



Form ADV, Part 2A Brochure  
November 27, 2012

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This brochure provides information about the qualifications and business practices of Loomis, Sayles & Company, L.P. If you have any questions about the contents of this brochure, please contact us at (800) 343-2029. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Loomis, Sayles & Company, L.P. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Material Changes

The following material changes have been made to this Form ADV, Part 2A Brochure since the last annual amendment dated March 30, 2012:

Certain fixed income guideline conventions applicable to accounts without client-directed investment guidelines were amended.

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# Advisory Business

## **Background**

Loomis, Sayles & Company, L.P. (“Loomis Sayles”) has been providing investment management services since 1926, when it was established by founders Robert H. Loomis and Ralph T. Sayles.

Loomis Sayles provides investment advisory or subadvisory services to institutional clients through its separate account management services. In addition, Loomis Sayles provides investment advisory or subadvisory services to a variety of investment funds (which may include, but are not limited to, U.S. and offshore mutual funds, hedge funds, collateralized fixed income pools, collective investment trusts, New Hampshire investment trusts and other public or private investment companies). Loomis Sayles also provides investment subadvisory services in connection with certain “wrap programs.” Finally, Loomis Sayles provides non-discretionary investment advisory and sub-advisory services to certain clients pursuant to which it provides such clients with its model portfolios and updates thereto, and the clients will execute trades based on the model if they deem it appropriate to do so.

As of December 31, 2011, Loomis Sayles managed approximately \$162.6 billion in assets, including approximately \$2.6 billion on a non-discretionary basis.

## **Loomis Sayles’ Parent and Affiliated Companies**

Loomis Sayles is an indirect subsidiary of Natixis Global Asset Management, L.P. which is an indirect subsidiary of Natixis Global Asset Management (“NGAM”), an international asset management group based in Paris, France. NGAM is in turn owned by Natixis, a French investment banking and financial services firm. Natixis is principally owned by BPCE, France's second largest banking group.

## **Advisory Services**

### **Separate Account Clients**

Loomis Sayles provides a wide array of fixed income and equity investment management services through separate accounts.

Investment advice is furnished on either a discretionary basis, where the client authorizes Loomis Sayles to make all investment decisions for the account, or a non-discretionary basis, where Loomis Sayles makes recommendations to the client but all investment decisions are made by the client.

All separate account advisory services are provided under the terms of an advisory agreement between Loomis Sayles and the client. The advisory agreement generally permits either the client or Loomis Sayles to terminate the agreement at any time upon written notice to the other party. In most cases, advance notice is required. Loomis Sayles permits customization of an account’s guidelines to meet the particular needs of clients, as long as

the firm believes such customization will not unduly hamper its ability to execute the strategy. Generally, clients establish their own investment guidelines and restrictions for their accounts, although Loomis Sayles maintains standard guidelines for a number of strategies that may be used without modification by clients.

#### Affiliated and Other Funds

In addition to the separate account services described above, Loomis Sayles provides advisory or subadvisory services to mutual funds sponsored by Loomis Sayles or its affiliates. Information concerning these funds, including a description of the services provided and advisory fees, is generally contained in each fund's prospectus.

As mentioned above, Loomis Sayles also provides advisory or subadvisory services to other investment funds that are established by Loomis Sayles or its affiliates or in which Loomis Sayles, its affiliates or their personnel may have an ownership or management interest. Such investment funds may include, but are not limited to, hedge funds, collateralized fixed income pools, collective investment trusts, New Hampshire investment trusts and other types of pooled vehicles. Additional information concerning these funds is generally included in the relevant offering documents.

Loomis Sayles also provides advisory or subadvisory services to otherwise unaffiliated mutual funds and investment funds.

#### Wrap Programs

Loomis Sayles acts as subadviser to certain wrap program providers, including its affiliate, NGAM Advisors, L.P. and other non-affiliates (each a "Wrap Provider"). The Wrap Provider provides the investment expertise of Loomis Sayles which acts as subadviser with respect to certain investment styles ("Investment Products") normally offered and available only to institutional and high net worth clients. Loomis Sayles is paid a management fee by the Wrap Provider based on the assets under management, which indirectly can be considered a portion of the wrap program fee.

Under its investment subadvisory agreements with the Wrap Providers, Loomis Sayles generally provides model investment portfolios ("Model Portfolios") containing Loomis Sayles' then-current judgment as to the composition of a portfolio of securities that would appropriately be purchased for the account of a hypothetical U.S. person having an account exceeding a specified asset size, and to be managed in accordance with the relevant Investment Product. The recommendations implicit in the Model Portfolios generally reflect (but are not necessarily the same as) the investment recommendations and decisions contemporaneously being made by Loomis Sayles for its institutional and high net worth clients within the same Investment Product. There may be differences between the Model Portfolios provided by Loomis Sayles and recommendations or decisions made by Loomis Sayles for its client accounts resulting from, among other things, differences in cash availability, investment restrictions, account sizes, the use of American Depositary Receipts ("ADRs") rather than foreign securities in certain circumstances and other factors. Likewise, the performance of Loomis Sayles' client accounts and that of the Wrap Providers' clients using the same Investment Product will differ for these and other reasons.

Although Loomis Sayles will provide Model Portfolios, the Wrap Provider has the ultimate decision making and discretionary responsibility for determining which securities are to be purchased and sold for its clients' accounts. In most cases, however, it is expected that the Wrap Provider will approve the recommendations implicit in the Model Portfolio provided by Loomis Sayles, subject only to differences resulting from individual investment guidelines or cash, tax or other needs of its clients. To assist the Wrap Provider in implementing the recommendations implicit in the Model Portfolio, Loomis Sayles in certain instances may place orders to buy or sell securities on the Wrap Provider's behalf and at the direction of the Wrap Provider. However, there will also be times where the Wrap Provider will execute client transactions which may compete with similar transactions that are directed by Loomis Sayles for its non-wrap fee client accounts at the same time, thereby possibly affecting the price, amount or other terms of the trade execution. Any effect of substantially contemporaneous market activities is likely to be most pronounced when the supply or liquidity of the security is limited. Clients of the Wrap Provider should refer to their particular documentation for additional information regarding transactions for their account.

When determining whether to participate in a wrap program, a client should consider whether participation in the wrap program will cost the client more or less than purchasing the wrap program services separately (depending on such factors as the amount of the wrap fee, the type and size of the account, the type of assets to be purchased for the account, the historical and/or expected size and number of trades for the account, the value the client attributes to monitoring, custodial and other services that may be provided pursuant to the wrap program, and the value the client places on having access to the particular investment advisers participating in the wrap program). A client should also understand that Loomis Sayles will not negotiate brokerage commissions with the program broker with respect to transactions effected for the wrap program client's account since those brokerage commissions are normally included in the wrap fee. The program broker may charge higher commissions, or may provide less advantageous execution of transactions, than if Loomis Sayles selected the broker or dealer to execute the transactions or negotiated the commissions. Details of any such wrap program are set forth in the program documents relating to the particular wrap program.

## Fees and Compensation

### **Standard Fees**

Loomis Sayles' advisory fees are set forth in each client's advisory agreement. In general, Loomis Sayles' advisory fees are based on its standard fee schedule in effect at the time the advisory agreement is entered into. Advisory fees are negotiated with many clients, however, and may therefore vary from the standard fee schedule. For comparable services, other investment advisers may charge higher or lower fees than those charged by Loomis Sayles.

Loomis Sayles' current standard fee schedule is set forth at the end of this section. Advisory fees under this schedule are calculated as a percentage of assets under management and may be subject to a specified minimum annual fee and/or a specified minimum account size.

The standard fee schedule may be modified from time to time. The client's advisory agreement generally dictates if Loomis Sayles' values or the client's custodian's values will be used for fee calculations. Where Loomis Sayles' values are used in determining the fee calculation, certain securities may be fair valued in accordance with the firm's Securities Pricing Policies and Procedures.

Most advisory fees are generally paid quarterly in arrears and billed to the client, although there are some exceptions. Certain clients pay fees monthly, semi-annually or annually, and a few clients pay fees up to three months in advance. Prepaid advisory fees covering any period after a client's advisory agreement is terminated are refunded to the client after pro-rating the fee for the partial period. Loomis Sayles does not deduct fees from client accounts, although Loomis Sayles advises some investment funds for which fees are deducted by the relevant custodian.

### **Performance Fees**

Loomis Sayles may agree to charge a performance fee (e.g., a fee based on a share of the income, capital gains or capital appreciation in the client's account or a portion of the client's account) where such fee arrangements are permitted under applicable laws and regulations. Please see "Performance-Based Fees and Side-by-Side Management" below for more information about performance fees.

### **Custodial Services**

Generally, clients select their own custodians for account assets and pay all fees charged by the custodian. Certain clients, however, have elected to utilize a custodian bank that does not charge the client for custodial services. In these instances, the fees of the custodian are paid by Loomis Sayles, and Loomis Sayles charges the client a higher advisory fee than it might otherwise charge. This arrangement is not available to new clients.

### **Brokerage and Other Costs**

Clients incur brokerage and other transaction costs which are in addition to any advisory fees. Please see "Brokerage Practices" for more information about these costs.

### **Affiliated and Other Funds**

Loomis Sayles or its affiliates may recommend to clients, or Loomis Sayles may invest for client accounts in, various investment funds that are sponsored, advised or subadvised by Loomis Sayles or its affiliates and in which Loomis Sayles, its affiliates or their personnel may have an ownership or management interest and for which Loomis Sayles and/or its affiliates collect asset-based or other fees. Such investment funds may include, but are not limited to, mutual funds, hedge funds, collateralized fixed income pools, collective investment trusts and other public or private investment companies. Loomis Sayles Distributors, L.P. ("Loomis Sayles Distributors") and/or other broker-dealers affiliated with Loomis Sayles ("Affiliated Broker-Dealers") may act as principal underwriter, distributor, dealer or placement agent or perform a similar function, and/or a Loomis Sayles affiliate

may provide other services such as administrative or transfer agent services for such funds. Please see “Other Financial Industry Activities and Affiliations” for more information.

### **Standard Fee Schedule**

The standard fee schedule for Loomis Sayles’ separate accounts is set forth below.

Generally, fees are calculated as a percentage of assets under management (including accrued income, cash and cash equivalents). All fees shown below reflect annual rates; however, fees are normally paid on a quarterly basis. Minimum annual fees and/or minimum account sizes may apply and may vary. Fees shown below generally relate only to investment styles that are currently offered to new clients. Fees for other investment styles that are not generally offered to new clients, but are used in managing accounts for existing clients, are as set forth in the contracts with the particular clients. Advisory fees are negotiated with many clients and may therefore vary from the standard fee schedule shown below. This fee schedule may be modified from time to time.

### **FIXED INCOME**

#### **U.S. Investment Grade Corporate Intermediate Total Return and Investment Grade Intermediate Corporate Bond**

.35% on the first \$20 million  
.25% on the next \$80 million  
.20% on value over \$100 million  
Minimum account size: \$30 million  
Minimum annual fee: \$95,000

#### **Core Total Return**

.40% on the first \$20 million  
.35% on the next \$40 million  
.25% on the next \$40 million  
.20% on the next \$100 million  
.18% on value over \$200 million  
Minimum account size: \$30 million  
Minimum annual fee: \$115,000

#### **Multisector Full Discretion and Securitized Asset Credit**

.50% on the first \$20 million  
.40% on the next \$30 million  
.30% on value over \$50 million  
Minimum account size: \$50 million  
Minimum annual fee: \$220,000

#### **Core Fixed Income**

.35% on the first \$20 million  
.225% on the next \$80 million  
.18% on value over \$100 million  
Minimum account size: \$30 million  
Minimum annual fee: \$92,500

#### **Core Plus Fixed Income**

.40% on the first \$20 million  
.30% on the next \$80 million  
.25% on value over \$100 million  
Minimum account size: \$30 million  
Minimum annual fee: \$110,000

#### **Multisector Total Return**

.50% on the first \$20 million  
.40% on the next \$30 million  
.30% on value over \$50 million  
Minimum account size: \$30 million  
Minimum annual fee: \$140,000



High Yield Conservative,  
High Yield Full Discretion  
and Global High Yield

.50% on total value  
Minimum account size: \$50 million  
Minimum annual fee: \$250,000

Short Term Fixed Income

.25% on the first \$25 million  
.20% on the next \$75 million  
.15% on value over \$100 million  
Minimum account size: \$30 million  
Minimum annual fee: \$72,500

Strategic Alpha

.47% on the first \$100 million  
.40% on value over \$100 million  
Minimum account size: \$100 million  
Minimum annual fee: \$470,000

Bank Loans

.47% on the first \$100 million  
.40% on value \$100 million  
Minimum account size: \$50 million  
Minimum annual fee: \$235,000  
LLC Minimum account size: \$5 million  
LLC Minimum annual fee: \$23,500  
(Bank loan asset class may also be a component  
of a broader based portfolio. In that case, the  
fee schedule will generally be the fee schedule  
applicable to the overall portfolio and not the  
Bank Loans schedule shown immediately  
above.)

Municipal Fixed Income

.50% on the first \$10 million  
.30% on the next \$90 million  
.20% on value over \$100 million  
Minimum account size: \$30 million  
Minimum annual fee: \$110,000

High Grade Corporate

.25% on the first \$100 million  
.20% on value over \$100 million  
Minimum account size: \$25 million  
Minimum annual fee: \$62,500

Core Plus Full Discretion

.40% on the first \$20 million  
.30% on the next \$80 million  
.20% on value over \$100 million  
Minimum account size: \$50 million  
Minimum annual fee: \$170,000

Long Duration Disciplined Alpha  
Core Disciplined Alpha

.35% on the first \$20 million  
.25% on the next \$80 million  
.20% on the next \$100 million  
.18% on value over \$200 million  
Minimum account size: \$50 million  
Minimum annual fee: \$145,000

International Fixed Income

.45% on the first \$50 million  
.35% on the next \$50 million  
.25% on value over \$100 million  
Minimum account size: \$30 million  
Minimum annual fee: \$135,000

Global Credit and Global Bond

.40% on the first \$50 million  
.30% on the next \$50 million  
.20% on the next \$400 million  
Negotiated on value over \$500 million  
Minimum account size: \$50 million  
Minimum annual fee: \$200,000

Emerging Markets

.65% on the first \$25 million  
.55% on the next \$25 million  
.45% on the next \$50 million  
.40% on value over \$100 million  
Minimum account size: \$30 million  
Minimum annual fee: \$190,000

Credit Asset

.45% on total value  
Minimum account size: \$100 million  
Minimum annual fee: \$450,000

Long Duration Corporate  
Long Duration Government / Credit

.30% on the first \$100 million  
.25% on the next \$50 million  
.20% on the value over \$150 million  
Minimum account size: \$30 million  
Minimum annual fee: \$90,000

Multi-Asset Real Return

.60% on the first \$50 million  
.55% on value over \$50 million  
Minimum account size: \$50 million  
Minimum annual fee: \$300,000

Global Debt Unconstrained

.50% on the first \$50 million  
.40% on the next \$50 million  
.30% on value over \$100 million  
Minimum account size: \$50 million  
Minimum annual fee: \$250,000

## EQUITY

### Large Cap Core Equity

.65% on the first \$10 million  
.50% on the next \$40 million  
.45% on the next \$50 million  
.40% on the next \$100 million  
.30% on value over \$200 million  
Minimum account size: \$10 million  
Minimum annual fee: \$65,000

### Large Cap Value and Large Cap Growth

.575% on the first \$20 million  
.50% on the next \$30 million  
.45% on the next \$50 million  
.40% on the next \$100 million  
.30% on value over \$200 million  
Minimum account size: \$20 million  
Minimum annual fee: \$115,000

### Mid Cap Growth

1.00% on the first \$5 million  
.80% on the next \$10 million  
.60% on the next \$85 million  
Negotiated on value over \$100 million  
Minimum account size: \$5 million  
Minimum annual fee: \$50,000

### Small Cap Growth

1.00% on the first \$20 million  
.85% on the next \$30 million  
.75% on the next \$50 million  
.70% on value over \$100 million  
Minimum account size: \$20 million  
Minimum annual fee: \$200,000

### Large Cap Focused Core Equity and Large Cap Focused Value Equity

.75% on the first \$10 million  
.60% on the next \$40 million  
.55% on the next \$50 million  
.50% on the next \$100 million  
.45% on value over \$200 million  
Minimum account size: \$5 million  
Minimum annual fee: \$37,500

### Global Equity Opportunities

.75% on the first \$10 million  
.60% on the next \$40 million  
.55% on the next \$50 million  
.50% on the next \$100 million  
.40% on value over \$200 million  
Minimum account size: \$20 million  
Minimum annual fee: \$135,000

### All Cap Growth

.675% on the first \$20 million  
.60% on the next \$30 million  
.55% on the next \$50 million  
.50% on the next \$100 million  
.40% on the value over \$200 million  
Minimum account size: \$20 million  
Minimum annual fee: \$135,000

### Mid Cap Value

.80% on the first \$20 million  
.70% on the next \$30 million  
.60% on value over \$50 million  
Minimum account size: \$10 million  
Minimum annual fee: \$80,000

Small/Mid Cap

.90% on the first \$10 million  
.80% on the next \$20 million  
.70% on the next \$20 million  
.60% on value over \$50 million  
Minimum account size: \$10 million  
Minimum annual fee: \$90,000

Small Cap Value\*

1% on the first \$10 million  
.80% on the next \$20 million  
.60% on value over \$30 million  
Minimum account size: \$10 million  
Minimum annual fee: \$100,000

\*The Small Cap Value style is currently closed to new separate account business.

