recent quarterly analysis (as of December 31, 2022), realized currency losses will continue to have an impact on the distributions in the 2023 fiscal year. This analysis is based on certain assumptions including, but not limited to, the amount of Foreign Currency Exposures held by the funds', the level of foreign currency exchangerates, security prices, interest rates, the fund advisers' ability to manage realized currency losses, and the net asset level of the fund. Changes to these assumptions could materially impact the analysis and the amounts of future fund distributions. Fundofficers will continue to monitor these amounts on a regular basis and take the necessary actions required to manage the fund's distributions to address realized currency losses while seeking to avoid a return of capital distribution.

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. **Below investment grade fixed income securities** 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. **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. **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. **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. **Commodity-related** investments, including derivatives, may be affected by a number of factors including commodity prices, world events, import controls and economic conditions, and therefore may involve substantial risk of loss. **Non-diversified funds** invest a greater portion of assets in fewer securities and therefore may be more vulnerable to adverse changes in the market. **Short exposures** using derivatives may present various risks. If the value of the asset, asset class or index on which the Fund holds short investment exposure increases, the Fund will incur a loss. The potential risk of loss from a short exposure is theoretically unlimited, and there can be no assurance that securities necessary to cover a short position will be available for purchase.

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

***ICE BoA Merrill Lynch US Dollar 3-month LIBOR Constant Maturity**. The 3-Month US LIBOR represents the London interbank offered rate (LIBOR) with a constant 3-month average maturity. LIBOR is a composite of the rates of interest at which banks borrow from one another in the London market, and it is a widely used benchmark for short-term interest rates. Indexes are unmanaged and do not incur fees. It is not possible to invest directly in an index.*

***Standard & Poor's 500 -S&P 500® Index** is a market capitalization-weighted Index of approximately 500 common stocks chosen for market size, liquidity, and industry group representation to measure broad US equity performance. S&P 500® is a registered service mark of McGraw-Hill Companies, Inc.*

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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