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

- 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.
- 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.
- Investment grade corporate bonds generated robust returns and outperformed duration matched US Treasuries. In addition to benefiting from the rally in rate-sensitive assets, corporates were aided by the backdrop of favorable investor risk appetites, rising equity markets and expectations that corporate earnings growth will remain in positive territory.

CLASS Y PERFORMANCE (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	SINCE INCEPTION
FUND	1.36	3.27	2.66	3.78	2.53	2.89
BENCHMARK	0.70	1.43	2.60	1.66	1.12	0.80

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 0.75% (Class Y). Net expense ratio 0.75%. 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 4/30/2020. When an expense cap has not been exceeded, the fund may have similar expense ratios and/or yields.

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

- 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.

Portfolio Review

- The fund's positive performance was mostly generated from our exposures to securitized, investment corporate bonds, and global rates. Beyond that, emerging market issues, convertibles, and global credit all provided lesser contributions to positive absolute return. These gains were somewhat offset by losses from equity and currency.

Contributors

- The fund's exposure to securitized assets, including asset-backed securities (ABS), Non-agency residential mortgage-backed securities (RMBS),and commercial mortgage-backed securities (CMBS), led positive contributions to return during the period. Our ABS exposure, the largest t of the 3 sectors, had positive results from many of the sub-sectors including subprime auto loans, aircraft related, and credit card loans. Non-agency RMBS also contributed as housing generally continued to do well even as it shows signs of slowing. Sentiment around housing has remained optimistic as rates remain attractive for borrowers.
- Investment grade corporate bonds, including the ones we hold for reserves, bolstered performance as creditspreads continued to recover from the May's wide levels in response to more the Fed's more dovish stance. The allocation to investment grade corporate bonds remained stable during the quarter as reserves remained in higher quality names. Individual names in banking, technology and consumer non-cyclical were the primary contributors.
- Our global rates strategies, primarily through the use of sovereign bonds, interest rate swaps, swaptions and futures, contributed to performance. The yield of the benchmark 10-year US Treasury note dropped 41 basis points over the quarter to 2.00%, as the Fed left policy rates unchanged in June while signaling that rate cuts are possible later this year. After netting away currency risk, South African sovereigns contributed to performance. A short position in euro-bund interest rate futures slightly detracted from performance. We have since exited the position as many central banks, including the European Central Bank (ECB), have tilted towards an accommodative stance.

Detractors

- Currency positioning marginally weighed on performance mainly due to short forward positions in the Singapore dollar as well as long forward positions in Malaysian ringgit. The US dollar weakened late in the quarter. Currency markets focused on the pace of European growth, the prospect of more stimulus from the ECB amid weak inflation, and how Brexit continues to play out. While we seek to own currencies with attractive yields and valuations, we are seeking to be cautious with overall currency exposure given the uncertain geopolitical environment.

- Exposure to equities also detracted from performance for the quarter as weaker energy prices weighed on performance among our energy stocks. Also, some of our idiosyncratic picks, especially those reflecting offshore exposure, reduced performance despite recovering in June. Markets remain focused on the impact of both the U.S.-China trade dispute and Fed policy. We have remained constructive on our holdings while seeking to limit downside through hedges.

Outlook

- Economic activity has not progressed as positively as we had anticipated. Global and US manufacturing have come under pressure and trade war concerns have increased. Combined with the fact that inflation has been tame, these factors will likely lead the Fed to cut interest rates. While we don't believe that we are facing a Fed regime shift, we do expect it to provide accommodation with multiple rate cuts to help ward off recession and extend this cycle.
- The net effect of these potential cuts should be to support economic growth and relieve the modest inversion at the short end of the yield curve as those rates decline. We do not believe a US recession will occur over the next twelve months given the solid employment conditions and outlook for corporate profits. In addition, fundamentals remain intact and we still do not anticipate any significant uptick in corporate bond defaults.
- The US corporate bond markets have performed well year to date, supported by declining US rates. Spreads in both investment grade and high yield markets have contracted, largely reversing the difficult close to 2018.
- Trade wars, specifically with China, and softening global manufacturing remain the principal risks to our outlook. We expect some modest controlled escalation in the trade situation. Any such escalation and further weakness in global manufacturing could drive volatility and create potential opportunity.
- During periods in which the US dollar appreciates relative to foreign currencies, funds that hold non-US-dollar-denominated bonds may realize currency losses in connection with the maturity or sale of certain bonds. 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 currency loss, in accordance with federal tax rules, decreases the amount of ordinary income a fund has available to distribute, even though these 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 analysis is performed regularly to determine how realized currency losses will impact periodic ordinary income distributions for the fund. Based on the most recent quarterly analysis (as of June 30, 2019), fund officers believe that realized currency losses will have an impact on the distributions in the 2019 fiscal year. This analysis is based on certain assumptions including, but not limited to, the level of foreign currency exchange rates, 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. Fund officers 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.

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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