**COLLECTIVE INVESTMENT TRUSTS**

FIXED INCOME

Core Plus

.50% on the first \$10 million  
.35% on the next \$10 million  
.25% on value over \$20 million  
Minimum account size: \$5 million

Core Plus Full Discretion

.45% on the first \$10 million  
.35% on the next \$10 million  
.25% on value over \$20 million  
Minimum account size: \$5 million

Multisector Full Discretion

.57% on the first \$15 million  
.45% on the next \$15 million  
.30% on value over \$30 million  
Minimum account size: \$5 million

High Yield Conservative

.65% on the first \$5 million  
.50% on value over \$5 million  
Minimum account size: \$5 million

Investment Grade Bond

.45% on the first \$10 million  
.35% on the next \$10 million  
.25% on value over \$20 million  
Minimum account size: \$5 million

Core Disciplined Alpha

.40% on the first \$10 million  
.25% on the next \$40 million  
.20% on the next \$50 million  
.18% on value over \$100 million  
Minimum account size: \$5 million

## EQUITY

### Small/Mid Cap Core

.90% on the first \$10 million  
.75% on the next \$40 million  
.60% on value over \$50 million  
Minimum account size: \$5 million

### Small Cap Growth

1.00% on the first \$10 million  
.85% on the next \$40 million  
.70% on value over \$50 million  
Minimum account size: \$5 million

### Large Cap Growth

Class A  
.55% on value of account  
Minimum account size: \$5 million  
Minimum annual fee: \$27,500

Class D  
.45% on first \$100 million  
.40% on value over \$100 million  
Minimum account size: \$40 million

### Large Cap Value

.75% on first \$2.5 million  
.65% on the next \$7.5 million  
.50% on the next \$10 million  
.45% on value over \$20 million  
Minimum account size: \$5 million

### Equity Research

.75% on the first \$2.5 million  
.65% on the next \$7.5 million  
.50% on the next \$10 million  
.45% on value over \$20 million  
Minimum size: \$5 million

## NEW HAMPSHIRE INVESTMENT TRUSTS

### Intermediate Total Return

.35% on the first \$5 million  
.25% on the next \$45 million  
.20% on value over \$50 million  
Minimum account size: \$5 million

### High Yield Full Discretion

.67% on the first \$5 million  
.50% on value over \$5 million  
Minimum account size: \$5 million

### Long Duration Government / Credit

.25% on the first \$150 million  
.20% on the value over \$150 million  
Minimum account size: \$5 million

### Securitized Credit and Multisector Full Discretion

.57% on the first \$15 million  
.45% on the next \$15 million  
.30% on value over \$30 million  
Minimum account size: \$5 million

### Credit Asset

.45% on value of account  
Minimum account size: \$5 million

### Core Disciplined Alpha

.40% on the first \$10 million  
.25% on the next \$40 million  
.20% on the next \$50 million  
.18% on value over \$100 million  
Minimum account size: \$5 million

### Core

.35% on the first \$5 million  
.225% on the next \$45 million  
.18% on value over \$50 million  
Minimum account size: \$5 million

### World Bond

.55% on first \$10 million  
.35% on the next \$65 million  
.25% on value over \$75 million  
Minimum account size: \$5 million

### Emerging Markets Corporate Debt

.65% on the first \$25 million  
.55% on the next \$25 million  
.45% on the next \$50 million  
.40% on value over \$100 million  
Minimum account size: \$5 million

### Long Duration Corporate Bond and High Grade Corporate Bond

.40% on the first \$5 million  
.225% on the next \$45 million  
.18% on value over \$50 million  
Minimum account size: \$5 million

### U.S. High Yield Bond

.65% on the first \$5 million  
.50% on value over \$5 million  
Minimum account size: \$5 million

### Real Return

.60% on the first \$50 million  
.55% on value over \$50 million  
Minimum account size: \$5 million

### Strategic Alpha

.60% on the first \$20 million  
.50% on the next \$30 million  
.40% on value over \$50 million  
Minimum account size: \$5 million

### Global Fixed Income

.50% on the first \$10 million  
.30% on the next \$65 million  
.20% on the balance over \$75 million  
Minimum size: \$5 million

### Emerging Debt and Currencies

.55% on the first \$25 million  
.45% on the next \$25 million  
.35% on the next \$50 million  
.30% on the balance over \$100 million  
Minimum size: \$5 million

### Global Equity Opportunities

.70% on the first \$10 million  
.60% on the next \$40 million  
.50% on the next \$150 million  
.40% on value over \$200 million  
Minimum account size: \$5 million

## Performance-Based Fees and Side-by-Side Management

### Performance Fees

Loomis Sayles may charge a performance fee (e.g., a fee based on a share of the income, capital gains or capital appreciation in the client's account or a portion of the client's account) where such fee arrangements are acceptable to the client and permitted under applicable laws and regulations. However, most Loomis Sayles clients pay advisory fees based on assets under management without a performance fee component.

### Side-by-Side Management and Conflicts

Having both asset-based and performance-based fees in the same strategy may create conflicts of interests, as there may be an incentive to favor accounts whose fee is based on good performance. Loomis has adopted the following policies and procedures to address this conflict.

### Allocation of Investment or Trading Opportunities

Loomis Sayles makes decisions to recommend, purchase, sell or hold securities for all of its client accounts, based on the specific investment objectives, guidelines, restrictions and circumstances of each account (including, but not limited to, such factors as an account's existing holdings of the same or similar issuers or sectors, cash position and account size and, in some instances, certain relevant tax considerations) and other relevant factors, which may include but are not limited to, the size of an available purchase or sale opportunity, the availability of other comparable opportunities and Loomis Sayles' desire to treat its clients' accounts fairly and equitably over time.

Loomis Sayles' policy is to allocate purchase opportunities, including securities being offered in private placements or in initial public offerings and other investment opportunities that may have limited availability, and sale opportunities it identifies as being appropriate for particular client accounts, among its clients' accounts, on a fair and equitable basis over time. Because it is not possible to allocate every purchase or sale opportunity to every client for which the opportunity would be appropriate and desirable, particular clients may not participate in transactions that would be appropriate and desirable for those clients, as a result of Loomis Sayles' decision to allocate those particular opportunities to other client accounts.

Clients should understand that, notwithstanding the fact that certain client accounts may have the same portfolio manager and similar investment objectives, investment guidelines, risk tolerances and asset size, there may often be differences in portfolio security composition among such clients' accounts, especially fixed income client accounts, due in part to the timing of the accounts' entering the market and the liquidity, pricing and credit opinion (as applicable) of the available securities at such times and, in some cases, the tax sensitivities of the clients. However, Loomis Sayles intends that the portfolio manager of such client accounts will generally seek to manage such accounts in a way that they will generally have similar portfolio characteristics (such as industry and sector weightings, average credit quality and duration, as applicable) where appropriate and feasible. The Loomis Sayles Peer Review process includes reviews of dispersion among accounts. See "Review of Accounts - Peer Review Process" below.

### **Particular Conflicts of Interest Associated with Hedge Funds**

Loomis Sayles may make recommendations and take action with respect to a particular client's account that may be the same as or may differ from the recommendations made or the timing or nature of the action taken with respect to other client accounts. For example, a hedge fund may generally have greater investment flexibility than many other client accounts (including, but not limited to, the ability to use leverage, sell securities short, and engage in high portfolio turnover), and therefore, investment or trading decisions for the hedge fund will not be identical to those for non-hedge fund client accounts that invest in the same types of securities, and such investment decisions may even be contrary to Loomis Sayles' contemporaneous recommendations or transactions for non-hedge fund client accounts. Thus, by way of illustration, a hedge fund or other client account may, in certain circumstances, be selling (or selling short) a security that other client accounts are buying or holding, or buying a security that other client accounts are selling.

From time to time, Loomis Sayles or a related person may act as general partner or perform a similar function for partnerships or other vehicles, including hedge funds in which Loomis Sayles' clients may be solicited to invest. Certain aspects of such funds' structures or operations may give rise to potential conflicts of interest vis-à-vis Loomis Sayles' other clients. Such potential conflicts may be similar to, or may be different from, the types of conflicts that Loomis Sayles typically faces with respect to its other client accounts. Particular conflicts of interest associated with the hedge funds may arise from, among other things, the fact that Loomis Sayles and/or certain of its affiliates or personnel may participate in the investment return achieved by hedge funds, through performance-based fees payable by hedge funds or as investors in hedge funds. This participation may be



material, both in relation to the overall investment return of the hedge fund and in relation to the overall compensation or financial circumstances of participating affiliates or personnel.

In addition a hedge fund may sell a security while it is being purchased in other client accounts, and it may sell short securities that are held long or are being purchased for other client accounts, which may have an impact on the securities being purchased or that are held long for such client accounts.

Loomis Sayles has adopted policies and procedures that are reasonably designed to address (although they may not completely eliminate) the above potential conflicts of interest, including, among others, (1) certain of the policies summarized in “Performance Fees and Side-by-Side Management” and “Brokerage Practices - Aggregation of Orders; Directed Brokerage” and (2) a policy requiring documentation by portfolio managers of the rationale for maintaining simultaneous long and short positions in the same security in different accounts or for transactions that appear to be an appropriate investment but are not executed concurrently in a portfolio manager's hedge fund and long-only accounts.

### **Cross Trading, Brokerage Allocation and Securities Pricing**

Loomis Sayles will not knowingly or intentionally cross securities among hedge funds and long-only accounts unless the transaction is approved in advance by Loomis Sayles' Chief Compliance Officer. In addition, brokerage allocation and securities pricing is handled in the same manner for hedge funds as it is for long-only accounts.

## **Types of Clients**

### **Types of Clients**

Loomis Sayles provides investment advisory or subadvisory services to a wide variety of institutional clients, including public funds, endowments, pension plans, Taft-Hartley plans, corporations, foundations, and insurance companies. Loomis Sayles also serves as advisor or subadvisor to a variety of investment funds which may include, but are not limited to, U.S. and offshore mutual funds, hedge funds, collective investment trusts, New Hampshire investment trusts, collateralized pools and other public or private investment companies. Some of these investment funds may be sponsored or established by Loomis Sayles or its affiliates or in which Loomis Sayles, its affiliates or their personnel may have an ownership or management interest. Loomis Sayles also provides investment subadvisory services in connection with certain “wrap programs.” Loomis Sayles provides non-discretionary investment advisory and sub-advisory services to certain clients pursuant to which it provides such clients with its model portfolios, and the clients execute trades in their sole discretion.

## **Account Requirements**

For separate accounts, Loomis Sayles generally requires a minimum dollar value of assets for establishing or maintaining a client's account and/or charges a specified minimum annual fee (see the "Standard Fee Schedule" above). The account minimums or minimum annual fees may, however, be subject to waiver or negotiation. Funds, other investment pools and wrap accounts have their own investment requirements.

Loomis Sayles will not accept an account from any investor whose investment objectives or guidelines are inconsistent with Loomis Sayles' philosophy and investment approach.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

### **Methods of Analysis, Sources of Information and Investment Strategies**

The overall investment philosophy of Loomis Sayles is based on the premise that our disciplined, research-based investment strategies can identify market inefficiencies that can lead to consistent outperformance of benchmarks.

### **Fixed Income - General**

We believe that bond markets are not efficient, often mispricing risk and overreacting to news, corporate and market events, and technical supply and demand factors. These inefficiencies may provide investors the opportunity to generate risk-adjusted performance in excess of traditional market benchmarks. We believe that fundamental and quantitative research offers the best approach to identifying attractive investment opportunities. Successful strategy development, portfolio construction and investment implementation are best achieved through our specialized and disciplined team collaboration. In addition, a consistent application of our value-driven investment approach enables us to capitalize on the unique opportunities of any set of market conditions.

We believe intensive bottom-up investment analysis combined with a clear macroeconomic and market perspective is the best way to deliver excellent performance. Our portfolios are constructed by small, focused portfolio management teams supported by extensive economic, market, sector, issuer, security, trading and quantitative analysis.

**Macro Outlook.** An analysis of the global macro economic outlook is an important complement to the bottom-up focus of our sector teams. We develop our top-down approach through the research efforts of our macro strategies group and at weekly and monthly meetings where we assess global, geopolitical, and economic developments and formulate our outlooks. These frequent meetings provide us with the flexibility to make timely adjustments to our strategies. Each month our chief economist meets with the macro team to assess U.S. economic conditions and with the yield curve team to forecast policy and market rates. A similar exercise is conducted by our sovereign group to assess the global economic outlook. The macro team uses the insights of these groups to review potential market outcomes. The final step in the formal monthly macro investment process is the

global asset allocation team meeting where market views are shared and reviewed by all of the macro and sector teams. The goal of the meeting is to assess both market risks and opportunities. In addition to this monthly series of meetings, we have regular weekly macro meetings where topics of interest are reviewed in greater detail. These meetings are a forum for portfolio managers, analysts and traders to learn and share ideas for dealing with factors influencing portfolio decisions.

**Sector Teams.** Sector teams bring together professionals from each of the key investment disciplines – research, portfolio management and trading. Each team integrates our macro views with team member insights to assess their sector’s risk/return characteristics and uncover specific credits that may offer the best return potential. Expected horizon returns and outcome dispersions are important contributions made by these teams. The result of this process is a set of strategic recommendations for managing portfolios. In addition, representatives from the sector teams generally meet bi-weekly with the product teams to provide insight and recommendations geared specifically for the products under discussion.

**Product Teams.** Product teams are small groups of portfolio managers focused on strategy development and implementation for similar portfolios. Key investment themes are developed reflective of the fixed income macro perspective and sector teams’ assessments. Quantitative research and risk analysis tools assist portfolio managers in constructing portfolios. The portfolio construction process seeks to maximize risk-aware performance for our clients.

Our collaborative investment process captures the benefits of team-generated insights with individual portfolio manager responsibility. Each portfolio manager has the ultimate decision making authority and accountability for account construction. However, since each portfolio manager participates at the product and sector team levels, a portfolio decision usually does not differ from portfolio to portfolio within a product unless client requests, guidelines or other requirements cause restrictions.

**Macro Strategies.** The macro strategies group assesses global macro investment conditions and offers strategic insight into related opportunities and risks. The team's top down output and its integration into the investment process complements the bottom-up work done by the firm’s other research groups. Output includes internally published reports on current data releases and economic forecasts, plus more in-depth reviews of macro topics of interest. In addition to published research and meeting presentations, the group organizes several meetings each month where typically a member of the group leads a discussion with our investment professionals on a macro topic of interest. The research views and forecasts of the macro strategies group are brought to the macro and U.S. yield curve sector team meetings for discussion and review. We have a regular monthly process for accomplishing this, supplemented by daily analysis and discussion. Upon completion of the monthly cycle of meetings, a comprehensive document is published internally that describes the overall investment environment, team forecasts, and recommendations.

