

FULL DISCRETION TEAM

Quarterly Credit Update

Key Takeaways

We believe the US economy will remain in the late cycle phase of the credit cycle. Our base case calls for trend/below trend US growth and we do not anticipate a recession at this time. Our internal risk premium framework within investment grade and high yield corporate credit suggests defaults/losses will be in line with historical averages for this part of the cycle.

We believe that credit health has remained stable as corporate fundamentals, technicals and earnings growth continued to be positive even as the economy has potentially started to downshift. It is difficult to see any real signs of credit deterioration, and in our opinion, corporate balance sheets can weather potential volatility in the macroeconomic backdrop. Within investment grade credit, net new issuance was at its lowest point since 2021 and is expected to remain negative heading into the third quarter of 2025. Demand for quality income remained a source of technical strength within the investment grade market. The high yield market also appeared strong led by surging supply in June and an increase in merger and acquisition (M&A) activity.

In the latter half of the second quarter, spreads between B- and BB-rated bonds tightened significantly, especially after "Liberation Day," with B-rated bonds outperforming other categories. CCC-rated bonds continued to screen cheap, in our opinion, but faced ongoing issues like restricted access to new issuance and higher risk. BB-rated bonds, particularly the higher rated cohort, were viewed as more recession-resilient and dominated the high-yield space, making up 54% of this year's issuance.

About the Team

The Full Discretion team brings decades of expertise and collaboration to create tailored solutions for their clients.

27
Investment Professionals
23+
Avg. Years of Industry Experience
(Portfolio Management Team)
\$80.3
Team Assets Under Management
(Billion USD)

Team Philosophy

We have a legacy of independent thinking and leaning into the market when others may be pulling away. We take a deep-value, equity-like approach to credit selection across global fixed income markets. Our disciplined process helps gives us confidence in seeking to identify macro trends, formulate a clear view on market sectors, and invest throughout the credit cycle.

For more than 40 years, we have been applying our distinctive style of bond picking to deliver portfolios designed to provide excess yield potential and have low correlations to traditional benchmark-focused fixed income strategies.

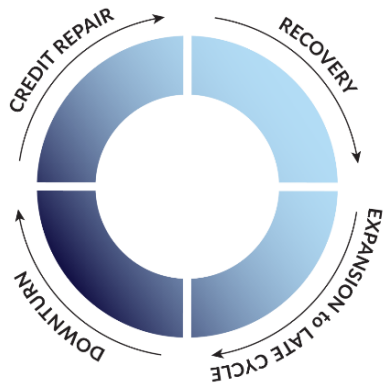
Source: Loomis Sayles, as of 6/30/2025

Average years of expertise reflected at portfolio management level

Credit Cycles/Risk Premium

Credit Cycle Remains in Late Cycle Stage

In our view, the credit cycle continued to remain firmly in the late cycle stage. This view was supported by the backtrack in tariff policy, a healthy job market and resilient corporate fundamentals.

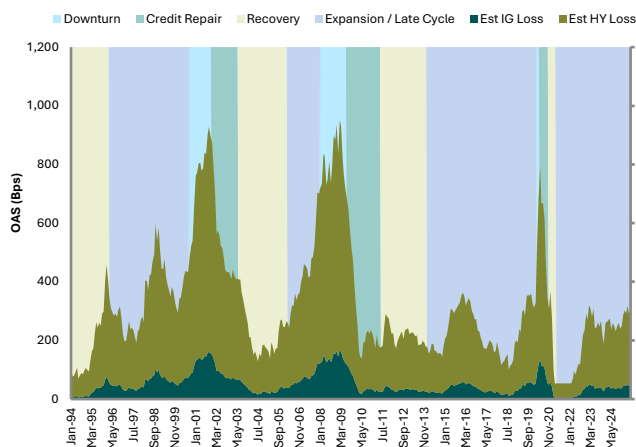


As of 6/30/2025. Chart shown for illustrative purposes only. This reflects the current opinions of Loomis Sayles Macro Strategies team, and views are subject to change at any time without notice. Other industry analysts and investment personnel may have different views and opinions.

