

Senior Floating Rate and Fixed Income Fund

Fund Facts

OBJECTIVE

Seeks to provide a high level of current income

Share class	Y
Inception	9/30/2011
Ticker	LSFYX
CUSIP	63872T554
Benchmark	Morningstar LSTA US Leveraged Loan Index

Morningstar LSTA US Leveraged Loan Index is a market value-weighted index designed to measure the performance of the US leveraged loan market based upon market weightings, spreads and interest payments. Indexes are unmanaged and do not incur fees. It is not possible to invest directly in an index.

Market Conditions

- The loan market saw modest performance for the quarter, with a quarterly return of 1.22% marking the second-weakest performance of 2025. Pressure from declining secondary prices, coupon compression, and lower base-rates contributed to a reduction in interest income that negatively impacted overall returns. BB-rated loans slightly outperformed B-rated loans, and both significantly outperformed CCC-rated loans, showing a break from the typical trend where lower-rated loans outperform their higher-rated cohorts. 2025 marks the first year since 2022 in which double-B loans outperformed both single-B and CCC-rated loans, as the incremental interest income that lower-rated loans typically offer was insufficient to offset steeper declines in market value.
- 58% of the loan market was priced above par at quarter end, up from 37% at the start of the quarter, as sentiment improved across the credit quality spectrum. 71% of loans rated B+ or higher were priced at or above par at quarter end, up from 20% in mid-October. On the other end of the spectrum, the share of loans priced below 90 reached its highest level since April at 10%, indicating a trend of increased bifurcation in the loan market. The share of loans priced below 80 reached 4.5% at the end of Q4, up from 3% at the beginning of the year.
- The size of the Morningstar LSTA US Leveraged Loan Index grew during the period and now stands at a new record high \$1.54T, beating the record last quarter. New issuance decreased to \$155B in Q4, compared to a record \$400B in Q3, as some deals were pulled amid secondary market weakness. However, a sharp decline in repayments resulting from slowed refinancing activity offset the decrease in new issuance and translated into net expansion of the asset class.
- The default rate by issuer declined to 1.18% in December, compared to 1.47% in Q3. The default rate adjusted to include distressed exchanges fell from 4.4% in Q3 to 3.35% in Q4, the lowest since October 2023.
- Retail loan funds flows were negative for the quarter, with outflows occurring in 16 of the last 23 weeks of 2025, and redemptions intensifying in the last weeks of December. Retail outflows in Q4 totaled ~\$3.97B, up from ~\$0.77B in Q3. Moderating retail demand

Class Y Performance as of December 31, 2025 (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	SINCE INCEPTION
FUND	0.92	5.38	5.38	8.71	5.13	5.09
BENCHMARK	1.22	5.90	5.90	9.35	6.42	5.39

Performance data shown represents past performance and is no guarantee 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 0.81% (Class Y). Net expense ratio 0.74%. As of the most recent prospectus, the investment advisor has contractually agreed to waive fees and/or reimburse expenses once the expense cap of the fund has been exceeded. This arrangement is set to expire on 3/31/2026. When an expense cap has not been exceeded, the fund may have similar expense ratios and/or yields.

Class Y shares are sold to eligible investors without a sales charge.



resulting from increased outflows was slightly offset by elevated CLO issuance, which reached \$55.34B this quarter compared to \$53B in the previous quarter.

Portfolio Review

- The fund underperformed its benchmark for the period due to a specific loan – a B loan in automotive which defaulted in September. This was partially offset by positive performance from B rated technology and cable satellite loans.
- The fund experienced no defaults during the period and maintained a steady level of dividend income as interest rates remained relatively high.
- The fund's holdings in common equity detracted from relative performance, as performance for the loan market was relatively strong. The fund maintains small holdings (less than 1%) of common equity received in exchange for participation in loan restructuring deals.