**Sovereign Research.** Sovereign research for the firm is conducted as part of the macro strategies group. The analysts follow and assign credit ratings to approximately 67 countries which are published internally and updated regularly. Another dozen or so countries are not

rated but are followed by the analysts as they seek to understand global trends and regional dynamics. Quarterly, the analysts publish country profiles for each major country under coverage. The profile includes commentary on fundamental trends plus forecasts for growth, inflation, policy and market rates. Intra-quarter, as necessary based on news or other developments, the analysts publish reports internally updating the firm on their views. Each week the analysts meet with the developed markets/non-US sovereign and emerging markets sector teams to discuss how their research views translate into investment ideas. Recommendations on bond and currency trades are published firm wide.

Our sovereign analysts focus on specific developed and emerging markets within a particular geographic location (our chief economist covers the US). The analysts travel to visit central banks and other local institutions to uncover attractive sovereign debt ideas.

**Credit Research.** Our dedicated credit research group offers broad and in-depth coverage across the fixed income universe. This includes US government-related and municipal credits, as well as over 1,000 corporate credits (both investment grade and speculative grade) globally, including both developed and emerging markets. Our credit analysts typically cover multiple industries, and the debt-issuing companies within them. Our corporate credit analysts generally follow approximately 60 credits (on average). The analysts' primary function is to identify attractive – and unattractive – debt investment opportunities within their respective coverage universe. The analysts do this by performing rigorous fundamental research to develop an assessment of the creditworthiness of the issuers under their coverage. Incorporating their credit opinions as well as the relative valuation of those issuers' debt securities, the credit analysts will provide recommendations to the sector teams and portfolio managers to help make investment decisions.

Analysts extract information from issuer filings and releases, industry trade periodicals, financial news publications, specialist data services, and economic and political consulting groups. They also communicate with the major credit rating agencies to understand the reasoning behind their ratings. We also have considerable access to Wall Street research publications and sell-side analysts. These resources serve primarily as complementary sources of market information to the research group's own efforts. External information becomes part of the knowledge base of credit research analysts, and is incorporated into their views of company and industry fundamentals, and market valuation, which in turn influence the security selections made by the Product teams.

Analysts build financial models for each issuer under their coverage. The highly developed models attempt to create a clear picture of debt protection measures, interest coverage, leverage, and level of discretionary cash from which a qualitative assessment can be made. They allow the analyst to assess the outlook for the company using differentiated factors while also providing a basis for relative comparisons. The construction of the model can differ based upon the nature of the company and the industry. Analysts extract information from numerous services, including Bloomberg, FirstCall, ResearchDirect, and Capital IQ.

During the valuation process, research analysts apply models tailored to each bond market sector and to individual industries and issuers. They primarily focus on a company's projected cash flow, underlying asset values, and credit dynamics, taking into account any anticipated industry developments. In seeking to identify the best investment opportunities,

analysts also examine factors such as: capital structure, market position, future earnings and cash flow forecast, debt protection measures, management strength and strategy, risks including contingent liabilities, event risk and political risk, industry drivers, developments and outlook, political climate and economic forecasts.

Analysts develop actionable perspectives on (1) the valuation of their issuers' bonds in the market, and (2) their companies' credit ratings and direction – where a company is headed, and how long it will take to get there. We maintain an internal credit rating system, one of the oldest in the industry, to document our long-term credit outlook for a company, and provide a short-term view of upgrade and downgrade potential and event risk.

**Securitized Assets Research.** Our securitized assets research group is responsible for research and strategy recommendations to the firm across all sectors of the securitized market: agency MBS, asset-backed securities, commercial mortgage-backed securities, and non-agency RMBS. The team uses a fundamental top-down approach in formulating broad sector and capital structure allocation/"tranche" recommendations. The security selection process uses a bottom-up approach aimed at assigning an independent credit rating, which is used to test the suitability for client portfolios. Scenario analysis is used to understand the risk/return profile of the security.

Each senior analyst takes the lead in developing a customized research platform specific to his/her sector of the market. A mix of third party and proprietary models are developed to generate expectations of future performance trends and the risk of the collateral backing the bonds. Key third party model providers include CPR-CDR Technologies and Citigroup's Yield Book. Analysts use both pool level and loan level data, where available. Key data vendors include CoreLogic Loan Performance, Trepp, and Lewtan ABSNet. Qualitative factors, such as the originator of the collateral, the servicer, and other key corporate linkages, are also analyzed. The collateral performance expectations are compared to the structure of the bonds using industry standard cash flow models, such as Intex, or proprietary models when necessary: the bond's payment waterfall is analyzed and bonds are stress-tested across a broad range of scenarios to determine the internal credit rating and the return profile.

The research effort in the US Agency MBS sector aims to provide strategic and relative value insight with respect to sector and inter sector allocation within the Agency mortgage space, spread positioning of mortgages vis-à-vis Treasuries, security selection, and CMO (collateralized mortgage obligations) arbitrage. Security selection is driven by maximizing option adjusted spreads (OAS) and hedge adjusted carry (HAC) subject to duration and liquidity constraints. We have developed a modified version of Citigroup's Yieldbook model that corrects for historical model biases and also allows for a fast and flexible expression of future views of mortgage behavior. We compare and triangulate relative value from our modified model with other Wall Street models, such as Barclay's POINT and JP Morgan's Bond Studio.

Analysts use monthly/quarterly pool or loan level performance data to monitor the performance of their respective sector, both at the macro level and at the individual security level. The ongoing surveillance process is key in assessing the adequacy of the assumptions embedded in the models used. The output of the surveillance process is also used in assessing the fundamental views of each sector.

The analysts team up with our traders and several portfolio managers in securitized assets sector team meetings. Between the research group and the sector team, our portfolio managers receive frequent updates on opportunities in the sector and updates on current positions. Reports are distributed as part of our internal publishing system and views are shared directly with product teams by sector representatives integrated into the products' investment processes.

***Quantitative Research Risk Analysis (QRRA).*** The foundation of the Loomis Sayles investment process is based upon proprietary fundamental research including macro, sovereign, credit, and securitized. The QRRA team is designed to *complement* this foundation. We believe that the combination of fundamental and quantitative research provides a unique competitive advantage to our investment process and allows us to better leverage the insights across the organization into a robust investment platform. The combination allows the strengths of one approach to complement the limitations of another and vice versa. One of the most important differentiating elements of the QRRA team is the level of integration into the investment process. The focus of the QRRA team is directly on the investment process and its research is designed to incorporate the dynamics of the markets and the intuition of our investment process. Although the research has a strong foundation in quantitative theory, it is designed to be applied, practical, and usable. The QRRA team provides research and tools across four dimensions of our investment process, including: risk awareness, relative value, portfolio construction and product & process.

### **Equity - General**

The equity markets are inefficient. We believe that a consistently applied investment process that incorporates rigorous fundamental and quantitative research can successfully exploit the inefficiencies.

We believe intensive bottom-up investment analysis augmented by experience and market perspective is the best way to deliver superior risk adjusted performance. Our portfolios are constructed by small teams, each with a distinct investment philosophy on how best to capitalize on market inefficiencies. Our teams are supported by extensive economic, market, sector and company research, as well as customized quantitative research and risk analysis.

***Macro and Market Insights.*** The equity group draws upon the insights of the firm's macro strategies group and our senior equity strategist. Weekly meetings with the strategist focus on recent developments, new insights and market expectations. Working with our quantitative research group, the strategist also provides equity market research and historical perspective for the market.

***Central Research.*** Our global sector analysts provide broad and deep research across the equity universe. The analysts are charged with developing sector, industry and company expertise, and using this knowledge to identify the stocks within their coverage that they believe offer the best total return opportunity looking out over a one and three year period. Investment recommendations are focused in the mid and large cap space, but the deep sector and industry perspective central research provides is utilized across the entire equity group of products.

The analysts evaluate a company's competitive position, its growth and profitability potential, the strength of its management team and uses this information to build models forecasting future earnings and cash flow. These financial models serve as inputs to their valuation work. Companies are valued using numerous frameworks, with discounted cash flow (DCF) the common language across all industries and sectors. The DCF valuation analysis is augmented with other valuation metrics that are most appropriate for the industry or sector. These metrics include: price/earnings ratios, price/book ratios, price/normalized earnings ratio, free cash flow yield, price/sales ratio, and price/break up value.

***Super Sector Teams.*** These team are comprised of the senior equity strategist and the analysts, traders and portfolio managers who specialize in the key sectors of the market. The teams meet regularly to discuss and evaluate the sector from a strategic point of view with a goal of assessing its attractiveness from a fundamental and valuation perspective.

***Quantitative Research and Risk Analysis (QRR).*** QRR provides quantitative research to and for the investment teams, central research and the senior equity strategists. In addition, risk awareness reports, customized to each specific investment approach are provided to the investment teams.

### **Institutional Strategies**

Set forth below is a basic description of each institutional investment strategy. All limits reflect the basic guidelines for the strategy, but the actual strategy employed for any particular client account will depend on the investment guidelines and limitations specific to that account, which will vary. All limitations, numbers and ranges are approximate and subject to client guidelines. Clients should consult their specific guidelines for a complete description of permissible investments and investment restrictions.

**There is no guarantee that any strategy will be able to achieve any objective or obtain any positive or excess return.**

### **Fixed Income**

#### **Full Discretion Strategies:**

##### **Full Discretion**

Our fixed income philosophy is based on our experience and belief that the bond markets do not properly assess credit risk and tend to overreact to corporate events, and that through intensive research and bottom-up investing we can identify mispriced securities to generate a superior excess return. We also take advantage of the basic structure of the bond market, in particular, the persistent positive slope of the corporate yield spread curve. Similar opportunities of mispriced credit risk and market structure often arise in the government, mortgage and other sectors as well, as liquidity enters and leaves the markets. Our track record in all of these sectors has shown that such inefficiencies can be exploited through rigorous investment research and insightful trading strategies. The application of quantitative, proprietary tools and models provides portfolio managers with risk oversight

capability and portfolio scenario analysis.

Our full discretion portfolio managers attempt to populate portfolios with securities of issuers that we believe are fundamentally sound, have growth potential, exhibit a yield advantage and are mispriced in the market place. The managers apply the output from our sector teams in order to prioritize “buy” candidates. The team examines current valuations, risk levels and long-term security outlook generally over the prospective three to five year period.

We generally limit our investment in a single issuer to approximately 0-3% of the portfolio (at the time of purchase). We normally do not buy issues smaller than \$150 million in gross size – as they limit our ability to build meaningful positions. Exceptions are made when we identify a significant relative value opportunity.

As to credit quality, we will invest opportunistically in lower-rated bonds where we see value and upside potential.

Securities are selected from our credit research universe, which extends to US and foreign government bonds, mortgage and asset-backed bonds, corporate investment grade and high-yield issues, municipal, convertible and emerging market debt. We frequently employ issues other than straight dollar-pay domestically issued debt (including emerging market issues and foreign currency denominated debt) with a goal of enhancing return and increasing portfolio diversification. We make decisions based on the overall risk and relative value of a particular security, tailored to specific client guidelines.

The product team constructs portfolios by selecting from a group of securities identified as potential opportunities by the sector teams. Portfolio managers do not purchase securities unless they have undergone the research and analytical processes of the sector teams and credit research analysts. The factors (in order of importance) that are crucial in building Full Discretion portfolios include:

- Security selection
- Industry selection
- Sector allocation
- Country and currency selection
- Duration and maturity structure
- Yield curve positioning

Portfolio managers also apply our global risk model, which uses historical correlation data and sector team forecasts and allows the team to test various investment scenarios on a real time basis. The model addresses three sources of portfolio risk: currency, yield curve and spread change.

We are primarily opportunistic in our approach. We make decisions based on the overall risk and relative value of a particular security, as well as on specific client guidelines. Our portfolios can move in and out of sectors and individual securities on an opportunistic basis. Issue selection across the credit spectrum, and the opportunistic use of non-US dollar



securities, convertibles, structured finance and emerging market debt have historically contributed to excess return. However, in most cases a significant yield advantage is an important criterion for an attractive investment.

### **Core Plus Full Discretion**

The strategy seeks to exploit the collaborative efforts of our macro strategies group and sector teams in conjunction with the fundamental credit analysis from our credit research department. Our economics group and our yield curve, macro strategy and global asset allocation sector teams, provide global economic and interest rate frameworks for identifying sectors that we think are attractive. Our research analysts, along with our sector teams, seek to identify specific investment opportunities primarily within the global fixed income market. Asset class and sector allocations reflect the macroeconomic view, while security selection based on fundamental and relative value analysis within sectors provides our primary source of excess return. Portfolio guidelines are flexible allowing a broad range of sectors for investment. Full latitude is permitted with investment grade debt, which may encompass 100% of the portfolio. The primary area of restraint is the below BBB- allocation which is limited to 10% of the portfolio. There is substantial flexibility to include allocations to non-benchmark sectors, including non-dollar and emerging markets debt.

Portfolio managers incorporate the long-term macro economic view along with a stringent bottom-up investment evaluation process that drives portfolio ideas and resulting sector allocations. Experienced portfolio managers and other fixed income professionals collaborate to identify high potential total return investment ideas in the fixed income markets. The product team then establishes strategy and constructs client portfolios consistent with these ideas, the benchmark characteristics and the guideline limits associated with the product. The resulting portfolios are well diversified, and positioned to generate strong long-term risk adjusted investment performance.

As to credit quality, while the majority of issues purchased for the strategy are highly rated, we will invest opportunistically in lower-rated bonds where we see value and upside potential.

### **Multisector Full Discretion**

The strategy seeks to exploit the collaborative efforts of our macro strategies group and sector teams in conjunction with the fundamental credit analysis from our credit research department. Our yield curve, macro strategy and global asset allocation sector teams provide global economic and interest rate frameworks for identifying sectors that we think are attractive. Our credit research department, along with our sector teams, seeks to identify specific investment opportunities primarily within the global fixed income market. Asset class and sector allocations reflect the macroeconomic view, while security selection based on fundamental and relative value analysis within sectors provides our primary source of excess return. The benchmark does not play a significant role in constructing the portfolios. Guidelines are very flexible providing the opportunity to pursue investment ideas in a wide range of global fixed income sectors. Individual client guidelines permit non-investment grade assets to reach a maximum of 30-50% of the portfolio. Investment flexibility authorizes significant non-dollar, emerging markets and convertible debt investments.

Opportunistic investments in these non-benchmark sectors are incorporated to manage portfolio credit quality and for total return contribution.

Portfolio managers incorporate the long-term macro economic view along with a stringent bottom-up investment evaluation process that drives portfolio ideas and resulting sector allocations. Yield curve and duration management are additional tools utilized by the portfolio management team. Experienced research analysts, traders, portfolio managers and other fixed income professionals collaborate to identify high potential total return investment ideas in the global fixed income markets. The product team then establishes strategy and constructs client portfolios consistent with these ideas, the benchmark characteristics and the guideline limits associated with the product. Resulting portfolios are constructed to fully leverage the organizational insights, accepting specific risk where potential return opportunities are justified.

We do not have stated limits on the current credit quality ratings assigned to the securities purchased for the strategy's portfolios. A typical portfolio would aim to be widely diversified amongst the following market sectors: high yield corporates, investment grade corporates, emerging market corporates, non-US dollar-denominated sovereign and supranational debt, structured finance, and convertible securities. This is an example only and subject to change due to account objectives, client guidelines, and market conditions, among other factors.

### **Global Fixed Income Strategy:**

#### **Global Bond**

Our global bond portfolio construction process is the result of top-down macro-economic analysis, combined with research-driven, bottom-up selection of specific issuers. Portfolios are team-managed and investment decisions are research-based. For global fixed income portfolios we seek to construct highly diversified portfolios that include a broad range of fixed income securities we consider to be undervalued and preferably trading at a discount to their par value. We follow a broad global universe of securities including government and quasi-government and agency securities, corporate credits, and asset-backed securities including mortgages. Where guidelines and mandates permit, we make extensive use of emerging market debt, high yield, and “busted” convertible ideas. Where permitted we will use over-the-counter derivatives as well as exchange-traded futures contracts. Our sovereign research universe currently comprises over 67 countries, and global portfolios are typically invested in 25-30 countries at any given time. For active currency mandates, we invest in 10-20 currencies.