Credit Losses Aligned with Historical Averages

Credit losses continued to fluctuate near median levels for this stage of the credit cycle. We expect this to continue for some time based on macro uncertainties, although corporate fundamentals remained a tailwind of credit losses.

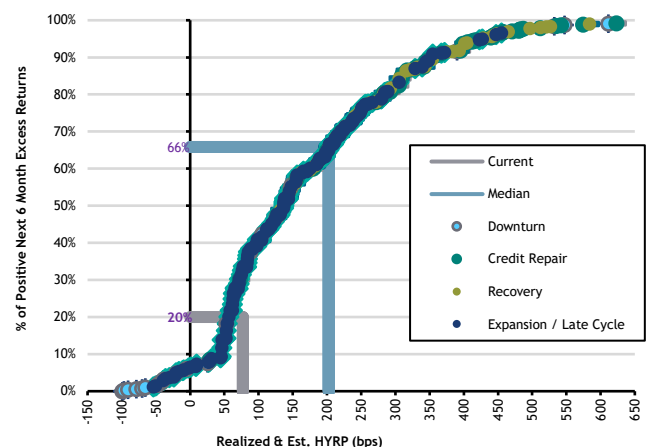
Estimated Investment Grade and High Yield Losses[†]



Risk Premiums Continued to be Compressed

Despite initial widening around “Liberation Day,” spreads have retracted to pre-event levels. At the end of the quarter, tighter spreads coupled with modestly higher projected credit losses led to compression in risk premiums for high yield (see chart below), as well as investment grade.

High Yield Risk Premium and Probability of Positive Excess Return Potential Over Next 6 Months[†]



Source: Loomis Sayles and Bloomberg, as of 6/30/2025. Charts are illustrative for presentation purposes only as a sampling of risk management tool output. Some or all of this information on these charts may be dated, and, therefore, should not be used as a basis to purchase or sell any securities. The information is not intended to represent any actual portfolio managed by Loomis Sayles. The analysis shown is based on historical data and does not predict future results. Markets may behave very differently than history suggests, it is not possible for any methodology to accurately identify and interpret all relevant market events. Therefore, the use of this type of information to make investment decisions has inherent limitations. There is no guarantee that future experience will be similar. The analysis reflected in this presentation is limited to certain periods. We make no representation that the experience of any other periods is comparable. Past performance is no guarantee of future results.

Source: Loomis Sayles and Bloomberg, as of 6/30/2025. This chart is provided for informational use only and should not be considered investment advice. Markets may behave very differently than history suggests, it is not possible for any methodology to accurately identify and interpret all relevant market events. For more information on the credit cycle periods shown, please see the Additional Notes at the end of this material. Past performance is no guarantee of future results.

[†] Please see Risk Premium Disclosure at the end of this document, an integral part of this material.

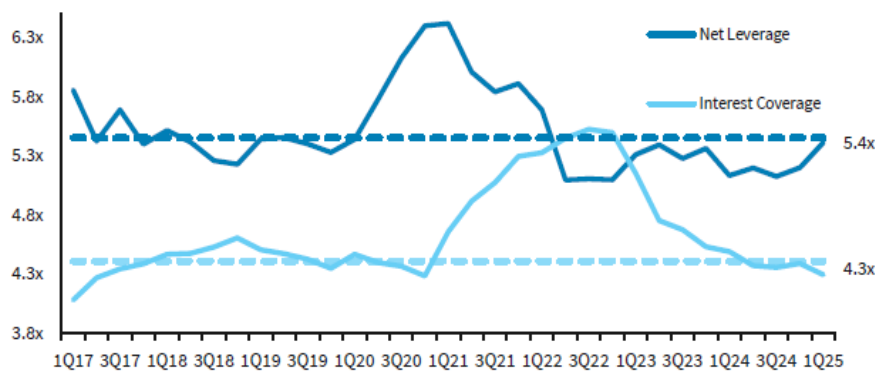
Fundamentals/Technicals

Fundamentals Remained Stable Led by Solid Balance Sheets, Macros Showed Some Weakness

We believe tariffs will continue to be a source of uncertainty for future profit margins, particularly across more sensitive sectors. In response, we expect businesses to adapt their procurement and manufacturing strategies to mitigate the impact. During the quarter, stable underlying investment grade fundamentals offered a cushion against broader economic softening, which helped to preserve resilience across markets, in our view.