Portfolio Highlights

- We target a yield advantage for the fund versus the benchmark in most market conditions. A yield advantage can be enhanced through primary market new issue discounts and by swapping loans or bonds with more appealing risk/return characteristics as those opportunities arise. Maintaining an appropriate liquidity policy is a primary objective as well. The fund is currently positioned with approximately 83% bank loans, 5% in CLOs, 4% high yield bonds, 5% ETF, and 3% held in cash on a trade-date basis.
- We examine the relative attractiveness of the high yield bond market in relation to bank loans based on potential risk-adjusted return. We judge potential return on high yield bonds in comparison to loans in assessing whether the additional volatility in the bond market is appropriately compensated versus our benchmark. Currently, we view that tradeoff as modestly favoring the bank loan market considering its higher carry and a tight high yield spreads. We maintained a small position in an ETF to enhance yield beyond the short-term rates offered by the fund's custodian which enables us to boost fund liquidity while earning a return.

Outlook

- Most segments of the global fixed income market generated positive returns during the fourth quarter, further contributing to an already strong year. At the start of the quarter, the US federal government began the longest shutdown in US history, lasting 43 days until a resolution in mid-November. The prolonged shutdown created market volatility, economic data collection issues and brought more uncertainty to the ensuing Federal Reserve (Fed) policy decision. Despite lingering inflation concerns, the Fed followed its September rate cut with 25 basis point cuts in October and December, an approach aimed to stabilize growth as labor market data weakened. The Treasury curve steepened during the quarter as the front end of the curve declined on the back of Fed cuts while long-term yields were slightly higher, likely the result of inflation concerns, tariff uncertainty and a growing US debt burden. In 2025, the 10-year US Treasury fell 40 bps, from 4.57% to 4.17%, while demand for investment grade and high yield corporates remained strong, with spreads marginally tighter. Risk assets were supported throughout the year by the 75 basis points of Fed rate cuts, continued strong earnings growth by corporates and a surge in artificial intelligence (AI) investments.
- Looking ahead in 2026, we believe the US economy will remain in the 'Expansion to Late Cycle' phase of the credit cycle, supported by easing Fed monetary policy, fiscal stimulus from the One Big Beautiful Bill Act (OBBBA) and stable corporate fundamentals. We expect growth in the US to remain resilient in 2026 and we are not anticipating a recession at this time, rather, our base case calls for trend-like growth. Positive wealth effects and solid aggregate consumer consumption, especially among mid-to-upper-tier households, have been supporting demand. While employment data has cooled, we don't anticipate widespread layoffs as long as earnings and profitability remain strong. Productivity gains



from artificial intelligence (AI) implementation could lead to layoffs, but we do not see that as a near-term risk. Many companies have invested significant capital expenditures in AI and data centers, and we expect this spending to contribute to productivity gains and overall economic momentum globally. Outside the US, The US administration's willingness to negotiate trade deals with its largest trading partners is a welcome development. In Europe, the lack of US security assurances has pushed Eurozone leaders, particularly in Germany, to recommit to more expansionary fiscal policy and massive borrowing for security infrastructure, thus reviving European output including manufacturing. In China, economic data still shows a continued slowdown across all core metrics, driven by a confluence of weak consumer confidence, real estate drag, and lackluster investment. We expect Chinese growth to muddle along at current levels, however, we still have questions about the quality and sustainability of growth moving forward. The tariff reprieve has been welcomed, but a more durable long-term resolution may be more challenging.

