Bond Fund

FUND FACTS

OBJECTIVE

Seeks high total investment return through a combination of current income and capital appreciation

Share class	I
Inception	5/16/1991
Ticker	LSBDX
CUSIP	543495840

Market Conditions

- Bonds suffered poor performance and unusually high volatility in the second quarter, continuing a trend that began in the first three months of the year. Inflation accelerated to the fastest pace in over 40 years, prompting the US Federal Reserve (Fed) to raise interest rates by 50 basis points (one-half of one percentage point) in May and another 75 basis points in June. The moves, which followed the Fed's quarter-point hike in mid-March, brought the fed funds target to a range of 1.50% to 1.75% - its highest level since before Covid-19. Perhaps more important, futures markets indicated that investors were anticipating further aggressive increases in the second half of the year.
- US Treasury yields rose across the board in response to these developments. The yield on the two-year note, which stood at 2.34% on March 31, 2022, climbed as high as 3.43% on June 14. (Prices and yields move in opposite directions.) The yield on the 10-year note began the quarter at 2.34% and peaked at 3.47% in the same time span. At the close of the quarter, concerns about a potential recession began to exceed the worries about inflation. Economic activity indicators in the United States came in below expectations, measures of consumer and business confidence continued to decline, and the markets appeared to grow more concerned that the crisis in Ukraine would cause Europe's growth to fall into negative territory. Treasurys rebounded in response to this news, with the yields on the two- and 10-year notes declining to 2.95% and 3.01%, respectively. Despite this late rally, the Treasury market finished with one of its worst showings in the first half of a calendar year in history.
- Investment-grade corporate bonds lagged Treasurys by a wide margin in the quarter. In addition to suffering from the uptrend in prevailing yields, corporates experienced a large increase in yield spreads relative to government bonds. Rising spreads reflected both investors' declining appetite for risk and concerns about the impact a recession could have on earnings results.
- High yield bonds suffered a considerable decline and were the worst performing segment of the domestic market. The yield spread between the ICE BofA US High Yield Index and equivalent Treasurys closed the quarter at 587 basis points (5.87 percentage points), well above its 310 basis points at the start of the year and its highest point since mid-2020.

CLASS I PERFORMANCE AS OF JUNE 30, 2022 (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
FUND	-7.79	-12.51	-12.12	-1.63	0.28	2.67
BENCHMARK	-5.03	-11.05	-10.85	-0.77	1.05	1.67

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 0.68% (Class I). Net expense ratio 0.67%. 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 I inception date is 5/16/1991. Class I shares are only available to certain institutional investors only; minimum initial investment of $100,000.

Lower-rated issuers tend to have less flexibility to withstand weaker economic conditions and thus are more vulnerable to recession fears. Refinancing risk, which reduces companies' ability to restructure their debt, was an additional concern.

- Securitized credit, including asset backed securities (ABS), residential mortgage backed securities (RMBS), collateralized loan obligations (CLO), and commercial mortgage backed securities (CMBS) generally produced negative excess returns versus duration equivalent US Treasurys. Securitized credit spreads broadly widened in sympathy with broader credit markets, but its lower interest rate sensitivity and lack of direct impact from geopolitical instability helped the asset class outperform other similarly rated fixed income asset classes. Agency mortgage backed securities (MBS) produced negative excess returns versus US treasuries as interest rate volatility increased and quantitative tightening drove price volatility.
- Emerging market bonds underperformed in relation to the United States. Similar to domestic high-yield debt, the category was pressured by the combination of growth fears, global inflationary pressures, and investors' increased aversion to risk.

Portfolio Review

- The fund underperformed its benchmark, the Bloomberg US Government/Credit Index, primarily due to security selection.

Winners

- Securitized credit was a positive contributor to relative return as this sector fared better than other fixed income asset classes. Outperformance in this space was driven by selected ABS holdings.
- An allocation to defensive, reserve-like positions was beneficial as risk-off sentiment prevailed.
- The fund is targeting an overall duration shorter than the benchmark, and we continued to use Treasury futures to assist with meeting this objective. These derivative positions aided relative performance given the stark upward movements in interest rates during the quarter.

