FULL DISCRETION

Loomis on Loans

Third Quarter 2024 Market Conditions

The loan market saw another quarter of strong performance, once again buoyed by the high interest rate component of floating rate loans. Loan prices continued to remain near par as investor sentiment remained positive and loan market technicals provided stability. B-rated loans outperformed BB-rated loans, mainly driven by higher spreads, though the gap in average price between BB- and B-rated loans increased during the quarter as BB-rated loan prices advanced and B-rated loan prices declined slightly.

Reflecting the high rate of refinancing seen in the market year-to-date, 27% of the loan market remains priced over par at the end of the quarter, and 70% of the market was priced at 99 or above, which we believe reflects buyers' continued desire for exposure to the loan market. New issues in the loan market were a blend of BB-rated loans and B-rated loans, as companies across all credit qualities were able to access the market for funding.

The size of the Morningstar LSTA US Leveraged Loan Index contracted modestly during the period, and now stands at $1.38T, a decline of about 1% year-to-date. Repricing and refinancing has been the main source of loan issuance year-to-date, resulting in higher-than-usual index turnover, but this quarter also saw the resurgence of mergers and acquisitions led transactions and dividend recapitalizations. The default rate by issuer has continued to fall further from already-low percentages.

As investors began to anticipate and then experience interest rate cuts, retail loan funds flows turned negative in August, and approximately $5B in redemptions occurred in August and September. Collateralized loan obligation (CLO) formation was robust but at a slower pace than earlier this year and stood at $40.6B for the period.

Morningstar LSTA Index	Q2 2024 Return	YTD Return	Price	YTD Price Change	Nominal Spread
US Leveraged Loan Index	2.04%	6.54%	97.37	0.54	349
US BB Ratings Loan Index	1.90%	5.81%	99.66	0.07	268
US B Ratings Loan Index	2.20%	6.87%	97.91	-0.06	379

Source: Pitchbook LCD, Morningstar and Bloomberg, as of 9/30/2024

The Road Ahead – Why Loans Now?

The environment for loan credit quality has remained stable to firm, though earnings trends have become more mixed in some sectors. Loans have continued to perform strongly despite modest retail outflows – CLO issuance and new issue loan scarcity were uplifting factors to loan performance, as the supply/demand imbalance for loans continues to be a technical tailwind for loan prices.

We agree with the market's concern that default rates could increase, but they have remained relatively low due to company-specific circumstances (ample liquidity, few loan maturities and successful cost-savings programs). The rise in defaults we saw last year into this year has abated and the annual rate has actually ticked lower recently at historically low levels. That said, we note there is a modest subset of the space at the lowest end of the quality spectrum that is still trading at a substantial discount to par and will need sustained economic support and healthy financial markets to manage through their specific issues. We do not expect this cohort to have a sizeable effect on total return for the category given our base case assumptions.

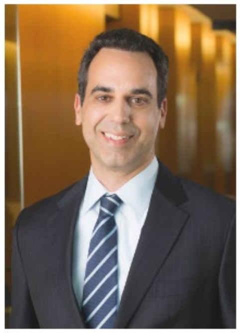
Loomis Sayles's Macro Team base case shows low odds of a downturn, as we have not seen the prerequisite decline in profits' decline and rise in unemployment. Their base case has shifted this year to a soft landing with an eye on the current trends in the labor market. We are cautiously optimistic but are discerning when adding risk as spreads have been ratcheting tighter and therefore compensation for stepping down in quality is being squeezed.

The Federal Reserve (Fed) has embarked on its easing cycle, which we anticipate will further ease financial conditions and will help improve credit conditions in general. We believe current yields in the loan space will remain quite strong as the Fed continues to cut and there is room for price improvement to boost total return. In the longer run, we think the economy may be entering a period of rate volatility that we have not seen since prior to the global financial crisis (GFC). We believe this favors loans as part of an asset allocation, as their risk-adjusted returns would be relatively appealing.

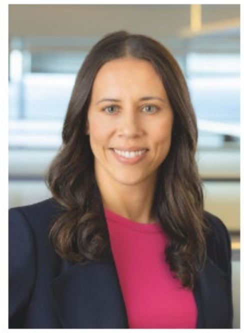
Source: Loomis Sayles, as of 9/30/2024

Please see Important Disclosure on following page, an integral part of this document.

Meet the Team



Michael Klawitter, CFA
Portfolio Manager



Heather Young, CFA
Portfolio Manager

Cheryl Stober
Investment Director

IMPORTANT DISCLOSURE:

This marketing communication is provided for informational purposes only and should not be construed as investment advice. It is meant to offer a snapshot of select market developments and is not a complete summary of all market activities. Investment decisions should consider the individual circumstances of the particular investor. Any opinions or forecasts contained herein reflect subjective judgments and assumptions of the author and do not necessarily reflect the views of Loomis, Sayles & Company, L. P. Investment recommendations may be inconsistent with these opinions. There can be no assurance that developments will transpire as forecasted. Data and analysis does not represent the actual or expected future performance of any investment strategy, account or individual positions. Accuracy of data is not guaranteed but represents our best judgment and can be derived from a variety of sources. Opinions are subject to change at any time without notice.

Indices are unmanaged and do not incur fees. It is not possible to invest directly in an index.
Market conditions are extremely fluid and change frequently.
Commodity, interest and derivative trading involves substantial risk of loss.
Diversification does not ensure a profit or guarantee against a loss.
Any investment that has the possibility for profits also has the possibility for losses, including the loss of principal.

Past performance is no guarantee of, and not necessarily indicative of, future results.