We are value investors as opposed to momentum investors. Our research and decision processes are designed to identify undervalued securities across all of the relevant risk factor dimensions, including country, currency, curve, sector, and specific credit. We manage active-currency and currency-hedged portfolios in various base currencies. For hedged global portfolios, we believe that the chief drivers of excess return are to be found in issue, country, sector, and industry selection. Diversification is our primary risk control. Secondary risk control is achieved via formal tracking error comparisons of portfolios to the relevant benchmark.

## **Relative Return Strategies:**

### **Core**

The strategy seeks to exploit the US investment grade fixed income insights generated by the Loomis Sayles fixed Income organization in portfolios with benchmark-aware risk and return objectives. Investment flexibility is constrained to the investment grade portion of the US fixed income markets. Portfolio construction is driven by a combination of bottom-up security selection and top-down macroeconomics and market analysis. Portfolio duration is managed in a narrow range relative to the portfolio benchmark. Individual investment ideas are evaluated on the basis of their investment return potential and contribution to portfolio risk. Experienced portfolio managers and other fixed income professionals collaborate to identify high potential relative return investment ideas in the US fixed income markets. The product team and portfolio managers then establish strategy and construct client portfolios consistent with these ideas, the benchmark characteristics and the guideline limits associated with the product. The resulting portfolios are well diversified, and in our view, positioned to obtain moderate long-term risk adjusted investment performance.

### **Short Duration**

The strategy seeks to outperform the Barclays US Government/Credit 1-3 Year index over a 3 to 5 year market cycle. It is a benchmark-aware strategy that seeks to be within 0.5 years of the benchmark duration. Portfolio construction is driven by a combination of bottom-up security selection and top-down macroeconomic analysis. Potential sources of alpha include sector allocation, security selection, duration management and yield curve positioning. Risk management is an integral part of the investment process and includes monitoring of relative and absolute risk and issuer specific limits based on credit quality. Non-government position sizes are typically small (between 0.5 -1.5%) but may be up to 3%.

### **Core Plus**

The Core Plus portfolio managers develop a macro economic view that guides their broad sector allocations, duration and yield curve positioning and the portfolio's risk profile relative to the benchmark.

In our view, a top down, benchmark-aware, core plus bond strategy that actively manages sector allocations within a conservative risk framework can add value over a market cycle. "Plus" sector allocations can include high yield, non-US dollar and emerging market exposures.

The foundation of the investment process is the strategy's managers' continuous assessment of the investment cycle and the drivers of the global capital markets. This encompasses weighing investor risk tolerance, market liquidity and security price transparency within sectors. Based on this examination, the managers determine a balance between the goals of return maximization and capital preservation and position the portfolio relative to the benchmark accordingly. The portfolio managers base their security selection on bottom-up analysis that incorporates a focus on valuation, volatility and liquidity.

The portfolio management team tactically seeks to exploit investment opportunities in non-benchmark sectors and securities. Liquidity is a major factor in assessing these types of investments.

### **Core Total Return**

The strategy seeks to exploit the complete range of insights generated by the Loomis Sayles fixed Income organization in portfolios with benchmark-aware risk and return objectives. Some accounts within this strategy have permitted up to 10% of the portfolio in below investment grade assets. Similar restraints limit investment in non-dollar and emerging markets debt investments. Individual investment ideas are evaluated on the basis of their investment return potential and contribution to portfolio risk. Portfolio construction is driven by a combination of bottom-up security selection and top-down macroeconomic analysis. Experienced portfolio managers and other fixed income professionals collaborate to identify high potential relative return investment ideas in the US fixed income markets. The product team then establish investment strategy and construct client portfolios consistent with these ideas, the benchmark characteristics and the guideline limits associated with the product. Portfolios are intended to be well diversified, and positioned in those securities and strategies expected to be effective contributors to strong long-term risk adjusted relative investment performance.

### **Intermediate Total Return**

The strategy seeks to exploit the US investment grade fixed income insights generated by the Loomis Sayles fixed Income organization in portfolios with benchmark aware risk and return objectives. Investment flexibility is restrained to the investment grade portion of the US fixed income markets. Securities are typically limited to a maximum maturity of 10 years. Portfolio construction is driven by a combination of bottom-up security selection and top-down macroeconomic analysis. Portfolio duration is managed in a narrow range relative to the portfolio benchmark. Individual investment ideas are evaluated on the basis of their investment return potential and contribution to portfolio risk. Experienced portfolio managers and other fixed income professionals collaborate to identify what they believe are high potential relative return investment ideas in the US fixed income markets. The product team and portfolio managers then establish strategy and construct client portfolios consistent with these ideas, the benchmark characteristics and the guideline limits associated with the product. The resulting portfolios are well diversified, and positioned to seek moderate long-term risk adjusted investment performance.

### **Long Duration Government/Credit**

The strategy seeks to exploit the complete range of insights generated by the Loomis Sayles fixed income organization in portfolios with benchmark-aware risk and return objectives. Investment flexibility is constrained to the investment grade portion of the US fixed income markets. Portfolio construction is driven by a combination of bottom-up security selection and top-down macroeconomic analysis. Portfolio duration is managed in a two year range relative to the portfolio benchmark. Individual investment ideas are evaluated on the basis of their investment return potential and contribution to portfolio risk. Experienced

portfolio managers and other fixed income professionals collaborate to identify high potential relative return investment ideas in the US fixed income markets. The product team then establishes strategy and constructs client portfolios consistent with these ideas, the benchmark characteristics and the guideline limits associated with the product. Portfolios are intended to be well diversified, and positioned in those securities and strategies expected to be effective contributors to moderate long-term risk adjusted relative investment performance.

### **Multisector Total Return**

The strategy seeks to exploit the complete range of insights generated by the Loomis Sayles fixed Income organization in portfolios with significant investment flexibility and with benchmark-aware risk and return objectives. The product can carry sizeable allocations to below investment grade debt. Investments in assets rated below BBB- are generally authorized up to 20-50% of the portfolio. Allocations to non-dollar and emerging markets debt may also be authorized. Allocations to non-index sectors, and significant tactical sector allocations may provide significant sources of performance for this product. Portfolio construction is driven by a combination of bottom-up security selection and top-down macroeconomic analysis. Yield curve and duration management are additional tools utilized by the portfolio management team. Experienced portfolio managers and other fixed income professionals collaborate to identify high potential total return investment ideas in the US fixed income markets. The product team then establishes investment strategy and constructs client portfolios consistent with these ideas, the benchmark characteristics and the guideline limits associated with the product. Portfolios are intended to be well diversified, and positioned in those securities and strategies expected to be effective contributors to strong long-term risk adjusted relative investment performance.

### **Core Disciplined Alpha**

The strategy seeks to outperform the Barclays Capital US Aggregate Bond Index, consistently over time, while maintaining the portfolio's risk close to the Index.

The strategy invests primarily in investment grade debt securities with a focus on relative value investing on a risk-adjusted basis. The strategy is designed to add value for clients primarily through security selection. We seek to harvest value through continuous rotation to what we believe are the best opportunities. Risk assessment and management are critical to the strategy, and we believe will lead to better security selection decisions over time.

In our view, artfully marrying proprietary fundamental and quantitative analysis with market intelligence can generate relative-value insights that, when adjusted for risk, help identify compelling investment opportunities across the investment grade fixed income universe. We designed the decision-making structure for the strategy to support security selection, which we expect to be the primary driver of excess returns. The co-heads of the strategy have ultimate decision-making authority and accountability for portfolio construction and performance within client guidelines.

They lead a team of seasoned investment professionals with experience researching and/or trading in specific investment grade sectors including government, mortgage, corporate and

asset-backed. These specialists understand the nuances of their sectors and the analysis required to determine relative value. Then sector specialists assess and compare securities in order to know which investments might present opportunities. Each team member focuses on seeking to find and capture attractive relative value through security selection. This requires understanding fundamental values and the drivers of change in relationships. When valuations do change, we often trade positions.

Within their areas of responsibility, these investment professionals select securities to buy and sell, and allocate risk within agreed-upon guidelines. The size of the team facilitates many daily conversations among its members, including regular team meetings to review information about sectors and ongoing discussions with the co-heads about positions, risks and trading. These frequent conversations help deepen each team member's understanding of relative value across the investment grade bond universe.

Loomis Sayles' deep fundamental and quantitative research resources contribute considerable value throughout all elements of the investment process. Fundamental value is the principal criterion for a security to be considered for investment. Around this fundamental basis, the team generates relative value views and investment strategies. For each security type, an investment strategy and process is developed and vetted by the co-heads of the team, so that the specialist has the freedom to use those strategies in trading securities. Recognizing that relative value changes rapidly, the strategy has a bias toward more liquid securities in order to reduce trading costs. Securities are chosen one-by-one, rather than thematically, and position sizes are likely to be small. This can result in many buy and sell decisions being made in the portfolio daily.

Analysis and measurement of risk are integral parts of the investment strategy. The team evaluates many measures of risk bond by bond, including duration, sector, yield curve, prepayment, spread volatility, and credit exposure. The co-heads of the strategy set the duration risk limits for the team. They also set yield curve targets weekly after discussions with other decision makers on the team. These targets are allowed to change opportunistically within a reasonably tight range. Sector risk targets are decided at the weekly targets meeting, and each senior analyst or portfolio manager has discretion to move sector risk within somewhat larger, pre-agreed-upon guidelines.

The team uses proprietary risk management tools that are intended to give a real-time view of the portfolio and the incremental risks of any given bond. These tools are critical resources in allowing the decision-makers to judiciously weigh the risks and opportunities of each security under consideration. The tools were developed with the Loomis Sayles Quantitative Research Risk Analysis group (QRRR). The methodologies of QRRR complement portfolio managers' efforts to understand market risk, relative value, issue specific risk, structural risk, and portfolio construction. For example, QRRR developed econometric models for top-down valuation of spreads that allow for user estimates of macro factors and stress testing.

The team also manages a long duration version of this strategy with Barclays Capital U.S. Long Government/Corporate Index as the benchmark.

## Sector Specific Strategies:

### Bank Loans

Our fixed income philosophy is based on our experience that credit markets do not properly assess credit risk and tend to overreact to corporate events. Through intensive research and bottom-up investing guided by our macro views, we believe that we can identify loans that have attractive risk/return prospects. We believe the uniquely attractive attributes of the asset class are best exploited through a conservative strategy relative to the overall market.

We focus on par loans in the management of this asset class. We believe distressed loans, in general, represent a less attractive risk/return profile than par loans except at market bottoms. Yield and quality are the primary focus for choosing loans for our portfolios. We strive to buy only loans with collateral values significantly in excess of market value. We would expect to hold loans that were worth more than their trading price, and we would prefer to sell a loan if significant long-term negative price volatility is likely, even if the ultimate value expectation is at or above the then-current price.

The bank loan team seeks to achieve the following investment objectives:

- Provide a high current level of income
- Preserve capital in all economic environments
- Meet or exceed gross benchmark returns over a full market cycle through credit selection and disciplined portfolio construction, not excess risk (relative benchmark)
- Aim for a return which exceeds LIBOR +200 basis points gross over a full market cycle (absolute benchmark)

We focus on delivering returns traditionally associated with loans while seeking a relatively low risk profile. The portfolio managers seek to construct diversified portfolios that can help clients achieve portfolio efficiency, with the addition of alpha potential, delivered using a strong credit focus. Portfolio managers also seek to avoid adding risk when it is not commensurate with return (e.g., in general, second lien loans). We are focused on delivering the best aspects of the asset class, in particular the attractive risk/return trade-off offered by higher quality bank loans. We are aware of no other manager that sets out to continuously deliver "conservative bank loans" as a strategy. When combined with Loomis Sayles' industry-leading credit research, we believe our conservative strategy and disciplined portfolio construction are uniquely positioned to offer a transparent asset allocation choice to clients and their consultants.

The bank loan team invests primarily in bank loans denominated in US dollars, which are loans made by financial institutions primarily in the US to corporations, limited liability companies, partnerships and other entities that typically hold the most senior positions in the borrower's capital structure. They are non-investment grade, generally from the same type of companies that issue high yield debt. Loans usually have maturities of 5-7 years with economic lives that typically average 2-4 years due both to amortization and general

prepayment.

### **Credit Asset**

The strategy seeks to maximize return potential by investing in a diversified portfolio of what we believe are the most attractive issuers in the investment grade corporate, high yield corporate, bank loan and securitized markets, based on the phase of the credit cycle. Dislocation in various credit markets may lead to potential opportunities in various credit asset classes and products.

We look to take advantage of current market conditions, drawing on our fixed income market expertise and considering anticipated risks. Our credit-focused strategy seeks returns through

1. Diversified exposure to subsectors of the credit markets that we think offer the best risk and return potential
2. Individual security selection within these subsectors
3. Disciplined portfolio construction process within and across chosen subsectors, including bank loans, high grade corporates, high yield corporates, and securitized assets.

### **Emerging Market Debt (Hard or Local Currency)**

The global bond team is a value investor and believes there are 5 potential sources of alpha in fixed income: currency selection, yield curve positioning, sector allocation, national bond market selection, and issuer selection. The team further believes that with the continued development of local currency emerging debt markets, currency selection, yield curve positioning, and sector allocation are now potential sources of excess return in addition to national bond market selection and issuer selection. The managers have made all 5 potential sources of alpha for the Fund. Furthermore, national and regional business and policy cycles are not completely correlated. This leads to incomplete arbitrage across national or regional currency boundaries of future bond market return prospects.

The strategy seeks to make the best use of the growth and sustainable trends in local currency debt markets to build a portfolio capable of extracting value from all 5 of Loomis Sayles' alpha sources. The managers retain considerable flexibility, using top down active decisions by currency, national bond market, duration, and sector to add value in addition to bottom-up selection of issuers. The team seeks a high Sharpe ratio; striving to produce high risk adjusted absolute returns as well as excess returns relative to the JPMorgan Global Bond Index - Emerging Markets Global Diversified Index Unhedged within its investment universe. Non benchmark exposures are utilized when we believe they offer attractive excess return prospects relative to benchmark opportunities.

Across fixed income markets, the team believes credit spreads may exhibit the greatest inefficiencies over time and through issuer selection offer the greatest opportunity for active bottom-up management to add value. The team believes this is particularly true with an



expanded emerging market universe that includes corporate issuers. All positions are monitored for risk efficiency and broad portfolio diversification is maintained to limit specific issue, industry, and sector risks.

## **Global Credit**

The strategy's philosophy emphasizes bottom-up credit research-based issue selection to maximize fixed income returns. Portfolios are team-managed and investment decisions are research-based. For global fixed income portfolios we seek to construct highly diversified portfolios that will include a broad menu of undervalued, preferably discount fixed income securities around the world. We follow a broad global universe of securities including government and quasi-government and agency securities, corporate credits, and asset-backed securities including mortgages. Where guidelines and mandates permit, we make extensive use of emerging market, high yield, inflation linked, and “busted” convertible ideas. Our sovereign research universe currently comprises 67 countries, and global portfolios are typically invested in 25 to 30 countries at any given point.

We are value investors as opposed to momentum investors. Our research and decision processes are designed to identify undervalued securities across all of the relevant risk factor dimensions, including country, currency, curve, sector, and specific credit. For hedged global portfolios, we believe that the chief drivers of excess return are to be found in issue, country, sector, and industry selection. Diversification is our primary risk control. Secondary risk control is achieved via formal tracking error comparisons of portfolios to the relevant benchmark.

