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

- 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

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

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
FUND	-5.97	-11.03	-11.23	-0.26	1.39	2.45
BENCHMARK	-4.69	-10.35	-10.29	-0.93	0.88	1.54

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.

results.

- 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 treasuries. 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.
- Securitized credit – including asset backed securities (ABS), residential mortgage backed securities (RMBS), collateralized loan obligations (CLO), and higher quality CMBS generally produced negative excess returns versus duration equivalent US treasuries. The major exception was subordinate commercial mortgage backed securities (CMBS) which outperformed US Treasuries as certain property types continued to see recovering fundamentals from the pandemic. Securitized credit spreads broadly widened in sympathy with broader credit markets, but its lower interest rate sensitivity and lack of direct impact from rising geopolitical risks 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 concern over quantitative tightening drove price volatility.
- 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 bps, well above its 310 level at the start of the year and its highest point since mid-2020. 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.
- 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 Aggregate Index, primarily due to pro-cyclical sector allocation.

Contributors

- The fund's stance with respect to duration and corresponding interest rate sensitivity along with positioning along the yield curve (which depicts the relationship among bond yields across the maturity spectrum were the main drivers of positive relative performance for the quarter.
- The fund's allocations to non-US dollar and securitized credit helped buoy performance over the period.
- Security selection within agency securitized credit sectors produced positive relative return.

Detractors

- The main driver of relative underperformance for the period was the fund's overweight allocation to economically sensitive, cyclical sectors of the bond market.

- An out-of-benchmark allocation to below investment grade, high yield corporates along with an underweight to US Treasurys weighed on relative performance.
- A a small out-of-benchmark allocation to credit sensitive, floating rate bank loans had a slight negative impact on relative performance.

Outlook

- The Federal Reserve finished its accelerated process of tapering its bond purchases under quantitative easing in early March, and followed with the first rate hike of this cycle of 25 basis points in mid-March. At that point the Fed also set out a timeline for the start of quantitative tightening (i.e. reduced reinvestment of maturing US Treasuries and mortgage-backed security paydowns), as well as an updated dot plot displaying Open Market Committee members' expectations for the course of fed funds indicating a terminal rate of just over 3%. As inflation data accelerated, Fed signaling became more urgent which caused market expectations to shift to a higher terminal rate. The Fed hiked 50 basis points in May and followed up with a 75 basis point hike in June. The June dot plot release validated a continued hawkish tilt, with the peak median Fed dot now up to 3.75%. The yield curve responded by bear flattening, with the entire yield curve briefly pushing towards 3.5% by mid-June as market expectations for terminal fed funds reached over 4%, before pulling back in late June.
- Following the June rate hike, market expectations had risen to be generally in line with our anticipated base case, with a terminal fed funds rate around 3.75%. We acknowledge that inflation may remain elevated. We believe if the economy continues to perform and the labor market remains resilient the terminal fed funds rate may move closer to 4%.
- The Russia-Ukraine conflict remains a massive humanitarian catastrophe in the region and continues to exacerbate already tight energy and food supplies globally. Further, tightening monetary policy across developed and emerging economies has also contributed to investor uncertainty as growth rates diverge between commodity exporters and importers. Other market risks include yet another wave of COVID infections, which we are already seeing in Asia and Europe, and/or reduced efficacy of vaccines. We believe any such developments around COVID could usher in yet another layer of market volatility and uncertainty as the Fed moves through its tightening process.
- We believe the credit cycle[1] is now in the late expansion phase, as indicated by the significant spread widening that has occurred over the past two quarters, as well as the significant retracement of equity market indices. While government and corporate balance sheets remain more levered through this part of the cycle, other metrics remain strong but are also now finally showing some strains from tightening credit conditions and greater economic uncertainty. Consumer balance sheets remain healthy while wage growth and employment remains solid, albeit while improving at a more moderate pace.
- The current Core Plus positioning displays a more defensive bias versus positioning just last year, but still has a pro-cyclical stance. This reflects our expectation that US and global economies should remain resilient and can perhaps work through this Fed tightening cycle without suffering a more damaging extended downturn and re-pricing of risk valuations beyond that which has already occured. In fact, we believe market pricing for a high yield default rate of over 2% is more onerous than our current expectation of under 1% over the next 12 months. We remain positioned defensively overall against a broad rise in yields, although we have sharply reduced our duration underweight relative to benchmark. We maintain significant

excess carry versus the benchmark, with a yield advantage of approximately 100 basis points, derived from a combination of sovereign, investment grade, high yield, structured credit, and non-dollar emerging market exposures. Average credit quality remains high at A1.

- Nominal duration and corresponding interest rate sensitivity is now approximately neutral relative to the benchmark, while empirical duration is much more defensively positioned at approximately 1.2 years shorter than the benchmark. Most recently we have moved to a modest duration overweight to the 20- to 30-year part of the curve, and have sharply reduced our underweight to the belly of the curve, in response to the re-pricing of the yield curve while acknowledging the backdrop of heightened geopolitical risk.
- We maintain a slight underweight to agency mortgage-backed securities (MBS), although we added exposure in the quarter as valuations have dramatically improved. While agency MBS lagged the broader credit market during the second half of 2021, the sector has outperformed versus alternative spread product during the first half of 2022, and remains a liquid, high quality alternative to Treasurys. We also note that MBS market technical factors are improving as prepayments slow and the risk of outright MBS asset sales next year looks less likely given heightened concerns over an economic slowdown.
- Within investment grade corporate credit, we have moved back up to a slight underweight, and remain underweight on a contribution-to-duration basis. We continue to have a bias towards BBB-rated and emerging market corporate securities, which leads us to be modestly overweight from a credit sensitivity perspective.
- 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 consumer-related asset-backed securities, such as those backed by auto loans and credit card receivables.
- Within the Plus sectors, we have sharply reduced our overall allocation to high yield corporates to just over 12%, down from approximately 16% in the first quarter. This exposure is split between 7% in fixed rate high yield corporates and approximately 3.5% in bank loans. We also have a modest 1.5% exposure to high yield emerging market issues. We trimmed fixed rate high yield late in the fourth quarter of 2021 and again during the first half of 2022, 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 approximate 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 one of the more defensive sectors with significant carry and currency appreciation over the first half of 2022.
- 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 may continue to have an impact on the remaining 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 exchange rates, security prices, interest rates, the fund advisers' abilityto 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 basisand 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. **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. **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. **Inflation-protected securities** move with the rate of inflation and carry the risk that in deflationary conditions (when inflation is negative) the value of the bond may decrease.

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

***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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