LOOMIS | SAYLES

MUTUAL FUND COMMENTARY

SEPTEMBER 30 2021

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 bond market produced mixed returns in the third quarter, as investors began to look ahead to the point at which the US Federal Reserve (Fed) will start to taper its stimulative quantitative easing (QE) policy. In September, Fed Chairman Jerome Powell stated that the central bank was likely to announce a tapering program before the end of 2021. This change wouldn't mark an immediate end to the stimulus, but rather a gradual reduction over the course of the coming year. However, the markets also began to price in a significant likelihood that the Fed will enact its first rate hike in late 2022. The primary reason for the expected policy shift is not only that economic growth has been firmly in positive territory for over a year, but also signs that the recent increase in inflation is more than just a "transitory" phenomenon – particularly in light of increased bottlenecks in the global supply chain. Together, these factors dampened returns across the fixed-income market.
- Investment-grade corporate bonds were flat over the past 3 months. After performing well in the first two months of the quarter, the asset class sold off in late September due to the spike in Treasury yields, rising new-issue supply and investors' reduced appetite for risk. Still, corporates maintained their return advantage over government debt on a year-to-date basis.
- High-yield bonds outpaced the broader fixed-income market. The category tends to have lower interest-rate sensitivity than investment-grade bonds, a key positive at a time in which concern about Fed policy was the key factor driving market performance. High yield further benefited from the combination of favorable credit conditions, continued gains for equities and an impressive rally in oil prices. Leveraged loans, many of which offer yields

CLASS Y PERFORMANCE AS OF SEPTEMBER 30, 2021 (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
FUND	0.06	1.92	6.79	4.84	4.25	4.16
BENCHMARK*	0.04	0.15	0.21	1.46	1.44	0.90

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.

**Libor 3 Month Index*

Gross expense ratio 0.74% (Class Y). Net expense ratio 0.74%. 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 4/30/2022. 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.

that adjust upward with prevailing interest rates, also outperformed.

- Securitized assets—including mortgage backed securities, asset backed securities and commercial mortgage backed securities—produced positive total returns as a group, outpacing other credit-oriented segments of the domestic market. The category's underlying fundamentals remained firm with continued strength in both real estate prices and consumer credit.
- Emerging-market bonds lagged the US fixed-income market in the quarter. The category came under pressure from slowing economic growth in China, the mounting debt problems of the Chinese property developer Evergrande, and political uncertainty in Brazil. The sizable rally in the US dollar in September was an additional headwind for emerging-market assets.

Portfolio Review

- The fund outperformed its benchmark, the ICE BofAML US Dollar LIBOR 3-month Index, primarily due to exposures to securitized assets, high yield corporate bonds and investment grade corporate bonds.

Contributors

- The fund's allocation to securitized assets including asset-backed securities, commercial mortgage-backed securities and residential mortgage-backed securities made the largest positive contribution to return during the period. In particular, exposure to the housing, auto loans, and whole business segments aided return. The securitized category's underlying fundamentals remained firm with continued strength in both real estate prices and consumer credit.
- Exposure to high yield corporates added to return as credit spreads (the incremental yield provided by lower quality bonds) were slightly wider during the quarter during the quarter. Within the portfolio's high yield allocation, consumer, communications and energy companies led positive contributions. We anticipate stronger US and global growth with the credit cycle firmly in the expansion phase, and believe high yield bonds will be supported by the ongoing investor demand for yield.
- The fund's investment grade corporate bond exposure was additive to performance, as the vaccine rollout continued to bolster the reopening of businesses leading to an anticipation of recovery and continued expansion heading into the Fall. Within the portfolio's investment grade corporate allocation, finance, banking and electric names led contributions to performance.

Detractors

- The fun• The fund's allocation to emerging markets impeded returns for the quarter. The financial troubles of China Evergrande Group, China's second-largest property developer, have put market participants on edge, and inancial firms and entities in China were most negatively impacted. Recently tightened financial restrictions have propelled the highly levered company into a liquidity crisis and it is at risk of default. Given the company's size, many investors are worried that its problems could lead to system-wide financial pain in China, with potential ripple effects across the global economy.