The process combines top down, macro economic driven allocations combined with research driven, bottom-up selection of specific issuers. The global bond team seeks a high Sharpe ratio; striving to produce high risk adjusted absolute returns as well as excess returns relative to the Fund's reference index, Barclays Capital Global Aggregate-Credit Bond Index, within its global fixed income investment universe. The managers retain considerable flexibility in managing portfolios, using top down active decisions by currency, national bond market, duration, and sector to add value. Non benchmark exposures are utilized when we believe they offer attractive excess return prospects relative to benchmark opportunities.

Of the key potential drivers of any excess return – currency, curve, and credit – credit spreads may exhibit the greatest inefficiencies in the market over time and through issuer selection, offer the greatest opportunity for active bottom-up management to add value. All positions are monitored for risk efficiency and broad portfolio diversification is maintained to limit specific issue, industry, and sector risks.

## **Global Corporate**

The strategy's portfolio construction process is the result of top-down macro-economic analysis, combined with research-driven, bottom-up selection of specific issuers. Portfolios are team-managed and investment decisions are research-based. For global corporate fixed income portfolios we seek to construct highly diversified portfolios that will include a broad menu of undervalued, preferably discount fixed income corporate securities around the world. The core holdings will focus on a broad global universe of corporate credits.

We are value investors as opposed to momentum investors. Our research and decision processes are designed to identify undervalued securities across all of the relevant risk factor dimensions, including specific credit, sector, country, currency, and curve. We manage active-currency and currency-hedged portfolios in various base currencies. The primary drivers of excess return will be security selection and sector allocation with country, currency and yield curve positioning secondary sources of excess performance. For hedged global corporate portfolios, the chief drivers of excess return will be security selection, and sector allocation while country and yield curve will be secondary sources of alpha. Diversification is a primary risk control. Secondary risk control is achieved via formal tracking error comparisons of portfolios to the relevant benchmark.

### **High Grade Corporate**

The strategy seeks to outperform the Barclays Corporate Index by providing diversified, managed exposure to the US investment grade corporate credit market. We emphasize a disciplined portfolio construction and risk assessment process while leveraging the insights of Loomis Sayles' credit research and investment grade sector team.

Portfolio construction is driven by a combination of bottom-up security selection and top-down macroeconomic analysis. Individual investment ideas are evaluated on the basis of their investment return potential and contribution to portfolio risk. Portfolio managers, analysts and traders collaborate to identify investment ideas that they view to have high potential to provide incremental returns. The product team and portfolio managers then construct client portfolios consistent with these ideas, the benchmark characteristics and the guideline limits associated with the product. The resulting portfolios are, in our view, well diversified, and positioned to seek strong long-term risk adjusted investment performance.

Portfolio implementation is ultimately the responsibility of the portfolio manager team. This portfolio management team participates in each step of the process and ensures the final portfolio reflects our best views and macro-level risk considerations. We have implemented what we believe is a consistent and repeatable investment process for all types of economic market cycles.

### **High Yield Conservative/High Yield Full Discretion**

Our high yield investment philosophy is based on the theory that the market for high yield assets is inefficient and can be exploited through rigorous fundamental and quantitative research. Portfolio construction is the result of four primary factors:

1. Application of fundamental research and relative value analysis in order to identify undervalued sectors and securities
2. Use of non-benchmark opportunity sets to help manage risk and enhance total return potential
3. Application of quantitative, proprietary tools and models that provide portfolio managers with continuous risk oversight capabilities and portfolio scenario analysis
4. A long term investing philosophy, marked by low portfolio turnover, allowing for

fundamental improvement in a particular credit's metrics.

Our high yield portfolio managers attempt to populate portfolios with securities of companies that we believe are fundamentally sound, have growth potential, exhibit a yield advantage and are mispriced in the market place. The portfolio managers apply the output from our sector teams in order to prioritize “buy” candidates. The team examines current valuations, risk levels and long-term security outlook over the prospective three to five year period. Investing is limited to viable companies, as we do not manage distressed portfolios; we generally do not buy defaulted securities.

The high yield product team constructs portfolios by selecting credits from a group of securities identified as potential opportunities by the various sector teams. Portfolio managers cannot purchase securities not formally covered and rated by our research department.

In assembling high yield portfolios, the investment team monitors credit risk, duration, industry, issuer and quality concentration, currency risk and concentration in bond market sectors, among other factors. We have developed quantitative tools to help portfolio managers assess and monitor risk. RiskInsite is a real time portfolio analysis tool with which portfolio managers can view sector and security weights, duration, coupon, maturity, quality, etc. on a stand alone basis or relative to a particular benchmark or group of accounts. Our global risk model uses historical correlation data and sector team forecasts, allowing to portfolio managers to test various investment scenarios on a real time basis. The model addresses three sources of portfolio risk: currency, yield curve and spread change.

### **Investment Grade Corporate Bond**

The strategy seeks to exploit the complete range of insights generated by the Loomis Sayles fixed income organization in portfolios with benchmark-aware risk and return objectives. Some clients within this strategy have permitted up to 10% of the portfolio in below investment grade assets. Similar restraints limit investment in non-dollar and emerging markets debt investments. Individual investment ideas are evaluated on the basis of their investment return potential and contribution to portfolio risk. Security selection within the corporate sector and industry allocation, have been the two key contributors to historic investment results. Portfolio construction is driven primarily through bottom-up security selection and secondarily through top-down macroeconomic analysis that supports allocations to non-benchmark sectors and duration/yield curve decisions. Experienced portfolio managers and other fixed income professionals collaborate to identify high potential relative return investment ideas in the US fixed income markets. The product team and portfolio managers then establish investment strategy and construct client portfolios consistent with these ideas, the benchmark characteristics and the guideline limits associated with the product. Portfolios are intended to be well diversified, and positioned in those securities and strategies expected to be effective contributors to strong long-term risk adjusted relative investment performance.

## **Investment Grade Intermediate Corporate Bond**

The strategy seeks to exploit the complete range of insights generated by the Loomis Sayles fixed income organization in portfolios with benchmark-aware risk and return objectives. Some clients within this strategy have permitted up to 10% of the portfolio in below investment grade assets. Similar restraints limit investment in non-dollar and emerging markets debt investments. Individual investment ideas are evaluated on the basis of their investment return potential and contribution to portfolio risk. Security selection within the corporate sector and industry allocation, have been the two key contributors to historic investment results. Portfolio construction is driven primarily through bottom-up security selection and secondarily through top-down macroeconomic analysis that supports allocations to non-benchmark sectors and duration/yield curve decisions. Experienced portfolio managers and other fixed income professionals collaborate to identify high potential relative return investment ideas in the US fixed income markets. The product team and portfolio managers then establish investment strategy and construct client portfolios consistent with these ideas, the benchmark characteristics and the guideline limits associated with the product. Portfolios are intended to be well diversified, and positioned in those securities and strategies expected to be effective contributors to strong long-term risk adjusted relative investment performance.

## **Securitized Asset**

The strategy seeks high current income and total return through diversified exposure to agency mortgage-backed securities and the following non-agency securitized sectors: asset backed securities, commercial mortgage-backed securities and residential mortgaged-backed securities. Our approach to evaluating securitized assets involves four primary components: sector analysis, security selection, surveillance and trading. Our research platform is designed to provide multiple perspectives, including a focus of key variables, the ability to use third-party modeling and analytics, and the use of proprietary models and alternative data sources. We focus on multiple scenario analyses rather than limiting our views to 'base' cases. We stress-test each bond across a broad range of scenarios with a focus on risk and return rather than estimated yield. We utilized a surveillance process to test assumptions. We also evaluate corporate linkage embedded in structured securities.

Our security selection process focuses on an independent assessment of all aspects of an investment including the originator, analysis of the collateral, the servicer, the asset and its projected performance, the liability characteristics including structure and cash flow modeling and application of stress testing to capture a return profile.

## **US High Yield**

The strategy seeks to provide a diversified, actively managed exposure to the US high yield credit market which emphasizes a disciplined portfolio construction and risk assessment process and leverages the insights of Loomis Sayles' credit research and high yield sector team. Specific security and sector allocation recommendations are developed by the Loomis Sayles high yield sector team. A rigorous and disciplined portfolio construction process is then applied which seeks to ensure appropriate risk diversification and minimize unintended risks. Developed by the team, this process seeks to effectively manage portfolio risk, both

market and specific, while seeking to capture the full return potential of the sector and our investment insights. Portfolio implementation is ultimately the responsibility of the portfolio manager team. This portfolio management team participates in each step of the process and ensures the final portfolio reflects our best views and macro-level risk considerations. The strategies investment objectives are total return and to outperform the Barclays U.S. Corporate High Yield 2% Capped Index (the "Index"). The strategy may invest in fixed income and related investments of any credit quality, including lower-rated fixed income investments.

## **Global High Yield**

The strategy exists as a dynamic and multi-faceted fixed income strategy which, at its core, relies on a fundamentally based research process to consistently generate attractive investment opportunities. It is our belief that deep research into all aspects of the investment process, both proprietary and external, becomes the foundation for building sustainable risk adjusted excess return. Through a combination of individual security analysis, use of non-benchmark sectors, and the implementation of long term macro themes, the global high yield product team continually strives to refine a process that repeatedly monitors and identifies all sources of value and opportunity. We believe that a long term, opportunistic approach to investing, combined with our constant monitoring process, enables us to react smartly to relative value situations created by market volatility surrounding individual credits or sectors. The approach taken by the global high yield product team with regards to managing currency risk as it pertains to index weightings is the single largest differentiator from our existing full discretion high yield product offering. Given the significant allocation to non-US dollar based bonds in global high yield indices, the team will have a view, and manage currency positions, with index currency weightings in mind. We have always viewed high yield in the context of a global opportunity set, as opposed to a ratings category. This vision fosters an internal environment where investment ideas are unearthed not only from traditional high yield industries, but non-traditional sectors as well.

Our high yield portfolio managers attempt to populate portfolios with securities of companies that we believe are fundamentally sound, have growth potential, exhibit a yield advantage and are mispriced in the market place. The portfolio managers apply the output from our sector teams in order to prioritize "buy" candidates. The team examines current valuations, risk levels and long-term security outlook over the prospective three to five year period. Investing is limited to viable companies, as we do not manage distressed portfolios; we generally do not buy defaulted securities.

The global high yield product team constructs portfolios by selecting credits from a group of securities identified as potential opportunities by the various sector teams. Portfolio managers cannot purchase securities not formally covered and rated by our research department.

In assembling high yield portfolios, the investment team monitors credit risk, duration, industry, issuer and quality concentration, currency risk and concentration in bond market sectors, among other factors. We have developed quantitative tools to help portfolio managers assess and monitor risk. RiskInsite is a real time portfolio analysis tool with which

portfolio managers can view sector and security weights, duration, coupon, maturity, quality, etc. on a stand alone basis or relative to a particular benchmark or group of accounts. Our global risk model uses historical correlation data and sector team forecasts, allowing to portfolio managers to test various investment scenarios on a real time basis. The model addresses three sources of portfolio risk: currency, yield curve and spread change.

## **Municipal Income**

While not actively marketed, Loomis Sayles manages a small number of accounts that have requested a significant allocation to securities issued by state and local governments. The objective of these accounts is income with preservation of capital. Loomis Sayles relies on top down and bottom-up analysis when constructing these portfolios. These accounts are highly customized and maintain an investment philosophy consistent with the Loomis Sayles fixed income group.

## **Alternative/Other Strategies:**

### **Strategic Alpha**

The strategy seeks to combine the advantages of a traditional bond portfolio and an alternative investment to create an all-weather solution for risk-wary investors. The strategy is designed to benefit from Loomis Sayles' research opinions in credit, interest rate management and currencies. The investment team strives to focus on the alpha that can be generated from these research ideas, both positive and negative, and build a portfolio that can deliver attractive total returns over time but with lower volatility. This is an absolute return-oriented strategy that is unconstrained by market benchmarks, maintaining flexibility to access the global fixed income and derivatives markets in many ways to achieve its current goal of annualized returns greater than the 3-month LIBOR plus 2-4%, or 6%, whichever is higher over a complete cycle.

Focused on maintaining the level of risk between 4% and 6%, the portfolio may use non-traditional investment techniques to dampen volatility and hedge against global events that influence fixed-income markets. Through the use of derivatives, it has the ability to go long or short to implement desired exposures to help moderate volatility and generate alpha. This flexibility enables the investment team to respond tactically to shifting economic environments and market events.

We believe intensive bottom-up investment analysis combined with a clear macroeconomic and market perspective is the best way to deliver excellent performance. The portfolio is constructed by small, focused investment teams supported by extensive economic, market, sector, issuer, security, trading and quantitative analysis.

The strategy's goal is to identify investment opportunities by combining the firm's top-down views with bottom-up issue-specific ideas. First, macroeconomic, interest rate and currency forecasts are gathered from in-house experts. These forecasts help the portfolio managers understand relative value across the global bond markets and which markets are "cheap".

With those two assessments, they can make decisions on how they want to position a portfolio across markets and in terms of risk-taking. Next, they look to their research teams, traders and portfolio management colleagues to help determine what they believe to be the best way to implement those top-down views. After they combine the top-down and bottom-up ideas, they can determine their expected alpha drivers that fall into three categories: credit, curve and currency. Finally, the product team constructs the portfolio, integrating a multi-tiered approach to risk management throughout the security selection and allocation process. The portfolio managers have the flexibility to take advantage of potential opportunities, long and short, in the corporate, sovereign, asset-backed, currency and interest rate markets.

## **Alpha Opportunities**

The strategy seeks its objective through the use of multiple investment strategies designed to extract alpha from investment opportunities identified by Loomis Sayles. The strategy relies on the expertise of our investment teams in credit, securitized asset, sovereign, equity, quantitative, commodities and macro research areas and other areas, asset classes and sectors. Each strategy referenced below represents an independent investment process designed to capitalize on alpha opportunities in the relevant market or sector. Such strategies may include:

- Credit Long/Short strategy seeks alpha primarily through long and short credit-driven investments in issuers located throughout the world.
- Global Macro strategy seeks to execute long and short strategies in equity, fixed income, currency and commodity markets to take advantage of anticipated macro economic changes around the globe.
- Equity Market Neutral strategy seeks alpha primarily through long and short equity and equity options.
- Disciplined Event Alpha strategy seeks alpha primarily through short term trades in equities, both long and short, designed to capitalize on well-defined catalysts which force market price re-alignments.

## **Credit Long/Short**

The strategy seeks alpha by investing in long and short credit-driven issues around the world and is designed to capitalize on our ability to identify and implement relative value investments. Combining a macro approach with bottom-up idea generation, it leverages Loomis Sayles' global research capabilities to identify issues by using economic, sector and individual company analysis. Alpha opportunities are implemented through:

Credit relative value strategies

- directional long-short
- pair trading
- curve trading
- cash/derivative basis

- yield-to-call

#### Capital structure arbitrage

- senior/subordinated
- event and merger arbitrage
- debt/equity

#### Quantitative strategies

- index arbitrage

This strategy will engage in leverage and utilize derivatives to a significant extent.

### **Multi-Asset Real Return**

The strategy's investment philosophy is based on the belief that there is no single factor or investment that consistently identifies and protects against inflation. The leading indicators for inflation are unreliable, and an investment solution requires a diversified approach; using only TIPS to protect against inflation is not sufficient. We believe inflation is global in nature, and instances of global inflation are likely to rise. The last decade produced nine inflation episodes, but historically, episodes are more frequent.

The strategy is a directional approach that seeks to outperform the US Consumer Price Index by 5% over a full market cycle and add value by indentifying the most attractive global opportunities to outpace inflation. This reflects the goal of preservation of investor purchasing power relative to the US economy. The strategy draws on Loomis Sayles' global fundamental research coverage of fixed income, macroeconomics, and equity research to identify and implement alpha opportunities based on projected inflation regimes around the globe.

There is no guarantee that the strategy will be able to achieve any objective or generate any positive or excess return.

The investment team has the ability to go both long and short to capture investment opportunities that span across four disciplines:

- Inflation Type: Classic inflation, debtflation, contained inflation, stagflation, deflation/disinflation, and hyperinflation
- Geography: The Americas, Europe, Middle East and North Africa, Sub-Saharan Africa, and Asia
- Asset Class: Investment Grade, Government Debt, High Yield, Convertibles Securitized, Currency, Equity, and Commodities
- Instrument Type: Fixed income/cash bonds, Credit instruments, Interest rate/currency instruments, Commodity futures and linkers, Structured securities, Equity/equity options, and Bank loans.