Within the high yield markets, earnings growth remained slightly challenged with recent earnings flat to down year-over-year. This came after multiple consecutive quarters of resilient growth. Gross and net leverage have increased, primarily due to rising debt levels. Notably, net leverage returned to its pre-COVID average, a level it had consistently stayed below since interest rate hikes began in 2022.

Net Leverage and Interest Coverage

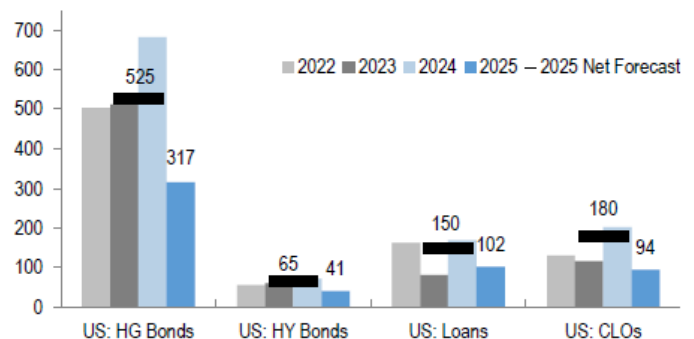


Source: S&P Capital IQ and Barclays Research, as of 6/30/2025

Lean Net Supply and Positive Demand Supported by Strong Technicals in Investment Grade

Net supply reached its lowest level in four years with maturities closely matching new issuance, and the market forecasted negative net supply in the third quarter. Additionally, gross issuance in June rose 19% year-over-year. On the demand side, flows remained strong as they were supported by continued technical strength, and spreads tightened 80 basis points during the quarter.

Year-to-Date Net Issuance and Full Year Forecast (\$B)



Source: J.P. Morgan, as of 6/30/2025

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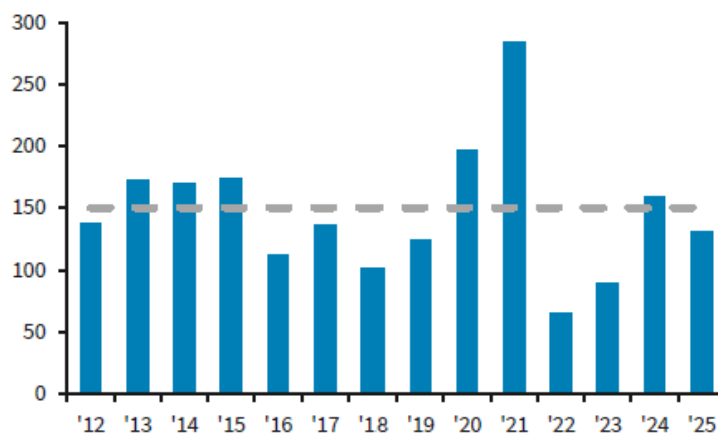
Past performance is no guarantee of future results.

High Yield Technicals Supported by Strong Supply and Accelerated M&A Activity

In June, high yield supply surged to its highest level since September 2024, marking a sharp uptick. Despite that spike, overall issuance in the first half of the year remained subdued, falling short of both last year's \$161B pace and the 15-year average of \$150B. Looking ahead, we believe expectations for moderate supply alongside favorable real interest rates may create a supportive technical backdrop for the high yield market.

