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

- 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.

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	-11.97	-16.57	-16.68	-1.51	0.78	3.68
BENCHMARK	-9.83	-14.19	-12.82	0.21	2.10	4.47

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 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. 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 Corporate High Yield Index, due to security selection and sector allocation.

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 CMBS holdings.
- An allocation to defensive, reserve-like positions and US Treasurys was beneficial as risk-off sentiment prevailed.

Laggards

- 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 communications, consumer cyclical and consumer non-cyclical names posted negative performance.
- Emerging market corporate credit was a laggard of performance. Our overweight allocation to the space was a detractor, but underperformance was also derived 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.
- Convertible securities, particularly within the communications sector, weighed on returns given the tumultuous equity market backdrop.

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.

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.

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