## **Liability Driven Investing (LDI)**

Fundamental research, portfolio construction and risk modeling are the cornerstones of the Loomis Sayles fixed income investment process. These elements also serve as the foundation for our LDI platform. The first step in the process is to understand a client's risk tolerances (often defined by constraints on duration, sector and quality) and where the risk budget should and could be most efficiently deployed. As part of this process, we discern the client's objectives, definition of success and the role of the fixed income mandate in the client's overall plan. Once the framework and objectives of an LDI mandate are understood, the next step is constructing the appropriate portfolio. In-house research that cuts across credit, macro and quantitative areas serves as the foundation for identifying opportunities, their risk-reward tradeoffs, and their role within an LDI mandate. Portfolio managers leverage these resources in formulating both top-down macro views and bottom-up portfolio strategies. A robust risk measurement infrastructure supports the portfolio construction process and combines these outputs into an optimal portfolio which seeks to achieve client objectives.

To the extent that managing to a third-party benchmark is insufficient in meeting the goals of the client, an LDI mandate may require customized liability modeling. Loomis Sayles has developed a proprietary Liability Diagnostics Report that is based on detailed analysis of client cash flows and the applicable discount rate. This report provides the underpinning of the customization process, and we believe is vital in the management of liability-matched portfolios.

Managing a portfolio against a customized set of long-duration liabilities presents a unique set of challenges, which can introduce additional risk as well as a return bias which are considered when constructing the portfolio and ongoing risk management.

## **Fixed Income strategies – Securities and Instruments**

Loomis Sayles fixed income strategies invest in various types of fixed income securities and related instruments, including but not limited to:

- Debt obligations of U.S. and non-U.S. governments, and their agencies, instrumentalities and sponsored agencies
- Debt obligations of U.S. and non-U.S. corporations and supranational organizations
- Preferred stocks and convertible securities
- Other types of fixed income investments may include: commercial paper, zero-coupon securities, investment companies, ETFs, mortgage-related securities (including senior and junior loans, mortgage dollar rolls, stripped mortgage-related securities and collateralized mortgage obligations) and other asset-backed securities, when-issued securities, real estate investment trusts, Rule 144A securities, structured notes, repurchase agreements and warrants.
- Derivatives including options and futures transactions, foreign currency transactions, and swap transactions (including credit default swaps and credit default swap indices) and other derivative transactions.

- Unrated securities (securities that are not rated by a rating agency) if Loomis Sayles determines that the securities are of comparable quality to rated securities that the strategy may purchase
- Common stocks when permitted by guidelines and consistent with objectives
- Commodities and commodity-linked investments for certain strategies.

**Permissible securities and instruments, quality and maturity and/or duration constraints and any other investment limitations are contained in the specific investment guidelines for the account.**

### **Equities**

**Growth Strategies:** Drawing upon the Equity Group's collective experience and deep research and valuation expertise, the Loomis growth strategies attempt to capitalize on the markets' tendency to undervalue (and underestimate) companies that have the potential to generate and sustain above average growth rates.

### **All Cap Growth/Large Cap Growth**

The team that manages both of these strategies believes that successful growth investing is the result of identifying the small number of high quality companies capable of sustaining above average long-term cash flow growth and purchasing them at discounted prices to their intrinsic value.

The investment process for these strategies is based on the pursuit of excess long-term excess returns with at, or below benchmark risk. To achieve our objectives we seek to:

- Identify high-quality companies with truly sustainable competitive advantages
- Find businesses with sustainable profit growth and invest for the long-term to capture this anticipated secular sustainable growth
- Buy stocks at times when they trade at a significant discount to intrinsic value to create a margin of safety
- Concentrate our portfolios in high-conviction ideas

Company research is approached from the perspective of a long-term, private equity owner. Independent thought and original research are at the core of the team's ability to focus on the long-term structural drivers of a business. A seven-step research process evaluates:

- Sustainable Competitive Advantage
- Growth Drivers
- Competitive Analysis
- Financial Analysis
- Management
- Intrinsic Value Ranges and Scenario Analysis
- Market Expectations Analysis

Our research identifies companies that meet our investment criteria and our valuation and market expectations work drives the timing of our buy and sell decisions.

The All Cap Growth strategy invests across the capitalization range and seeks to produce superior long-term returns vs. the Russell 3000 Growth Index, with at or below benchmark risk.

The Large Cap Growth strategy focuses on the large cap arena and seeks to produce superior long-term returns vs. the Russell1000 Growth Index, with at or below benchmark risk.

### **Mid Cap Growth**

This strategy seeks to generate superior performance relative to the Russell Mid Cap Growth Index via bottom-up stock selection.

The investment team's investment philosophy can be summarized as follows:

We believe that:

- Stock prices follow earnings over time; we seek out rapidly growing companies that we expect will generate high levels of profitability
- No enterprise is an island; therefore, we look for companies that benefit from larger positive themes or trends in their industries.
- Risk management is key to superior returns; avoiding large losses is at least as important as capturing large gains

The team invests in companies that it believes will show superior earnings growth, either because of company specific factors, or because of increased operating leverage as the economic cycle unfolds. Individual stock selection is a primary factor in portfolio construction, but a significant portion of the portfolio may also be focused on a select number of high-confidence companies, industries, or sectors that in our opinion are undergoing some major transformation.

### **Small Cap Growth / SMID Growth**

The Small Cap Growth team seeks to generate superior long-term performance relative to the Russell 2000 Growth Index for the small cap product and the Russell 2500 Growth Index for the SMID Growth product.

The investment team believes that stock prices ultimately follow earnings progress, and that high quality business models improve the consistency of returns. These qualities are best identified by hands-on, bottom-up research.

Idea generation for the portfolio focuses on companies with strong historical and prospective earnings dynamics, but it also aims to identify emerging growth companies

before they are widely recognized by the market. Extensive, bottom-up research seeks to identify purchase candidates with the following characteristics:

- Top tier growth profiles
- Understated earnings power
- Large and expanding markets
- Strong competitive advantage
- Business model capable of delivering superior returns
- Strong management team

Valuation incorporates traditional metrics, such as P/E, price/sales and price /cash flow, but they only tell part of the story. Discounted cash flow is the primary valuation tool and helps determine price targets.

Risk management is integrated into the investment and portfolio construction processes. Individual security position sizes reflect team conviction level in the opportunity and the risk level of the business model. At the portfolio level, sector weighting constraints and a 10% limit on investment in yet to be profitable or recent IPOs enhances the risk management approach.

The SMID Growth strategy seeks long-term growth of capital from investments in common stocks and other equity securities by investing primarily in equity securities of companies within the market capitalization range of the Russell 2500 Growth Index.

Loomis Sayles combines fundamental and quantitative analysis as it seeks to identify companies that it believes have distinctive products, technologies, or services; dynamic earnings growth; prospects for high levels of profitability; and solid management. First, a proprietary growth screen is used to identify the top tier growth companies, understated earnings power and potential emerging winners. Idea generation also includes meetings with companies and analyzing primary research. Next, fundamental analysis is used to analyze companies and their growth prospects to determine candidates for the portfolio. Valuation analysis employs traditional metrics, such as price to earnings, price to sales and price to cash flow ratios, as well as a discounted cash flow model to better understand the risk/reward profile of each investment. Risk management includes individual stock risk and portfolio risk analysis as well as a stop loss discipline utilized under normal market conditions, which is based on both absolute and relative declines in the price of security. Securities may be sold when they attain an internal price target (which may change over time), a position grows beyond its risk objective, a sufficient deterioration in ranking in our proprietary screen or various factors which indicate the potential for deteriorating returns.

**Core Equity Strategies:** Drawing upon the Equity Group's collective experience and deep research expertise, the core strategies seek to invest in undervalued companies within the market.

## **Equity Research Core**

In this strategy, our goal is to meaningfully outperform the S&P 500 Index by identifying market mispricing of companies and industries through bottom-up, rigorous fundamental research. We minimize our allocation of risk to macroeconomic factors by typically maintaining near index weights (+/- 10%) at the sector level.

A portfolio is divided into ten sub-sectors that correspond to the ten S&P 500 sectors. With the weight of each sector kept similar to the benchmark weights, we are able to concentrate on company and industry selection.

A sector team of analysts manages each sector sub-portfolio, focusing on identifying what it views as the best opportunities. The investment process is driven by fundamental, bottom-up analysis that emphasizes management quality, earnings, profitability, and cash flow growth prospects, and valuation. Each team uses the most appropriate valuation methodology for its sector, although all the teams use DCF models as a common language.

The Director of Research and with two co-portfolio managers form the investment team that is responsible for aggregating the ten sector-sub-portfolios into one cohesive portfolio. The investment team shapes the risk characteristics of the portfolio by working with the sector teams on matters such as position size, number of positions, volatility characteristics etc.

## **Global Equity Opportunities**

This strategy is an unconstrained, fundamentally driven strategy that seeks to generate superior performance relative to the MSCI All Country Index.

The investment process is driven by fundamental, bottom-up analysis of individual companies focusing on earnings, cash flow, valuation, and strong management teams. Macroeconomic factors are considered, but largely as an input to the fundamental analysis of individual securities. The team seeks to identify companies with improving returns on invested capital, sustainable and improving business models and strong management. The investment team takes a multi-faceted approach to valuation and utilizes discounted cash flow analysis, asset and sum of the parts valuation metrics and free cash flow yield.

Stock selection is the primary consideration in portfolio construction. Country and sector weights are driven by stock selection, however maximum guidelines are employed for diversification and risk management.

## **Small/Mid Cap**

The Small/Mid Cap product seeks to generate superior performance relative to the Russell 2500 Index via stock selection.

The investment team believes that the market often misprices securities that are underfollowed, undiscovered, misunderstood or are suffering from temporary challenges.

Identifying those companies with the potential for above average growth and profitability from within this universe can lead to superior long-term performance.

Ideas are generated from a variety of sources, including (but not limited to): quantitative screens, company visits, corporate financial statements, investment conferences and conversations with other market participants. Once an idea is identified, the company and the stock undergo rigorous fundamental analysis that considers:

- Growth and profitability potential
- Competitive advantage
- Management capabilities
- Intrinsic Value
- Liquidity

Portfolio construction is designed to allow stock selection to be the key driver of performance. An effort is made to have solid representation in all sectors and individual holdings are limited to a 4% maximum weight at the time of purchase.

**Value Strategies:** Drawing upon the Equity Group's collective experience and deep research and valuation expertise, the Loomis value strategies seek stocks that sell at a significant discount to their underlying business value. We believe that investing in these types of stocks can produce superior long-term returns.

### **Focused/Large Cap Value**

Management of these two strategies invests in companies that it believes trade at a significant discount to their intrinsic value but have prospects for sustainable growth and improving profitability. Both of these strategies seek to generate returns that are superior to the Russell 1000 Value Index. A Focused Value portfolio typically owns 35-45 stocks. A Large Cap Value portfolio tends to invest in 60-80 stocks.

The investment process is summarized below:

- Identify valuation anomalies within the market by looking at a stock's valuation relative to the sector, its valuation relative to the broad market and its capital efficiency.
- Research the statistically undervalued companies. A keen emphasis is placed on understanding the reasons behind the market's misperception of value and identifying potential catalysts that could reduce the undervaluation.
- Create internal estimates of intrinsic value and compare them to current valuation levels.
- Gauge investor expectations reflected in the current stock price using DCF analysis.
- Scenario analysis establishes forecasts for the stock and is used to create attractive entry points and target prices.

The investment team monitors security exposures (relative and absolute), diversifies holdings across economic sectors and invests in liquid companies as part of its risk management practice. Individual security position sizes are a function of a stock's volatility (its additive risk to the overall portfolio), its diversification potential and conviction levels.

### **Mid Cap Value**

The strategy seeks to generate consistent long-term performance that is superior to the Russell Mid Cap Value Index.

The investment methodology focuses on in-depth fundamental analysis in which five common characteristics are identified:

- Intrinsic Value
- Growth and Profitability Potential
- Distinct Competitive Advantage
- Liquidity
- Management Capabilities

Portfolio construction is designed to allow stock selection to be the key driver of performance. An effort is made to have solid representation in all major sectors.

### **Small Cap Value**

The strategy seeks to generate superior performance relative to the Russell 2000 Value Index via stock selection.

The investment team believes that the market often misprices securities that are underfollowed, undiscovered, misunderstood or are suffering from temporary challenges. Identifying those companies with the potential for above average growth and profitability from within this universe can lead to superior long-term performance.

Ideas are generated from a variety of sources, including (but not limited to): quantitative screens, company visits, corporate financial statements, investment conferences and conversations with other market participants. Once an idea is identified, the company and the stock undergo rigorous fundamental analysis that considers:

- Growth and profitability potential
- Competitive advantage
- Management capabilities
- Intrinsic value
- Liquidity

Portfolio construction is designed to allow stock selection to be the key driver of performance. An effort is made to have solid representation in all sectors.

**Alternative Strategies:** Drawing upon the Equity Group's collective experience and deep research and valuation expertise, alternative strategies seek stocks that sell at a significant discount to their underlying business value and may short such stocks opportunistically.

### **Long/Short Equity**

The strategy seeks to generate attractive long-term absolute positive returns regardless of market direction from investments in common stocks and other equity securities. While the majority of investments will be long, short investments may be implemented opportunistically.

The investment team takes a private equity approach to investing with a long-term, fundamental and bottom-up approach. The goal is to invest in high quality structurally good businesses with sustainable competitive advantages and profitable growth when they trade at significant discount to intrinsic value. Shorting will be done opportunistically when bottom-up models indicate significant overvaluation of sectors or stocks.

The team utilizes a research-intensive process from which it hopes to gain a competitive advantage and follows a seven-step research framework designed to generate non-consensus ideas and drive security selection based on its proprietary insights in the areas of quality, growth prospects and valuation.

### **Equity Strategies – Securities and Instruments**

Loomis Sayles invests in various types of equity securities and equity-like securities including but not limited to:

- Common stocks
- Preferred stocks
- Securities convertible into equities such as convertible bonds and warrants
- ETFs and investment companies
- Derivatives including futures and options as permitted by guidelines and consistent with objectives

**Permissible securities and instruments and any other investment limitations are contained in the specific investment guidelines for the account.**

### **Fund Strategies**

The following strategies are offered in one or more mutual funds (each a “Fund”) and do not have a similar institutional strategy. The summaries provided below are not intended to replace the prospectus for each Fund, which contains a full description of the Fund’s strategies, risks and expenses.



## **Global Equity and Income**

The strategy's investment goal is high total investment return through a combination of capital appreciation and current income. Under normal market conditions, the strategy will invest primarily in equity and fixed-income securities of U.S. and foreign issuers, including securities of issuers located in countries with emerging securities markets. In deciding how to allocate the strategy's assets among global equities, domestic fixed income securities and international fixed-income securities, Loomis Sayles attempts to determine the relative attractiveness of each of these three asset classes based on fundamental factors such as the economic cycle, relative interest rates, stock market valuations and currency considerations.

In deciding which domestic and international equity securities to buy and sell, Loomis Sayles generally looks for companies that it believes have improving returns on invested capital that offer attractive value. In deciding which domestic and international fixed-income securities to buy and sell, Loomis Sayles generally looks for securities that it believes are undervalued and have the potential for credit upgrades.

## **Intermediate Duration**

The strategy's investment objective is above-average total return through a combination of current income and capital appreciation.