Laggards

- An allocation to high yield corporate credit was the biggest detractor of relative performance as bond prices fell amidst central bank actions to mitigate inflationary pressures and expectations for slowing economic growth. Here, selected finance companies, communications and consumer cyclical names posted negative performance.
- Convertible securities, particularly within the communications sector, weighed on returns given the tumultuous equity market backdrop.
- Emerging market corporate credit was a laggard. Underperformance was derived primarily from holdings in Chinese property names as this sector has remained under continued pressure. Extended Covid-related lockdowns have exacerbated already-declining housing sales, and the impact from government measures taken thus far to alleviate stresses on this sector have been limited.

Outlook

- Throughout the first half of 2022, the macroeconomic environment and outlook became more challenging. Increased geopolitical risk, led by the Russian invasion of Ukraine, added a strong supply chain shock to an already concerning inflationary environment just as continued Covid-19 shutdowns in China created further uncertainty. The US Federal Reserve, in an effort to get ahead of these shocks, announced the end of its quantitative easing program and delivered increasingly aggressive rate hikes of 25 basis points in March, 50 basis points in May and 75 basis points in June. As investors priced in a more hawkish Fed and growth expectations diminished, interest rates continued their move higher and risk assets came under pressure.

- In our view, the credit cycle has shifted from the "expansion" phase to "late cycle" with a macroeconomic environment that consists of potentially slower growth and inflation that will likely moderate but remain above the Fed's target. In our base case, growth will likely trend lower but stay resilient as a healthy consumer, positive corporate fundamentals and a strong banking system should help provide a backdrop for continued economic activity. Inflationary pressures will potentially remain sticky, with expectations for elevated commodity prices and persistent supply issues combined with a tight labor market. We believe this environment warrants an accelerated process of normalizing monetary policy, which would increase the potential for a policy mistake as the Fed, and other global central banks, embark on tighter monetary policy to combat inflation even as growth concerns have been increasing.

- We are mindful of the risks inherent to our credit cycle and macroeconomic outlook, such as ongoing global supply chain disruptions, tighter financial conditions resulting from global central bank rate hikes and quantitative tightening, slowing Chinese growth and increased geopolitical risk. All of the turmoil around the world leaves us with a wide range of potential outcomes, but the probability of a downturn in 2023 has risen. As a result, we have modestly reduced portfolio risk and increased the level of cash reserve-like, higher quality instruments that can offer flexibility. With increased uncertainty surrounding economic activity, the path of inflation and subsequent Fed policy, we expect volatility to remain elevated in the second half of 2022, which could help drive future opportunities for investors.

- Given the upward movement of yields seen so far in 2022, fixed income markets currently offer higher levels of income that can help dampen downside risk for investors and have the potential to provide attractive total returns. As a result, we believe that future pockets of short-term market volatility can offer opportunities to reduce holdings of higher quality, liquid investments in favor of adding credit exposure; however, we will be patient and selective in doing so. We continue to favor issuers with strong carry potential, solid corporate profits and relatively low interest rate sensitivity and believe that increased volatility will help drive wider performance dispersion across sectors, industries and issuers. In this environment, we believe that individual issuer selection will be key in seeking to deliver favorable performance for the remainder of 2022. We remain comfortable with corporate fundamentals, and while we expect the rate of defaults and losses to rise in the intermediate term we believe they should stay below their long-term averages.

- With respect to interest rate risk, we expect an active Fed at each meeting for the rest of 2022 and have more modest expectations for rising nominal US Treasury rates following the significant increase seen in the first half of the year. We remain positioned shorter than broad market benchmarks from the perspective of duration and corresponding interest rate sensitivity to help minimize any negative performance impact from a further rise in interest rates. With the yield curve flattening experienced in 2022, short-dated maturity bonds currently offer favorable levels of income with potentially less volatility, without materially sacrificing yield relative to longer maturities. While we remain cautious on our outlook, we continue to focus on seeking to deliver higher levels of income and total return potential over time. As economic and central bank developments continue to unfold, we remain focused on our investing framework, philosophy and strategy to guide us.

- 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 currencygains 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-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 June 30, 2022), realized currency losses will continue to have an impact on the distributions in the 2022 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. 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. **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. **Currency** exchange rates between the US dollar and foreign currencies may cause the value of the fund's investments to decline. **Equity securities** are volatile and can decline significantly in response to broad market and economic conditions.

Bloomberg US Government/Credit Index *includes securities in the Government and Credit Indices. The Government Index includes Treasurys (i.e., public obligations of the US Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of US Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the US Government). The Credit Index includes publicly issued US corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. 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.

These perspectives are as of the date indicated and may change based on market and other conditions. Actual results may vary. Please refer to the Fund prospectus for a comprehensive discussion of risks.

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.

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