- Our view on interest rates is predicated on the basis that US inflation will remain sticky, continuing to print above the Fed's 2% target, and structural factors are weighing on the US fiscal deficit. Inflation is increasingly entrenched in behavior supported by structural factors such as budget deficits, geopolitical fragmentation, increased defense spending and the reconfiguration of supply chains. On a cyclical basis, despite recent inflation readings that show lagged effects of shelter inflation easing, we caution that the combination of stimulus from OBBBA, mortgaged-backed securities (MBS) purchases and other factors could lead to an uptick in inflation later in the year. From a labor market perspective, although recent labor market data has cooled, we are not expecting a massive wave in layoffs and view corporate health as the lynchpin behind the labor market. In this context, the Fed may be comfortable with inflation hovering above their 2% target, while easing monetary policy to help mitigate the labor market from softening further.
- With regards to the US fiscal deficit, large nondiscretionary spending – mostly related to entitlements and defense – has led to a deficit that is structural rather than counter-cyclical. Debt servicing costs have also risen significantly, as interest rates have increased and the overall debt burden has expanded. Currently, the fiscal deficit is unsustainable and has the potential to stimulate inflation, which in turn could raise borrowing costs across the economy, in our view. Unless there is significantly higher growth (which we believe is unlikely), expenditures are reduced or another large source of revenue materializes (tariffs), we do not see a stabilization or contraction in the deficit occurring in the near term. As a result, we believe there is a risk to a move higher in long-term interest rates. We believe Treasury supply will continue to be a topic of heavy discussion, which could increase interest rate volatility and put a floor under long-term Treasury yields. We believe long-term fair value for the 10-year US Treasury is approximately 4.00-4.50%, based on a 1.75-2.00% real rate and 2.25-2.50% breakeven rate; however, Trump's policies could push the fair value target slightly higher.
- Our investment process lends itself to constantly reassessing value through our risk premium framework. Our Credit Health Index (CHIN) within investment grade and high yield corporate credit suggest defaults/losses will be below historical averages for this part of the cycle. Bottom-up fundamentals have stayed robust despite slight weakening in leverage and interest coverage, while profit margins have continued to strengthen and the outlook for earnings growth remains positive. A combination of solid credit fundamentals and supportive technical backdrop have helped push spreads and risk premiums to tight levels, however, it is difficult to see any real signs of credit deterioration. In our opinion, corporate balance sheets can weather potential volatility in the macroeconomic backdrop.
- We are mindful of the risks going forward, such as sticky inflation and a growing US deficit, either of which could force the market to reprice Fed expectations and potentially push rates back up. In addition, we continue to monitor the risk that AI investments do not deliver on optimistic revenue projections or large-scale productivity gains, the potential for further escalation in geopolitical risk and security concerns, as well as the impact of long-term structural trends such as deglobalization, decarbonization and aging demographics. Each of these risks could further elevate market volatility and create additional buying opportunities in credit, interest rates and currencies, for which we would consider redeploying reserves faster.



- We believe that long-term value has returned to fixed income markets with a combination of discount-to-par (positive convexity) and favorable yields. As investors sit on record levels of cash, we expect strong demand will likely support bond markets. Given our expectation for a relatively benign loss environment, we believe investors should consider moderately leaning into credit risk for any potential extra carry pick-up. Compressed credit spreads have led us to remain diversified in our credit exposure across the fixed income markets. In today's environment, we believe bond investors should maintain flexibility with regards to interest rate and credit risk, considering the risk/reward of the intermediate part of the curve against the long-term risks associated with long-end curve exposures while being selective in potential opportunities in investment grade credit, high yield credit, bank loans and securitized credit, in our opinion. Convergence between public and private credit markets is accelerating, creating opportunities for multi-sector investors. In addition, we believe diversifying portfolios across non-US-dollar exposure is a worthwhile strategy as the current macroeconomic backdrop suggests a flight-to-safety bid is unlikely to buoy the US dollar, in our view, and investors can seek higher yields and potential for currency appreciation outside the US.

Source: Morningstar Pitchbook LCD as of December 31, 2025.

About Risk

Floating-rate loans are often lower-quality debt instruments and may involve greater risk of price changes and greater risk of default on interest and principal payments. The market for floating-rate loans is largely unregulated and these assets usually do not trade on an organized exchange. As a result, floating-rate loans can be relatively illiquid and hard to value. **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. **Below investment grade fixed income securities** may be subject to greater risks (including the risk of default) than other fixed income securities. **Leverage** can increase market exposure and magnify investment risk. **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. **Non-diversified funds** invest a greater portion of assets in fewer securities and therefore may be more vulnerable to adverse changes in the market.

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

¹Trade date positions may add up to more than 100% due to difference in timing between trading and settlement and quarterly interest and amortization cash flows.

Credit quality reflects the credit rating assigned to individual holdings of the fund by S&P; ratings are subject to change. The fund's shares are not rated by any rating agency and no credit rating for fund shares is implied. Instrument credit ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest).

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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 containing this and other information. Read it carefully.

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