It is anticipated that the strategy's weighted average duration will generally be between two and five years. The strategy will purchase only investment-grade fixed-income securities, which are those securities that are rated as such at the time of purchase by at least one of the three major ratings agencies (Moody's Investors Service, Inc., Fitch Investor Services, Inc. or Standard & Poor's Ratings Group) or, if unrated, are determined by Loomis Sayles to be of comparable quality. Loomis Sayles may continue to hold up to 10% of its net assets in securities that are downgraded to a rating below investment-grade subsequent to their purchase if Loomis Sayles believes it is appropriate to do so. In deciding which securities to buy and sell, Loomis Sayles may consider a number of factors related to the bond issue and the current bond market, for example, the stability and volatility of a country's bond markets, the financial strength of the issuer, current interest rates, Loomis Sayles' expectations regarding general trends in interest rates and currency considerations. Loomis Sayles will also consider how purchasing or selling a bond would impact the overall portfolio's risk profile (for example, its sensitivity to currency risk, interest rate risk and sector-specific risk) and potential return (income and capital gains).

Three themes typically drive the investment approach. First, Loomis Sayles generally seeks fixed-income securities of issuers whose credit profiles it believes are improving. Loomis Sayles' credit research team provides deep fundamental and quantitative analysis as well as ratings on over 1,000 issuers worldwide. The broad coverage combined with the objective of identifying attractive investment opportunities makes this an important component of the investment approach. Second, the strategy makes significant use of non-market-related securities in an effort to diversify the portfolio away from prevalent systemic risks. These securities may not have a direct correlation with changes in interest rates, thus helping to manage interest rate risk and to offer diversified sources for return. Third, Loomis Sayles analyzes different sectors of the economy and differences in the yields ("spreads") of various

fixed-income securities (U.S. governments, investment-grade corporates, securitized assets, high-yield corporates, emerging markets, non-U.S. sovereigns and credits, convertibles, bank loans and municipals) in an effort to find securities that it believes may produce attractive returns for the Fund in comparison to their risk.

### **Inflation Protection**

The strategy's investment objective is high total investment return through a combination of current income and capital appreciation.

The strategy will normally invest at least 80% of its net assets (plus any borrowings made for investment purposes) in inflation protected securities, with an emphasis on debt securities issued by the U.S. Treasury (Treasury Inflation-Protected Securities, or "TIPS"). The principal value of these securities is periodically adjusted according to the rate of inflation, and repayment of the original bond principal upon maturity is guaranteed by the U.S. Government. In deciding which securities to buy and sell, Loomis Sayles may consider a number of factors related to the bond issue and the current bond market, for example, the stability and volatility of a country's bond markets, the financial strength of the issuer, current interest rates, Loomis Sayles' expectations regarding general trends in interest rates and currency considerations. Loomis Sayles will also consider how purchasing or selling a bond would impact the overall portfolio's risk profile (for example, its sensitivity to currency risk, interest rate risk and sector-specific risk) and potential return (income and capital gains).

### **International Bond**

The strategy seeks high total investment return through a combination of high current income and capital appreciation. The strategy invests primarily in fixed-income securities of issuers located outside the United States. Securities may be denominated in any currency and may be of issuers located in countries with emerging securities markets.

In deciding which securities to buy and sell, Loomis Sayles may consider, among other things, the stability and volatility of a country's bond markets, the financial strength of the issuer, current interest rates, currency considerations and Loomis Sayles' expectations regarding general trends in interest rates. Three themes typically drive the Fund's investment approach. First, Loomis Sayles generally seeks fixed-income securities of issuers whose credit profiles it believes are improving. Loomis Sayles' credit research team provides deep fundamental and quantitative analysis as well ratings on over 1,000 credits worldwide. The broad coverage combined with the objective to identify attractive investment opportunities makes this an important component of the investment approach. Second, Loomis Sayles analyzes political, economic, and other fundamental factors and combines this analysis with a comparison of the yield spreads of various fixed-income securities in an effort to find securities that it believes may produce attractive returns for the Fund in comparison to their risk. Third, if a security that is believed to be attractive is denominated in a foreign currency, Loomis Sayles analyzes whether to accept or to hedge the currency risk. In certain instances, Loomis Sayles may elect not to hedge currency risk, which may cause the Fund to incur losses that would not have been incurred had the risk been hedged.

## **Limited Term Government and Agency**

The strategy seeks high current return consistent with preservation of capital primarily through investments issued or guaranteed by the U.S. government, its agencies or instrumentalities. Loomis Sayles follows a total return-oriented investment approach in selecting securities.

In selecting investments, Loomis Sayles' research analysts work closely with the portfolio managers to develop an outlook on the economy from research produced by various financial firms and specific forecasting services or from economic data released by the U.S. and foreign governments as well as the Federal Reserve Bank. The analysts also conduct a thorough review of individual securities to identify what they consider attractive values in the U.S. government security marketplace through the use of quantitative tools such as internal and external computer systems and software. Loomis Sayles continuously monitors an issuer's creditworthiness to assess whether the obligation remains an appropriate investment. Loomis Sayles seeks to balance opportunities for yield and price performance by combining macroeconomic analysis with individual security selection. It emphasizes securities that tend to perform particularly well in response to interest rate changes. Loomis Sayles seeks to increase the opportunity for higher yields while maintaining the greater price stability that intermediate-term bonds have compared to bonds with longer maturities.

## **Securitized Asset**

The strategy's investment objective is to seek a high level of current income consistent with capital preservation. The strategy invests primarily in a diversified portfolio of securitized assets, such as mortgage-backed and other asset-backed securities.

Loomis Sayles uses a bottom-up, fundamental research process to select individual securities for the strategy. The decision to buy or sell a particular security is largely driven by Loomis Sayles' view of the fundamentals of the issue compared to the prevailing market valuation, which may be higher (suggesting a potential sell decision) or lower (suggesting a potential buy decision). Loomis Sayles also may seek to construct a portfolio with risk characteristics similar, but not identical to, certain of the securities in the Index. Examples of typical risk characteristics that Loomis Sayles might consider include average life, credit quality, effective duration, yield curve exposure and sector exposure. The portfolio will not necessarily exhibit similarities with the Index for some or all risk characteristics.

## **Capital Income**

The strategy's investment objective is high total return through a combination of current income and capital appreciation. The strategy invests at least 70% of its assets in equity securities which may include common stocks, preferred stocks and convertible securities, including, among others, warrants, convertible debt securities and convertible preferred stock. A significant majority of the equity securities purchased will be traded on a U.S. exchange and denominated in U.S. dollars.

Up to 30% of assets may be invested in fixed-income securities, including below investment-grade fixed-income securities (commonly known as "junk bonds"), corporate debt and

government and agency fixed-income securities. When assessing the investment opportunity of a particular company, the investment team has the flexibility to consider the entire range of securities across the company's capital structure, including equities, preferred stock, convertible bonds and bonds. The investment team will strive for a reasonable amount of income through bond yields, stock dividends and other income-enhancing strategies.

## **Energy and Basic Materials**

The strategy's investment objective is to seek long-term growth of capital. The strategy normally invests at least 80% of total assets in equity securities issued by U.S. and foreign energy and basic materials companies, regardless of their stock market value (or "market capitalization"). Equity securities include common stocks, securities convertible into common stocks, preferred stocks and warrants.

Companies classified as energy or basic materials companies by Standard & Poor's are involved in the exploration, development, production, refining or distribution of oil, natural gas, coal, and uranium, the construction or provision of oil rigs, drilling equipment and other energy related services and equipment, basic materials such as metals, minerals, chemicals, water, forest product, precious metals, glass and industrial gases or provide materials, products or services to such companies.

Loomis Sayles' stock selection process is driven primarily by fundamental analysis of the energy sector and related industries and individual companies within them. Loomis Sayles generates investment ideas by, among other things, sector and industry analysis, valuation analysis, management interviews and other forms of proprietary investment research, including a review of financial dynamics affecting an issuer. Once an investment opportunity is identified, Loomis Sayles seeks to determine inherent or intrinsic value through various valuation metrics, which will vary depending upon the industry involved. These valuation techniques include, but are not limited to, price earnings ratio analysis, price to sales ratio analysis, relative price to earnings ratio analysis, price to book and cash flow ratio analysis and discounted cash flow. Valuation methodology is industry-specific within the energy sector and the determination of intrinsic value of a particular security is driven by specific industry metrics. Based on this analysis, Loomis Sayles establishes company-specific price targets and position weights.

## **Financial Services**

The strategy seeks long-term growth of capital. The strategy normally invests at least 80% of total assets in U.S. and foreign equity securities issued by financial services companies, regardless of their stock market value (or "market capitalization"). Equity securities include common stocks, securities convertible into common stocks, preferred stocks and warrants.

The strategy will generally invest in companies that Loomis Sayles expects will capitalize on emerging changes in the global financial services industries. Loomis Sayles uses a research-based, bottom-up investment process, executed in a disciplined manner to select investments for the strategy. In deciding which securities to buy, hold or sell, Loomis Sayles evaluates the following factors, which it believes determines future returns: (i) competitive position; (ii) profitability; (iii) financial strength (tangible equity/tangible assets, returns on equity, and

free cash flow); (iv) business strategy; (v) earnings trends/earnings per share growth revisions; and (vi) valuation using discounted cash flow analysis. A "Financial services company," for purposes of strategy investments, is defined as an entity in which at least 50% of the company's revenues or earnings were derived from financial services activities based upon the company's most recent fiscal year, or at least 50% of the company's assets were devoted to such activities based on the company's most recent fiscal year or any company which is included in the S&P Financial Sector Index. Financial services companies provide financial services to consumers and industry. Examples of companies in the financial services sector include commercial banks, investment banks, savings and loan associations, thrifts, finance companies, brokerage and advisory firms, transaction and payroll processors, insurance companies, real estate and leasing companies, and companies that span across these segments, and service providers whose revenue is largely derived from the financial services sector.

### **Technology and Communications**

The strategy seeks long-term growth of capital. The strategy will normally invest at least 80% of total assets in equity securities issued by technology and communications companies, both domestic and foreign, regardless of their stock market value (or "market capitalization"). Equity securities include common stocks, preferred stocks, securities convertible into common stocks and warrants. The strategy may invest up to 25% of total assets in foreign companies.

The strategy seeks to identify stocks of companies that Loomis Sayles believes will exceed current market expectations, as principally, but not exclusively represented by earnings per share. Both value and growth oriented approaches are employed in finding stocks that meet this objective, driven by bottom-up, research-driven analysis. Specific factors considered to be important in identifying growth stocks may include, but are not limited to, companies with: (i) strong revenue growth, (ii) leading or gains in market share, (iii) barriers to competition and (iv) high return on invested capital. Specific factors considered to be important in identifying value stocks may include, but are not limited to: (i) a valuation discount to intrinsic value, (ii) an underappreciated business or undervalued brand and (iii) the existence of one of several catalysts, such as a management change, business or debt restructuring, major capital reallocation, or resolution of legal or regulatory issues. In addition, specific attention is paid to the overall risk/reward potential of individual securities. Loomis Sayles may employ strategies designed to reduce overall risk, which may involve the use of ETFs, options and investment grade debt securities. A "technology company" for purposes of strategy investments is defined as an entity in which at least 50% of the company's revenues or earnings were derived from technology activities or at least 50% of the company's assets were devoted to such activities, based upon the company's most recent fiscal year. Technology companies may include, among others, companies that are engaged in the research, design, development or manufacturing of technology products. These companies include, among others, those in the Internet, medical, pharmaceutical, manufacturing, computer software and hardware industries. A "communications company" for purposes of strategy investments is defined as an entity in which at least 50% of the company's revenues or earnings were derived from communications activities or at least 50% of the company's assets were devoted to such activities, based upon the company's most recent fiscal year. Communications activities may include, among others, regular telephone

service; communications equipment and services; electronic components and equipment; broadcasting; computer software and hardware; semiconductors; mobile communications and cellular radio/paging; electronic mail and other electronic data transmission services; networking and linkage of word and data processing systems; publishing and information systems; video text and teletext; emerging technologies combining telephone, television and/or computer systems; and Internet and network equipment and services.

### **Investment Risks**

Investment in securities and other instruments involves risk of loss that clients should be prepared to bear. These risks are in part dependent on the investments and instruments permitted by account guidelines. A summary of the key risks with respect to our fixed income and equity strategies is set forth below. This is not meant to be an exhaustive list. Please see the Appendix for a more detailed description of the investment risks associated with our securities and investment practices.

### **General Risks for Fixed Income Strategies**

**Credit Risk-** The risk that the issuer or borrower will fail to make timely payments of interest and/or principal. This risk is heightened for lower rated or higher yielding fixed income securities and lower rated borrowers.

**Issuer Risk-** The risk that the value of securities may decline due to a number of reasons relating to the issuer or the borrower or their industries or sectors. This risk is heightened for lower rated fixed income securities or borrowers.

**Liquidity Risk-** The risk that a seller may be unable to find a buyer for its investments when it seeks to sell them, which is heightened for high yield, mortgage-backed and asset-backed securities.

**Interest Rate Risk -** The risk that the value of a debt obligation falls as interest rates rise.

**Non-U.S. Securities Risk-** The risk that the value of non-U.S. investments will fall as a result of political, social, economic or currency factors or other issues relating to non-U.S. investing generally. Among other things, nationalization, expropriation or confiscatory taxation, currency blockage, political changes or diplomatic developments can negatively impact the value of investments. Non-U.S. securities markets may be relatively small or underdeveloped, and non-U.S. companies may not be subject to the same degree of regulation or reporting requirements as comparable U.S. companies. This risk is heightened for underdeveloped or emerging markets, which may be more likely to experience political or economic instability than larger, more established countries. Settlement issues may occur.

**Currency Risk -** The risk that the value of investments will fall as a result of changes in exchange rates, particularly for global portfolios.

**Derivatives Risk** (for portfolios that utilize derivatives) - The risk that the value of derivative instruments will fall because of changes in the value of the underlying reference instrument, pricing difficulties or lack of correlation with the underlying investment.

**Leverage Risk** (for portfolios that utilize leverage) - The risk of increased loss in value or volatility due to the use of leverage, or obtaining investment exposure greater than the value of an account.

**Counterparty Risk** - The risk that the counterparty to a swap or other derivatives contract will default on its obligations.

**Prepayment Risk** - The risk that debt securities, particularly mortgage-related securities, may be prepaid, resulting in reinvestment of proceeds in securities with lower yields. An investment may also incur a loss when there is a prepayment of securities purchased at a premium. Prepayments are likely to be greater during periods of declining interest rates.

**Extension Risk** - The risk that an unexpected rise in interest rates will extend the life of a mortgage-backed or asset-backed security beyond the expected prepayment time, typically reducing the security's value.

### **General Risks for Equity Strategies**

**Equity Risk** - The risk that the value of stock may decline for issuer-related or other reasons.

**Market Risk** - The risk that the market value of a security may move up or down, sometimes rapidly and unpredictably, based upon a change in market or economic conditions.

**Non-US Securities Risk** - The risk that the value of non-US investments will fall as a result of political, social, economic or currency factors or other issues relating to non-US investing generally. Among other things, nationalization, expropriation or confiscatory taxation, currency blockage, political changes or diplomatic developments can negatively impact the value of investments. Non-US securities markets may be relatively small or underdeveloped, and non-US companies may not be subject to the same degree of regulation or reporting requirements as comparable US companies. This risk is heightened for underdeveloped or emerging markets, which may be more likely to experience political or economic stability than larger, more established countries. Settlement issues may occur.

**Smaller or Mid-Sized Companies Risk** - The risk that the equity securities of these companies may be subject to more abrupt price movements, limited markets and less liquidity than investments in larger, more established companies.

**Derivatives Risk** (for portfolios that utilize derivatives) - The risk that the value of the Fund's derivatives instruments will fall because of changes in the value of the underlying reference instrument, pricing difficulties or lack of correlation with the underlying investment.

**Liquidity Risk** - The risk that a seller may be unable to find a buyer for its investments when it seeks to sell them.

**Please see the attached Appendix for a description of the investment practices, securities and other instruments that may be utilized by our fixed income and equity strategies, and information about the risks associated with them.**

### **Frequent Trading**

Certain of Loomis Sayles' strategies involve frequent trading. This can have a negative impact on investment performance through increased brokerage and other transaction costs and taxes. The strategies that have experienced more frequent trading – defined as portfolio turnover of 100% or more for the year ending December 31, 2011 (or for newer products for which such a range is expected) are: Fixed Income – Multi-Asset Real Return, Core Disciplined Alpha and Credit Long/Short, and Equity – Equity Research Core, Technology and Communications and Mid Cap Growth.