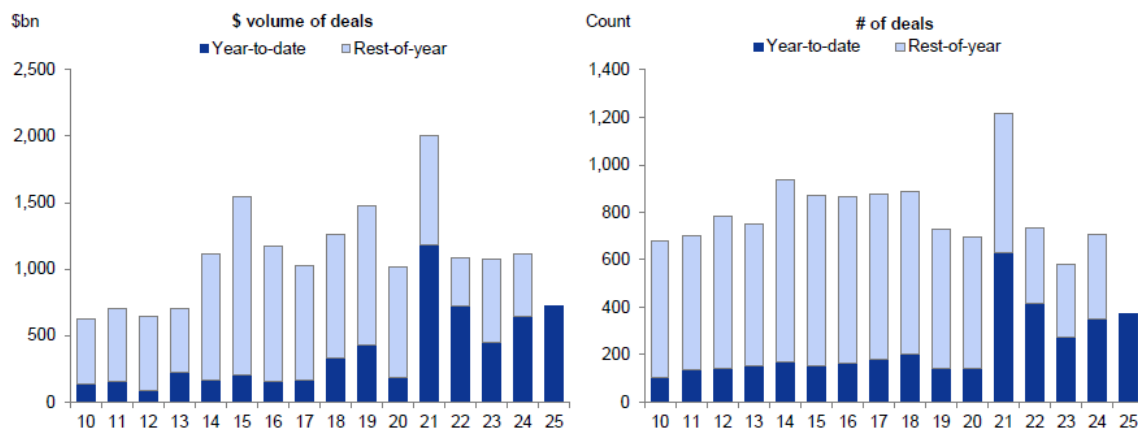
M&A activity picked up noticeably in the final two months of the quarter, aligning with the expectations set earlier in the year. However, this resurgence did not translate into heightened credit market activity as M&A-related new issuance remained muted. The primary drag appeared to be ongoing uncertainty around tariff negotiations, in our view, which prompted many companies to adopt a cautious "wait-and-see" approach before moving forward with capital market plans.

Year-to-Date High Yield Supply (\$B)



Source: Barclays Research, as of 6/27/2025

US M&A Deals by Volume and Count



Source: Dealogic and Goldman Sachs Global Investment Research, as of 6/30/2025

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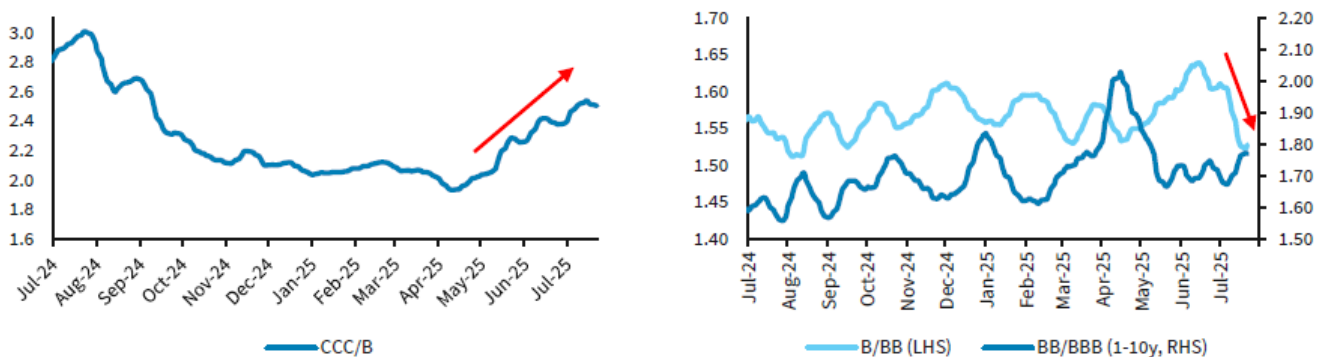
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Security Selection

