LOOMIS | SAYLES

MUTUAL FUND COMMENTARY

SEPTEMBER 30 2022

Core Plus Bond Fund

Fund Facts

OBJECTIVE

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

Share Class	Y
Inception	12/30/1994
Ticker	NERYX
CUSIP	63872R764

Market Conditions

- Most segments of the bond market lost ground in the third quarter in response to continued interest-rate hikes by the US Federal Reserve (Fed). Consumer price inflation remained exceptionally high, with year-over-year gains of more than 8% in each of the three monthly reports. The Fed continued to raise interest rates in an effort to bring inflation under control, with increases of three-quarters of a percentage point at its meetings in both July and September. The moves brought the fed funds rate to a range of 3.0% to 3.25%, up a full three points from the beginning of the year. Bond yields rose sharply in response (as prices fell), adding to the losses experienced in the first six months of the year.
- The backdrop of rising inflation and tighter Fed policy created substantial headwinds for US Treasurys. The two-year note, which is more sensitive to Fed policy shifts than other portions of the yield curve, soared from 2.92% to 4.22% over the course of the three-month period - an extraordinary move in such a short period of time. At its peak of 4.3% on September 27, the two-year was trading with its highest yield since 2007. Longer-term bonds also lost ground, but to a lesser extent: the yield on the 10-year note climbed from 2.98% at the end of June to 3.83% on September 30, 2022.
- One result of these moves was that the yield curve inverted significantly (meaning that short-term yields traded above those on longer-term debt). In late September, in fact, the yield curve moved to its largest degree of inversion since 1982.
- Investment-grade corporate bonds declined in price and finished with returns in line with government issues. Yield spreads versus Treasurys initially fell in the first part of the quarter on the strength of improving investor sentiment, but they rose sharply in late September to close slightly above at the end of June. The late spike in yield spreads resulted from a decrease in investors' risk appetites and concerns about the impact a recession could have on

Class Y Performance as of September 30, 2022 (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
FUND	-4.23	-14.79	-15.03	-2.31	0.26	1.64
BENCHMARK	-4.75	-14.61	-14.60	-3.26	-0.27	0.89

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 0.46% (Class Y). Net expense ratio 0.46%. 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 1/31/2024. When an expense limitation has not been exceeded, the fund may have similar expense ratios and/or yields.

The Class Y inception date is 12/30/1994. Class Y shares are sold to eligible investors without a sales charge; other Classes are available for purchase.

corporate earnings.

- Securitized Credit markets experienced spread widening as the market priced in greater odds of a "hard landing", particularly in mezzanine tranches and corporate-exposed bonds like CLOs. RMBS and Commercial ABS also produced negative excess returns versus duration equivalent US treasuries. Consumer ABS credit generally provided positive excess returns over the period due to lower interest rate sensitivity and lack of direct impact from geopolitical instability. Commercial mortgage backed securities (CMBS) provided some positive excess returns over the period as certain property types continues to see recovering fundamentals from the pandemic. Agency mortgage backed securities (MBS) produced negative excess returns versus US treasuries as interest rate volatility increased significantly and further Quantitative Tightening drove price volatility.
- High yield bonds posted negative returns but outperformed US Treasurys and other segments of the investment-grade market. The category was helped by its lower interest-rate sensitivity and the relatively high representation of energy issues. Nevertheless, the major indexes closed the quarter only slightly above levels last seen at the depths of the COVID-19 selloff of early 2020. Senior loans, which typically have floating rates, bucked the broader trend and registered a positive return for the three-month period.
- Emerging market bonds declined in value during the third quarter. Although prices were relatively stable in local currency terms, US-based investors were hurt by a meaningful decline in emerging market currencies in relation to the US dollar.

Portfolio Review

- The fund outperformed its benchmark, the Bloomberg U.S. Aggregate Index, primarily due to sector allocation and security selection.

Contributors

- Security selection was positive across high yield corporate bonds, investment grade corporate bonds, securitized credit, and agency mortgage-backed security (MBS) pass-throughs.
- The fund's out-of-benchmark allocation to high yield corporate bonds boosted performance over the quarter, especially during July's rally in risk assets.
- Non-US dollar positions in Mexico and Uruguay also added value, offering diversification and attractive incremental income.