- The fund's positioning with respect to duration (and corresponding interest rate sensitivity) detracted during the quarter as the prospect of a change in Fed policy led to higher yields for US Treasurys with maturities of one year and above. The yield on the benchmark 10-year note rose from 1.45% at the beginning of the quarter to 1.52% at the end of September. All of the upward move occurred in September, as yields were flat to lower in the first two months of the quarter due in part to uncertainty about the trajectory of economic growth. Notably, Treasurys experienced day-to-day volatility that was well above historical levels as investors struggled to assess the various cross-cutting factors affecting the economic outlook.
- Equity exposure weighed on performance for the quarter as the fund's communications and capital goods positions declined. September is traditionally the worst month for stock performance and the trend continued in 2021. Discussion and uncertainty around the rising debt, a $1.2 trillion infrastructure bill, a potential government shutdown,and a highly anticipated Fed meeting on rate hikes and inflation led to volatility, along with continued concern with respect to the COVID-19 Delta variant.

Outlook

- While our fundamental economic outlook remains positive, the world appears less synchronized than we expected at this point in the recovery. Leading indicators remain strong, financial conditions appear easy and monetary/fiscal policies continue to be a tailwind to economic activity. This macroeconomic backdrop, coupled with strong credit fundamentals, appears positive for risk assets. However, we are mindful of the risks inherent to our outlook, such as the lingering impact of the COVID variant, slowing Chinese growth (and deleveraging within its property sector) and ongoing global supply chain disruptions that could lead to a bumpier, if still solid, global growth environment.
- Under our base case of a gradual economic expansion, we anticipate a slow rise in interest rates as the Fed likely initiates a taper of QE purchases later this year. While the most recent Open Market Committee (FOMC) statement sent a strong signal that we are approaching the end of the road on QE, the Fed has stated their belief that inflation has been boosted by transitory factors which will presumably fade over time. We believe supply disruptions should work out over time and energy prices could ease in 2022, which would support the Fed's view. While we expect rate lift-off in 2023, the Fed may find it necessary to delay hiking if growth is weaker or accelerate hiking if inflation is persistently higher than expected. Adding to the uncertainty of the timing and magnitude of the Fed's taper and rate lift-off includes the early retirement of two Fed presidents over their 2020 trading activities, which adds risk to Fed Chair Powell's renomination and the future composition of the FOMC. Given our views, we remain defensive on interest rates and positioned shorter than broad market benchmarks from a duration perspective.
- In our view we remain fully embedded in the expansion phase of the credit cycle with credit fundamentals, technical factors and default expectations continuing to appear attractive. We remain "pro risk" on credit for higher carry and potential outperformance of our best ideas. In this environment, we continue to focus on issue selection, which drives our investment process. Specifically, we are seeking out "rising star" candidates that possess strong balance sheets and catalysts to help drive upgrades. We believe accommodative global monetary policies coupled with the tailwind of fiscal support could drive a wave of credit upgrades going forward. From a sector perspective, we are targeting those that have

- strong carry, less interest rate sensitivity and positive convexity (i.e., a favorable risk/reward profile in a changing rate environment). As such, we currently favor high yield corporates and convertible securities along with securitized debt, which can provide diversification away from pure corporate risk, relatively attractive yield potential and shorter duration profiles.
- During the quarter, credit markets were generally resilient to macroeconomic events, including Fed taper talk and concerns over Chinese growth and property sector challenges, suggesting to us that there could be a strong demand for yield. We suspect this dynamic will likely hold going forward given our outlook for downgrades, defaults and losses to trend notably below long-term averages. However, we recognize current elevated valuations and tight credit spreads, and have built flexibility into our portfolios in seeking to take advantage of opportunities that may arise as a result of short-term disruptions.
- During periods in which the US dollar appreciates relative to foreign currencies, funds that hold non-US-dollar-denominated bonds, foreign currency orforeign 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 extentthat losses are not offset by realized currency gains within the fund's fiscal year). A recognized currency loss, in accordance with federal tax rules, decreases the amount of ordinary income a fund has available to distribute, even though non – US –dollardenominated 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 September 30, 2021), realized currency losses have had and will continueto have an impact on the distributions in the 2021 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 exchange rates, securityprices, 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. Fund officers will continueto 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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