FUND COMMENTARY

Loomis Sayles Strategic Monthly Income Fund

Loomis, Sayles & Company L.P.

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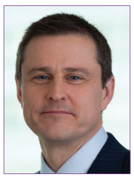
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U.S. HIGH YIELDS CONTINUE TO RALLY IN Q1 2017 WITH SPREADS HITTING MULTI-YEAR HIGHS

A synchronized pickup in global economic activity supported risk appetite during the quarter. Most asset classes generated positive returns, led by high yield credit, equities, and unhedged emerging market bonds. The Federal Reserve (Fed) raised rates in March, a widely anticipated move that acknowledged the strengthening U.S. economy. Corporate profits improved and volatility remained very low. Commodity performance was mixed; metals rallied while oil prices dropped.

The U.S. high yield credit rally that began in 2016 continued into the first quarter, with spreads (the difference in yield between Treasury and non-Treasury securities of similar duration) reaching multi-year tights in early March. Though spreads widened somewhat during the last weeks of the quarter, the asset class handily outperformed Treasurys of similar duration (duration refers to a security's price sensitivity to interest rate changes).

U.S. Treasury yields reached year-to-date highs ahead of the Federal Reserve (Fed) interest rate hike, then retreated to finish the quarter essentially flat. The yield curve (a curve that shows the relationship between bond yields across the maturity spectrum) flattened as shorter-maturity Treasury yields rose while longer-maturity Treasury yields were nearly unchanged.

PORTFOLIO REVIEW

The Fund outperformed the Bloomberg Barclays U.S. Aggregate Bond Index. Strong relative performance was a result of security selection within high yield credit and convertibles.

High yield credit continued to outperform its investment grade counterpart on an absolute basis this quarter. Within the Fund, security selection amongst out-of-index high yield industrials aided excess return. Select issues in the basic industry, consumer non-cyclical, and energy sectors contributed the most.

Convertible bonds boosted relative return as well, led by performance among selected issues in the basic industry, communications, and energy sectors.

Securitized credit also generated positive excess performance this quarter. The Fund's underweight in the sector and shorter duration stance complemented security selection in the space, aiding excess return.

A small out-of-index allocation to bank loans proved beneficial to relative performance over the first quarter.

The Fund's common stock allocation weighed on performance this quarter as a select consumer non-cyclical name detracted heavily from performance among equity issues.

Municipals weighed marginally on excess and relative performance as a select Puerto Rican municipal issue underperformed this quarter.

	3-Month Return
Loomis Sayles Strategic Monthly Income Fund	2.24% (gross)
Loomis Sayles Strategic Monthly Income Fund (Series A)	1.72% (net)
Benchmark: 65% Bloomberg Barclays U.S. Aggregate Government / Credit Index 25% Bloomberg Barclays Global High Yield Index 10% S&P 500 Index (CAD Hedged)	1.84%

OUTLOOK

We think global GDP will improve to about 3.3% this year, up from 3.1% in 2016. While we maintain a favorable view of the U.S. economy, we are cautious about potential changes in U.S. government policy that could spark market volatility.

The world's major economies are starting to see firmer growth and inflation, and central banks are slowly shifting gears. The Fed is moving toward interest rate normalization and we anticipate five more rate hikes between now and the end of 2018. Based on our rate outlook, we are maintaining a shorter-duration position to rein in the portfolio's interest rate sensitivity.

We anticipate oil prices will inch higher over the next year, but remain largely range-bound due to the competing factors from the Organization of the Petroleum Exporting Countries cuts and growing U.S. production. The improved commodity outlook has raised our expectations for higher inflation. Yields could move higher as inflation conditions begin to build, but we think the transition is likely to be slow and uneven.

We are maintaining general exposure to investment grade and high yield corporate bonds. Strong risk appetite, potential fiscal stimulus and an improved profit outlook give us confidence that the current stage of the credit cycle can be extended. Within investment grade, we continue to focus on lower-quality issues and select credits that offer yield and upside potential. We continue to monitor risk factors such as lower risk premiums and higher leverage. In our view, the high yield sector enjoys an attractive yield advantage relative to U.S. Treasurys, supportive fundamentals and fair valuations, but downside risks are increasing. We are seeking pockets of value in certain industries, including energy, pharmaceuticals, and select consumer-oriented issues.

Our convertible bond allocation is diversified across industries, including energy, technology, financials, and healthcare. Though the sector has experienced some volatility, we expect convertible bonds to perform well over the next year.

We plan to maintain a higher level of reserves in the form of cash and short-maturity U.S. Treasury debt. Our investment philosophy is rooted in the belief that markets are inefficient, especially over the short-term. We will seek to use our reserves as a source of liquidity as political and policy events unfold. We intend to focus on areas where we believe the market is mispricing risk and invest where we see significant dislocation.

We think now is a critical time to be structurally different than traditional fixed income benchmarks; we believe the flexibility to broaden exposures will be key to preserving capital and generating attractive, long-term, above-market returns.

▶ For more information about **Loomis Sayles Strategic Monthly Income Fund,** please contact your financial advisor.

The Bloomberg Barclays U.S. Aggregate Index covers the U.S. 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. It is not possible to invest directly in an index.

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