Detractors

- The Fund's slightly above-benchmark stance with respect to duration and corresponding interest rate sensitivity detracted from relative performance given the rise in Treasury yields over the quarter.

Outlook

- The Federal Reserve continued to show resolve in the face of persistent inflation pressures and tight labor markets, hiking its benchmark overnight lending rate by another 75 basis points both in July and September. The Fed has tightened by 300 basis points year-to-date, with another 100 basis points currently priced in by year-end. Despite a brief rally in bond prices in July, rates rose once again in response to decidedly hawkish Fed forward guidance and a September inflation report that surprised to the upside. The September dot plot displaying Fed Open Market Committee members' expectations for fed funds projects a median peak rate of 4.675% by early 2023, exceeding prior peak pricing by about 25 basis points. We ended the quarter with an inverted yield curve and 10-Year Treasuries briefly hitting 4.0%.

- We observe that the Fed has been successful in tightening financial conditions to slow the economy down and cool inflation. While we wait for better news on inflation, we acknowledge a growing risk that the Fed overshoots and misses the elusive "soft landing". Global growth is threatened by the energy crisis in Europe, and by central banks who are now also tightening policy in response to growing inflationary pressures. Additionally, the Russia-Ukraine conflict continues to escalate and contribute to market volatility and uncertainty.
- We believe we are in the later phases of the credit cycle,[1] as indicated by the significant spread widening that has occurred over the past three quarters, as well as the significant retracement of equity market indices. Government, corporate and consumer balance sheets entered this part of the cycle in a strong position, but are showing some strains from higher inflation, tightening credit conditions and greater economic uncertainty.
- The current Core Plus positioning now displays a more defensive bias versus that of last year, but still has a moderate pro-cyclical stance. This reflects our view that risk valuations now more accurately reflect a balanced forward outlook of slower growth, coupled with a less penal inflation outlook. We are closely watching forward-looking indicators on shelter and autos, which have been the largest contributors to core inflation. We also anticipate some goods price deflation given the strong dollar, lower shipping and transportation costs, and bloated domestic inventories, coupled with waning consumer and business demand.
- We have incrementally added to our Treasury allocation to add quality, liquidity and duration to the portfolio, but maintain significant excess carry versus the benchmark, with a yield advantage of approximately 75 basis points. Average credit quality remains high at A1.
- Nominal duration and corresponding interest rate sensitivity is now approximately 0.30 years long relative to the benchmark, while empirical duration is more defensively positioned at approximately 0.3 years shorter than the benchmark. Most recently we have moved closer to neutralizing our overall curve positioning by adding more US Treasury exposure in the 5-10 year part of the curve, while maintaining a modest duration overweight to the 20- to 30-year part of the curve for some protection against the risk of Fed overtightening.
- We maintain an underweight to agency mortgage-backed securities (MBS), but have re-positioned our exposures within the sector for a regime where the Fed is neither purchasing nor imminently selling agency MBS.
- Within investment grade corporate credit, we remain underweight. While we continue to have a bias towards BBB-rated securities, we have selectively reduced the overall credit sensitivity of our allocation, and favor industries more likely to retain pricing power and/or which benefit from higher rates, such as banks.
- We have a moderate overweight to investment grade securitized credit, primarily in the front end of the yield curve, for more defensive, non-corporate carry. We continue to favor asset-backed securities backed by consumer auto loans and restaurant franchises.
- Within the Plus sectors, we have continued to reduce our overall allocation to high yield corporates, currently at 10%, down from approximately 16% in the first quarter. This

exposure is split between 6.5% in fixed rate high yield corporates, including a modest 2% in emerging market high yield corporates, and approximately 3.5% in floating rate bank loans. We have been incrementally reducing high yield exposure in response to a more aggressive Fed tightening path, as well as growing signs of economic slowdown from the more robust pace seen in 2021. Where permitted, we added some investment grade, higher quality collateralized loan obligations to add additional floating rate carry to the portfolio.

- We continue to hold an approximately 3.5% allocation to non-US dollar emerging market bonds. Two-thirds of the exposure is to Mexico and the remainder to Uruguay. Notably this has proven to be an important source of diversification and significant carry year to date.

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.

The Bloomberg US Aggregate Bond Index *represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the US investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. 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 800-225-5478 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.

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