High Yield Bond Market Trends: Compression, Quality and Capital Access

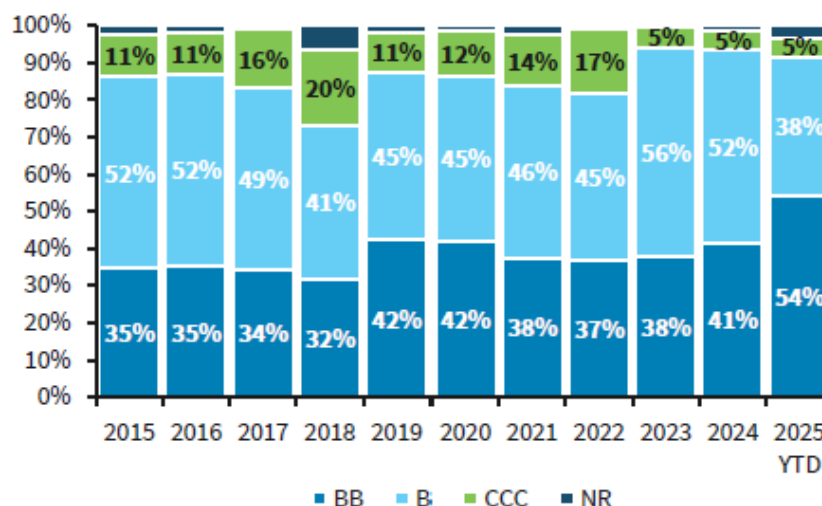
In the latter half of the quarter, bond market dynamics saw a sharp compression in spreads between B- and BB-rated bonds, particularly after “Liberation Day,” with B-rated bonds outperforming other cohorts. Meanwhile, CCC-rated bonds continued to screen relatively cheap but faced persistent challenges, including idiosyncratic risks associated with restricted access to new issuance. BB-rated bonds, which traded at the tightest levels, were viewed as more recession-resilient – especially the higher-quality BB segment – and benefitted from better access to capital markets, as reflected by their 54% share of high yield issuance this year.

Option-Adjusted Spread Ratio by Rating



Source: Bloomberg and Barclays Research, as of 6/30/2025

Percentage of Annual High Yield Supply by Rating



Source: Bloomberg and Barclays Research, as of 6/27/2025

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Meet the Team

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Head of Full Discretion, Portfolio Manager

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Portfolio Manager

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Portfolio Manager, Credit Strategist

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Portfolio Manager, Bank Loans Strategist

HEATHER YOUNG, CFA

Portfolio Manager, Bank Loans Strategist

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Portfolio Manager

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Portfolio Manager, Associate Portfolio Manager, High Yield Corporate Strategist

