



High Income Fund

Fund Facts

OBJECTIVE

Seeks high current income plus the opportunity for capital appreciation to produce a high total return

Share class	Y
Inception	2/29/2008
Ticker	NEHYX
CUSIP	543488803

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 corporate earnings.

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	-0.53	-17.01	-17.46	-1.64	0.24	3.03
BENCHMARK	-0.65	-14.75	-14.14	-0.45	1.57	3.94

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 0.95% (Class Y). Net expense ratio 0.76%. 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 Y inception date is 2/29/2008. Class Y shares are sold to eligible investors without a sales charge; other Classes are available for purchase.

Prior to inception of Class Y shares (2/29/2008), performance is that of Class A shares and reflects the higher net expenses of that share class.



- High yield bonds posted negative returns but outperformed US Treasuries 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.
- 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.
- 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 US High Yield Index, primarily due to sector allocation.

Winners

- Security selection within high yield credit was the biggest contributor to relative returns. Though the asset class posted negative performance on an absolute basis during the quarter, it fared better than many other fixed income sectors. In addition, a handful of our higher conviction positions, particularly in the communications and technology sectors, have outperformed the broader market.
- A small allocation to investment grade credit was positive, helped by selected basic industry names.
- Performance was aided by defensive, reserve-like positions and US Treasuries as risk-off sentiment prevailed.

Laggards

- Exposure to securitized credit was a modest detractor as this sector did not keep pace with high yield during the period. Here, holdings in CMBS (commercial mortgage-backed securities) weighed on performance.

Outlook

- After a strong rally in risk assets early in the third quarter, volatility returned to markets as the Federal Reserve retained its hawkish stance amid stubborn inflation prints. The macroeconomic environment and outlook remains challenging. Global growth forecasts have been challenged by geopolitics, war, shutdowns in China, and a looming energy crisis in Europe. Domestically, market participants have adjusted their interest rate expectations to incorporate repeated affirmations by the US central bank of a clear path to higher policy rates. Stubborn inflation and a determined Fed continue to put pressure on risk assets.
- In our view, the credit cycle¹ has slid deeper into late cycle. We expect slowing growth and stubborn inflation. Fed actions have elevated the risks of a downturn, and should that evolve we expect inflation to recede slowly. US hiring remains resilient, putting pressure on wages, but ultimately we believe higher rates may temper those pressures. Oil prices have



slid on global growth concerns alleviating the pressure on US gas prices. However, natural gas supplies to Europe this winter are a significant risk and supply chain effects from that remain unknown. In summary, we do expect inflation to moderate but at a very slow pace.

- We expect the US central bank to stay on a tightening course through the end of this year and into early 2023, likely elevating the policy rate to the 4.50-4.75% range. In our view the Fed will largely be driven by the extent to which there is firm evidence of inflation moderating. We also believe that the Fed may be increasingly sensitive to its impact on global financial markets, although a policy pivot seems unlikely. We expect the US 10-year bond yield to move only modestly higher from here and eventually be below the short-term policy rate. Our portfolios remain positioned defensively on rate risk while edging closer to levels where rate sensitivity becomes less of a concern.
- While the Fed path seems firm at this point, a critical question is how the growth outlook for 2023 evolves and what impact that could have on corporate earnings and balance sheets. We expect slowing growth with an elevated risk of recession. Corporate fundamentals have remained reasonably strong, with solid second quarter earnings. Nonetheless, we anticipate slowing growth to be a drag on corporate earnings going forward. That said, given the strong starting point for corporate fundamentals we expect credit loss experience to move closer to historical averages.
- Regionally, we are largely focused on US fixed income markets. An aggressive Fed and safe haven inflows have created strong momentum in the US dollar. Given global growth concerns, a committed Fed, and policies abroad that have weakened domestic currencies we remain cautious in non-dollar-denominated assets. We have largely been avoiding Europe and anticipate a deep recession there. However, should that unfold opportunities may present themselves.
- We believe that value is returning to US fixed income markets. Bond structures (price, yield and spread) appear relatively attractive. Dollar prices on bonds are currently at post-Great Financial Crisis lows. Corporate bond spreads in both investment grade and high yield are currently above long-term averages, and overall yields could offer favorable levels with high yield approaching 10% and BBB-rated bonds around 6%. We believe the combination of discount-to-par, wider spreads and overall yield is increasing the potential value opportunity in bonds.
- We believe the corporate bond spreads could edge wider from here with some modest further elevation in yields. However, future interest rate and spread risk is being mitigated by generally higher yields and wider spreads. We have been holding larger than average liquid reserves and maintaining an up-in-quality bias. As opportunities develop, we will consider redeploying reserves, a process that has already begun. At the same time, short term yields have risen meaningfully and we are comfortable with how we are being paid as opportunities likely develop.



About Risk

Below investment grade fixed income securities may be subject to greater risks (including the risk of default) than other fixed income securities. **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. **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.

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

Bloomberg US Corporate High Yield Index covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included. 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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