Intermediate Duration Bond Fund

FUND FACTS

OBJECTIVE

Seeks above-average total return through a combination of current income and capital appreciation

Share class	Y
Inception	1/28/1998
Ticker	LSDIX
CUSIP	543495709

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

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	-2.56	-7.28	-7.94	0.16	1.44	1.89
BENCHMARK	-2.37	-6.77	-7.28	-0.16	1.13	1.45

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 0.45% (Class Y). Net expense ratio 0.40%. 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 1/31/2023. When an expense limitation has not been exceeded, the fund may have similar expense ratios and/or yields.

Effective August 31, 2016, the fund's Institutional Class shares were redesignated as Class Y shares. Accordingly, the returns shown in the table for Class Y shares prior to August 31, 2016 are those of Institutional Class shares. The fund revised its investment strategies on 5/28/2010; performance may have been different had the current investment strategies been in place for all periods shown.

investors' declining appetite for risk and concerns about the impact a recession could have on earnings 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.

Portfolio Review

- The fund underperformed its benchmark, the Bloomberg US Intermediate Government/Credit Index, primarily due to overweight exposure to credit-oriented sectors.

Contributors

- Security selection within corporate bonds contributed positively to performance relative to the benchmark during the quarter.
- Security selection was positive within the insurance, electric utility and consumer cyclical industries.
- The fund's stance with respect to duration and corresponding interest rate sensitivity proved beneficial during the quarter, as did positioning along the yield curve (which depicts the relationship among bond yields across the maturity spectrum.

Detractors

- Overweight risk positions in corporate bonds and securitized assets detracted from relative performance as spreads increased during the quarter (spread refers to the incremental yield provided by lower quality bonds relative to US Treasurys).
- We maintained a meaningful underweight to US Treasurys during the quarter as we continued to favor risk assets. This positioning detracted from performance during the period.
- Holdings of non-agency commercial mortgage-backed securities (CMBS) detracted slightly from 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.
- We continue to favor spread sectors, such as corporate bonds and securitized assets. We have increased risk exposure primarily through corporate bonds as we continue to find attractively priced new issues with favorable concessions.
- We remain overweight both agency and non-agency commercial mortgage-backed securities, particularly senior parts of the capital stack.
- Exposure to mortgage-backed securities remains underweight relative to the benchmark but we have been programmatically purchasing to maintain our current weight to the sector. Intermediate and short duration strategies remain focused on opportunities with limited prepayment risk.
- We continue to favor asset-backed securities in the front end of the yield curve, particularly those backed by consumer-related collateral such as autos and credit card receivables.
- We continue to follow our process of building diversified exposures by asset class, industry and issuers.
- We continue to hold select high yield corporate names that we believe currently offer value.

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

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

Bloomberg US Intermediate Government/Credit Bond Index *is the intermediate component of the Bloomberg US Government/Credit Index. The 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 U.S. 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.

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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