FUND COMMENTARY

Loomis Sayles Strategic Monthly Income Fund

Loomis, Sayles & Company L.P.

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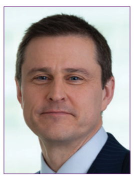
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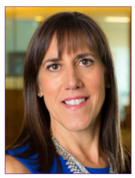
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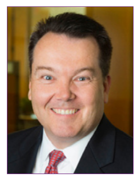
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HIGH YIELD CREDIT A LEADING ASSET CLASS AS INVESTORS CONTINUED TO SEARCH FOR YIELD IN Q2 2017

MARKET CONDITIONS

Nearly all asset classes saw positive returns in the second quarter, supported by "just right" macroeconomic and financial conditions. The Federal Reserve (Fed) hiked interest rates in June, corporate profits continued to recover and investors embraced the risk-on trade. Commodities were the only black spot as the sector struggled with a volatile supply/demand backdrop.

U.S. investment-grade corporate bonds generated positive returns. Longer-duration corporates led performance, aided by declines at the long end of the U.S. yield curve (a curve that shows the relationship between bond yields across the maturity spectrum).

High yield credit was a leading asset class as investors continued to search for yield. Improving corporate profits provided an additional tailwind to the sector.

Emerging market assets built on year-to-date gains, benefiting from the low-yield environment, positive investor sentiment and accelerating corporate earnings.

PORTFOLIO REVIEW

The Fund outperformed its benchmark, the 65% Barclays US Government/Credit Index & 25% Barclays Global High Yield Index & 10% S&P 500 Index, for the quarter (gross of fees) primarily due to security selection and sector allocation among U.S. Treasurys, investment-grade and high yield credit.

Investment-grade credit was additive for the quarter and contributed the most to year-to-date relative performance. Within this space, select names among consumer non-cyclical, banking, communications, and consumer cyclical were top contributors.

An overweight to high yield credit boosted relative performance. Within high yield, select issues in the technology, consumer non-cyclical, and capital goods sectors contributed to outperformance. A meaningful underweight to U.S. Treasurys proved helpful to outperformance. Securitized detracted from performance, primarily due to selected issues within car loans. A small underweight to emerging markets weighed on relative performance.

On average, the Fund had a shorter-than-benchmark duration that modestly aided relative performance (duration refers to a security's price sensitivity to interest rate changes).

OUTLOOK

We believe global and U.S. GDP will continue to improve. North America continues to benefit from low inflation, low interest rates and contained energy prices. Europe has been improving, and emerging markets are stabilizing with generally better commodity prices. China is also exhibiting more stable growth. We believe this backdrop will support corporate credit fundamentals and risk asset valuations.

The Fed is raising rates slowly and will likely wait until December to hike again. We believe the Fed will begin balance sheet normalization later this year, but the runoff path will be gradual and should have minimal impact on interest rates. U.S. inflation remains contained; however, the stronger U.S. economic backdrop, job growth and wage pressures should ultimately firm inflation. The yield curve will likely continue to flatten as longer rates remain more stable than shorter rates. We are maintaining a short duration relative to the benchmark.

Oil prices declined in the first half of 2017 on concerns about U.S. supply and the perception that the Organization of the Petroleum Exporting Countries (OPEC) has lost its ability to balance the oil market. U.S. shale is a relatively new variable for oil markets, and it could create price volatility. However, over the long- term, we believe extended OPEC cuts will lead to a more balanced market and firmer pricing. U.S. energy companies have continued to repair their balance sheets and credit metrics are in much better shape. We are maintaining exposure to selected names in the sector that we believe offer attractive yields and total return potential.

Given improving corporate profits and positive margin expansion, we expect low default rates and default losses from corporate bonds in the coming year. Overall, we expect the long, slow expansion to continue. Valuations in credit markets have risen modestly, but we still see no downturn or recession on the horizon for the next 12 to 18 months. Moderate new corporate bond issuance and the global search for yield should support credit markets. We are largely maintaining our exposures to carefully selected investment grade and high yield corporate credit.

Our convertible allocation remains diversified across industries, including technology, healthcare and energy. We reduced the portfolio's equity exposure amid strong equity market performance earlier in 2017, and our convertible exposure is currently more bond-like in character.

We have modestly increased reserves in the form of cash and short U.S. Treasury debt. We have some concerns about underpriced geopolitical risk but remain comfortable with the fundamental global economic outlook. Reserves may dampen portfolio risk should volatility develop, and they can be quickly deployed if market dislocations create attractive buying opportunities.

In this low yield, low volatility environment, we are focused on issue selection and using our flexible mandate to construct a portfolio that is structurally different from the benchmark. We advocate lower duration and higher yield relative to the broad investment grade fixed income market.

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

As of June 30, 2017. Performance for the Loomis Sayles Strategic Monthly Income Fund, Series A — 1 month: 0.0%; 3 months: 1.6%; 6 months: 3.4%; 1 year: 4.1%; and Since Inception*: 8.2%. *Inception Date: September 17, 2015.

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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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