SCOTT DARCI, CFA

Portfolio Manager, Associate Portfolio Manager, Convertibles & Equity Strategist

DAVID ZIELINSKI, CFA

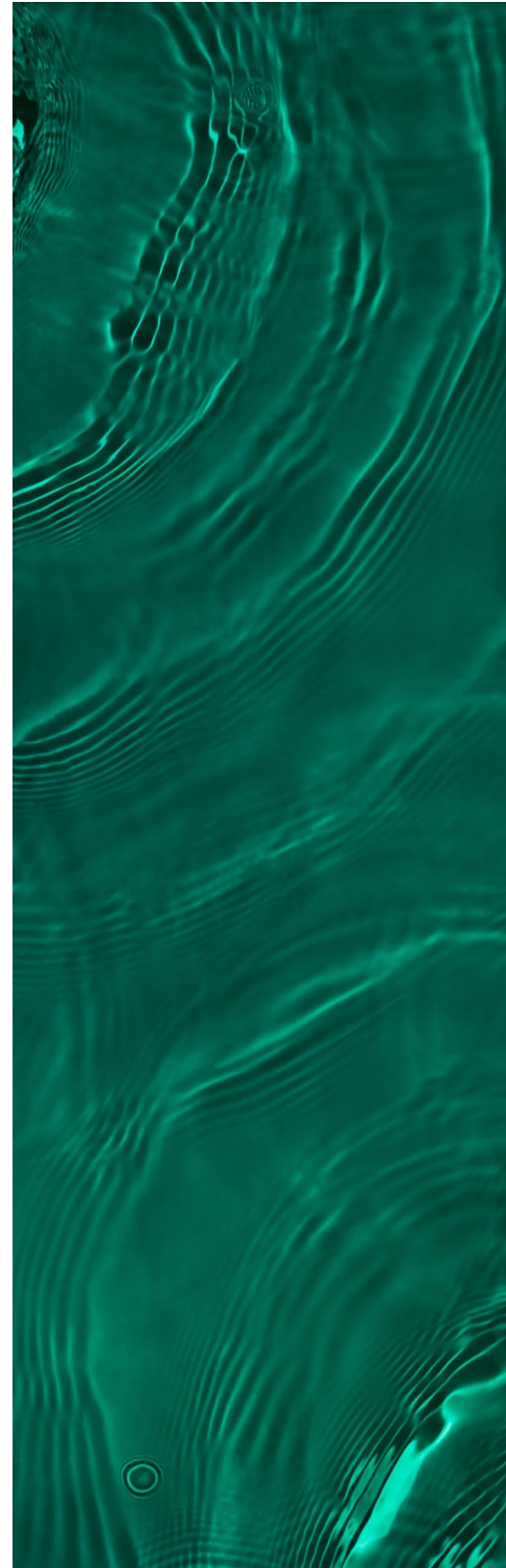
Investment Director

CHERYL STOBER

Investment Director

KRISTEN DOYLE

Associate Investment Director



Important Disclosures

CREDIT CYCLE REGIME PERIODS

EXPANSION/LATE CYCLE:

4/1/1997- 8/31/2000; 3/1/2006-12/31/2007; 1/1/2014- 2/28/2020;
4/1/2021 - 6/30/2025 (PRESENT)

DOWNTURN:

9/1/2000 - 11/30/2001; 1/1/2008 - 6/30/2009; 3/1/2020 -
4/30/2020

CREDIT REPAIR:

12/1/2001 - 5/30/2003; 7/1/2009 - 5/31/2011; 5/1/2020 -
10/31/2020

RECOVERY:

6/1/2003 - 2/28/2006; 6/1/2011-12/31/2013; 11/1/2020 -
3/31/2021

As of 6/30/2025

Regime periods are determined by Loomis Sayles Macro Strategies team based on a variety of subjective and objective factors, including past economic and asset performance metrics. Views and opinions expressed reflect the current opinions of the team, and are subject to change at any time without notice. Other industry analysts and investment personnel may have different views and opinions.

RISK PREMIUM DISCLOSURE

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The analysis is based on historical data and does not predict future results. Markets may behave very differently than history suggests, it is not possible for any methodology to accurately identify and interpret all relevant market events. Therefore, the use of this type of information to make investment decisions has inherent limitations. There is no guarantee that future experience will be similar. The analysis reflected in this presentation is limited to certain periods. We make no representation that the experience of any other periods is comparable.

Unless otherwise specified, all analysis covers the period from 6/30/1996 to 6/30/2025

ADDITIONAL IMPORTANT DISCLOSURE

Principal Investment Risks: Investments in bonds can lose their value. When interest rates rise, bond prices usually fall and vice versa. High yield securities are subject to a high degree of market and credit risk, including risk of default. In addition, the secondary market for these securities may lack liquidity which, in turn, may adversely affect the value of these securities and that of the portfolio. Foreign investments involve special risks including greater economic, political and currency fluctuation risks, which may be even greater in emerging markets. Currency exchange rates between the US dollar and foreign currencies may cause the value of the investments to decline. Commodity-related investments, including derivatives, may be affected by a number of factors including commodity prices, world events, import controls and economic conditions and therefore may involve substantial risk of loss. Equity securities are volatile and can decline significantly in response to broad market and economic conditions.

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This is not an offer of, or a solicitation of an offer for, any investment strategy or product.

Market conditions are extremely fluid and change frequently.

Any investment that has the possibility for profits also has the possibility of losses, including the loss of principal.

Past market experience is no guarantee of future results.