## **Disciplinary Information**

Loomis Sayles has not been subject to any material legal or disciplinary events during the last ten years.

## **Other Financial Industry Activities and Affiliations**

### **Material Business Relationships with Related Parties**

Loomis Sayles acts as investment adviser or subadviser for a number of U.S. and offshore funds that are sponsored and/or distributed by its affiliates. These funds include the Loomis Sayles Funds, the Natixis Funds and the Natixis International Funds. Natixis Distributors, L.P., a Loomis Sayles affiliate, acts as principal underwriter and distributor for the Loomis Sayles Funds and the Natixis Funds, and another affiliated entity acts as principal underwriter and distributor of Natixis International Funds.

Loomis Sayles also provides investment advice to certain privately offered investment funds established by Loomis Sayles and/or in which Loomis Sayles or its personnel, or its affiliates or their personnel may have an ownership or management interest.

Interests in the above investment funds may be offered to parties with whom Loomis Sayles and/or its affiliates have an existing client relationship as well as other parties, including Loomis Sayles' employees or its affiliates and their employees.

In certain circumstances, Loomis Sayles may recommend or purchase shares of one or more funds for all or a portion of a separate account client's portfolio. In certain cases, the funds may be advised or subadvised by Loomis Sayles (or an affiliate of Loomis Sayles) and/or an affiliate of Loomis Sayles may provide other services to the funds such as distribution, administrative or transfer agent services.



## **Other Financial Industry Activities**

**Commodity Trading Advisor.** Loomis Sayles is registered as a commodity trading advisor ("CTA") and uses futures contracts in the management of some client accounts. As a CTA, Loomis Sayles can provide futures trading advice to individual separate accounts and pools (e.g. mutual funds). However, it cannot sponsor or market "pools" that do not qualify for an exemption from registration as a "commodity pool operator." Certain Loomis Sayles employees are registered as "principals" or "associated persons" of the CTA.

**Broker-Dealer.** Loomis Sayles is the sole limited partner of Loomis Sayles Distributors ("LSD"), a registered broker-dealer. Certain Loomis Sayles employees are "registered representatives" of LSD.

**Trust Company.** Loomis Sayles is the direct owner of a nondepository trust company licensed by the State of New Hampshire, Loomis Sayles Trust Company, LLC ("LSTC"). LSTC serves as Trustee of several collective investment trusts ("Collective Investment Trusts") and New Hampshire investment trusts ("NHITs"). In its capacity as Trustee, LSTC may receive fees for its investment advice to the Collective Investment Trusts and NHITs.

The Board of Managers and officers of LSTC, as well as the portfolio managers dedicated to the strategies represented by the respective Collective Investment Trusts or NHITs and traders who execute trades for the Collective Investment Trusts or NHITs at the direction of the portfolio managers, are dual employees of Loomis Sayles and LSTC.

All employees of LSTC are also employees of Loomis Sayles, and in that capacity provide investment management, trading, compliance, legal, accounting, marketing and administrative services to client accounts of Loomis Sayles as well as of LSTC. As a result employees of LSTC have access to Loomis Sayles' fixed-income and equity research, and associated analytics and dual employees of Loomis Sayles and LSTC have access to each other's trading and compliance information. With the exception of those policies and procedures that are unique to LSTC, and therefore only apply to LSTC, LSTC employees are required to comply with Loomis Sayles' compliance policies and procedures, the effect of which is designed to reasonably assure that the clients of Loomis Sayles and LSTC are treated fairly and equitably as to each other.

**Sponsor of Private Funds.** Loomis Sayles acts as sponsor to investment vehicles, including hedge funds that are offered through private placements to qualified investors. These sponsorship activities include serving as the sole managing member and/or controlling the general partner of funds organized as limited partnerships. Generally, Loomis Sayles also acts as investment advisor to these funds, for which it receives advisory fees.

**Non-U.S. Subsidiaries.** Loomis Sayles has established subsidiaries in the United Kingdom and Singapore that assist it in its investment and client service efforts. The UK subsidiary, Loomis Sayles Investments Limited, currently provides product expertise, regional company research, on-the-ground client service and consultant support and trading in the UK office. The Singapore subsidiary, Loomis Sayles Investments Asia Pte. Ltd., intends, upon receipt of the appropriate regulatory authorizations, to provide product expertise, regional company

research and on-th-ground client service and consultant support in the Singapore office.

### **Industry Affiliations**

Loomis Sayles is an indirect subsidiary of NGAM, which owns, in addition to Loomis Sayles, a number of other asset management and distribution and service entities (each, together with any advisory affiliates of Loomis Sayles, a “related person”). As noted above, NGAM is owned by Natixis, which is principally owned by BPCE, France’s second largest banking group. BPCE is owned by banks comprising two autonomous and complementary retail banking networks consisting of the Caisse d’Epargne regional savings banks and the Banque Populaire regional cooperative banks. There are several intermediate holding companies and general partnership entities in the ownership chain between BPCE and Loomis Sayles. In addition, NGAM’s parent companies Natixis and BPCE each own, directly or indirectly, other investment advisers and securities and financial services firms which also engage in securities transactions.

Loomis Sayles does not presently enter into transactions, other than as set out below, with related persons on behalf of its clients. Because Loomis Sayles is affiliated with a number of asset management, distribution and service entities, Loomis Sayles occasionally may engage in business activities with some of these entities, subject to Loomis Sayles’ policies and procedures. Given that related persons are equipped to provide a number of services and investment products to Loomis Sayles’ clients, subject to applicable law, clients of Loomis Sayles may engage one of more of its related persons to provide any number of such services, including advisory, custodial or banking services, or may invest in the investment products provided or sponsored by a related person. The relationships described herein could give rise to potential conflicts of interest or otherwise may have an adverse effect on Loomis Sayles’ clients. For example, when acting in a commercial capacity, related persons of Loomis Sayles may take commercial steps in their own interests, which may be adverse to those of Loomis Sayles’ clients.

Given the interrelationships among Loomis Sayles and its related persons and the changing nature of Loomis Sayles’ related persons’ businesses and affiliations, there may be other or different potential conflicts of interest that arise in the future or that are not covered by this discussion. Additional information regarding potential conflicts of interest arising from the Loomis Sayles’ relationships and activities with its related persons is provided below.

Loomis Sayles has a variety of relationships with the NGAM affiliates, including:

- Advisory or subadvisory arrangements which may be on a discretionary or non-discretionary basis (including arrangements where Loomis Sayles acts as subadviser to certain NGAM affiliates who may themselves be investment advisers for the account of an affiliated entity, an unaffiliated client or in connection with wrap programs and other similar programs sponsored by various financial intermediaries).
- Arrangements where NGAM affiliates refer business to, or otherwise solicit or assist in securing business for, Loomis Sayles for separate accounts and

commingled investment vehicles.

- Research sharing relationships between Loomis Sayles and its affiliates that manage accounts for both affiliated entities and unaffiliated clients.
- Personnel sharing relationships, including circumstances where certain personnel of Loomis Sayles serve as directors of entities owned by NGAM (and certain personnel of NGAM affiliates serve as directors of Loomis Sayles or entities sponsored by Loomis Sayles).

While these relationships may benefit the overall investment capability of each firm, they may also present, in a particular instance or in general, conflicts with the actions Loomis Sayles performs on behalf of its clients. Since the trading activities of NGAM affiliates are not coordinated, each firm may trade the same security at about the same time, on the same or opposite side of the market, thereby possibly affecting the price, amount or other terms of the trade execution realized by the clients of either firm. Any effect of substantially contemporaneous market activities is likely to be most pronounced where the supply or other liquidity of the security traded is limited.

NGAM is also the direct or indirect owner of, or is otherwise affiliated with, various broker-dealer entities established in the United States or elsewhere. Loomis Sayles generally does not conduct any brokerage business for client accounts with broker-dealers owned by NGAM. However, should Loomis Sayles decide to use Affiliated Broker-Dealers to execute client transactions, it will do so in accordance with the applicable rules and regulations that govern such activity. Certain of Loomis Sayles' affiliates also provide investment banking services, and Loomis Sayles has policies and procedures in place to reasonably ensure compliance with the regulatory requirements relating to participating in affiliated underwritings.

In addition, Loomis Sayles has entered into a dual employee arrangement with an employee of LS Investment Advisers, LLC ("LSIA"), under which the LSIA employee may provide certain services to Loomis Sayles' fixed income trading desk, research department and product teams, including gathering market information relating to municipal securities; making recommendations for the purchase and sale of municipal securities to Loomis Sayles' product teams based on Loomis Sayles' client investment objectives and strategies; executing all trades for such securities; monitoring all Loomis Sayles client municipal holdings; responding to any pricing issues; and providing other services as necessary. Pursuant to the arrangement, the LSIA employee will comply with all applicable Loomis Sayles compliance policies and procedures, not knowingly or intentionally cross securities among or between Loomis Sayles and LSIA clients and maintain the confidentiality of Loomis Sayles' client and trading information.

Certain Affiliated Broker-Dealers may also act as placement agent or otherwise participate (for example, as a dealer or selling group member) in offerings of interests in pooled investment vehicles for which Loomis Sayles acts as adviser or subadviser and may receive compensation for acting in such capacity. Such compensation may be paid to such Affiliated Broker-Dealers by one or more of (1) the pooled investment vehicles themselves, (2) the

underwriters or placement agents for such pooled investment vehicles, (3) the advisers, subadvisers or other sponsors of such pooled investment vehicles (which may include Loomis Sayles or its affiliates) or (4) the purchasers of interests in such pooled investment vehicles. Details of such compensation arrangements will generally be disclosed in the offering documents relating to the particular pooled investment vehicle.

As mentioned above, Loomis Sayles is directly or indirectly owned by, or otherwise affiliated with, various affiliated entities. These affiliated entities may also include foreign insurance companies. From time to time, Loomis Sayles may manage accounts for these affiliated entities (or for investment vehicles formed, sponsored or promoted by these affiliated entities).

Loomis Sayles, and certain privately placed pooled vehicles for which Loomis Sayles may act as an investment adviser, may utilize the capital introduction services of the prime broker(s) to such pooled vehicles. These services typically involve the communication of general information about the pooled vehicle to qualified prospects that have a pre-existing relationship with the prime broker or its affiliates. These arrangements do not result in the payment of placement fees or commissions by Loomis Sayles or the pooled vehicle to the prime broker or its affiliate that makes the introductions, regardless of whether or not the introductions lead to an investment in the pooled vehicle.

## **Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **Code of Ethics**

Loomis Sayles employees are permitted to buy, sell or hold securities for their personal accounts subject to the restrictions set forth in the firm's Code of Ethics (the "Code"), which includes the requirements of Section 206 of the Investment Advisers Act of 1940, Rule 17j -1 of the Investment Company Act of 1940 and many of the recommendations of the ICI's Blue Ribbon Panel on Personal Investing. Among other things, the Code restrictions are designed to avoid apparent and actual conflicts of interest with clients and inadvertent violations of the securities laws as they relate to personal trading. The Code applies to employees of Loomis Sayles, Loomis Sayles Distributors and Loomis Sayles Trust Company and may, in certain cases, apply to specified employees of certain of Loomis Sayles' affiliates. Each Loomis Sayles employee agrees in writing to abide by the Code as a condition of employment. Among other things, the Code:

- i. Requires employees to pre-clear certain transactions for their personal accounts;
- ii. Provides for black out periods for certain investment personnel relative to client trading activity;
- iii. Provides for black out periods relative to research ratings changes initiated by Loomis Sayles' Research Departments;
- iv. Provides for holding periods for personal investments;
- v. Prohibits investments in initial public offerings;

- vi. Requires special approval for private placement investments and outside activities;
- vii. Requires initial holdings, quarterly transactions, and annual holdings reporting;
- viii. Requires employees to maintain their personal brokerage accounts with one or more “Select Brokers” with whom Loomis Sayles has established electronic links to receive trade confirmations on TD+1, and periodic statement information in an automated fashion; and
- ix. Requires employees to certify as to their initial receipt and understanding of the Code upon joining the firm and then as to their compliance therewith and the accuracy of their account information annually thereafter.

Loomis Sayles has implemented an automated system called PTA, which employees are required to use to pre-clear their personal securities transactions. In addition, unless otherwise approved by the Chief Compliance Officer, all employees are required to maintain their personal brokerage accounts at Select Brokers from whom Loomis Sayles receives automated feeds on a daily basis. The employee transaction information from these feeds is fed into PTA, and the Personal Trading Compliance Team is responsible for performing the oversight and monitoring functions necessary to ensure that employees’ personal securities transactions comply with the applicable requirements of the Code, and they do this on a daily basis.

PTA is also used by employees to satisfy their quarterly and annual reporting obligations as well as their annual certification requirements whereby they certify that they have complied with all of the requirements of the Code.

A copy of the Code is distributed to all new employees of Loomis Sayles within the first 10 days of their employment with the firm and each employee certifies in writing that he or she will abide by the Code as a condition of employment. In general, all new employees receive one-on-one training on the Code and its requirements and what it means to be a fiduciary, within the first 10 days of their employment. The firm’s Personal Trading Compliance Manager or a designee thereof conducts these sessions. In addition to the Code, all new employees receive the New Hire package and a Quick Reference Guide handbook that provide more detailed information relating to the requirements and administration of the Code and the use of the PTA pre-clearance system. Finally, all employees are required to pass an on-line Code of Ethics and Fiduciary Duty tutorial on an annual basis.

The Ethics Committee oversees the operation of the firm’s Code. The Chief Executive Officer chairs the Ethics Committee, which also includes the General Counsel, Chief Compliance Officer and other senior members of the firm. The Ethics Committee meets on a quarterly basis before the firm’s Board of Directors meeting to review Code exceptions, if any, by the firm’s employees. The Committee also considers various enhancements that may be made to the Code as necessary and appropriate in connection with improvements in automation, regulatory requirements, or trends in industry best practices. Material matters discussed by the Ethics Committee, if any, are reported to the Board at its next meeting. Material amendments to the Code are communicated to all employees in writing and the revised Code is posted on the firm’s intranet site.

A copy of the Code will be provided to any client or prospective client upon request.

## **Personal Securities Transactions**

Loomis Sayles does not buy or sell for its own account securities that Loomis Sayles recommends to clients, except for shares in investment funds sponsored or advised by Loomis Sayles or its affiliates as described below or seed capital that Loomis Sayles or its affiliates may invest at the inception of an investment pool. However, Loomis Sayles may find itself holding such securities in connection with the correction of certain trade errors as discussed under “Correction of Trade Errors and Investment Guideline Breaches” below. In addition, Loomis Sayles’ employees are permitted to buy, sell or hold such securities for their personal accounts (and as mentioned above, securities may be bought, sold or held for certain investment pools in which employees have invested or accounts in which employees are otherwise considered to have a beneficial interest, including the Loomis Sayles Funded Pension Plan and Trust and the Loomis Sayles Employees’ Profit Sharing Retirement Plan) subject to the restrictions contained in the Code.

## **Correction of Trade Errors and Investment Guideline Breaches**

Consistent with its fiduciary duties, Loomis Sayles’ policy is to take the utmost care in making and implementing investment decisions for client accounts. To the extent that trade errors or investment guideline breaches occur, Loomis Sayles’ policy is to seek to ensure that its clients’ best interests are served when correcting such errors and that clients are reimbursed for net losses caused by Loomis Sayles’ error. Loomis Sayles has adopted trade error and investment guideline breach policies and procedures to guide the resolution of, and to help prevent the reoccurrence of, such errors.

If it appears that a trade error or investment guideline breach has occurred, Loomis Sayles will review all relevant facts and circumstances to determine an appropriate course of action. Where it is determined that Loomis Sayles has caused or contributed to a trade error or investment guideline breach, the client will be reimbursed by Loomis Sayles for the net loss attributable to Loomis Sayles’ error, or will retain any gain realized in connection with the error correction, except as described below.

If an error is discovered after the settlement of the transaction the “correcting” transaction will also be executed in the client’s account and the client will either be reimbursed for the net loss or will retain any gain realized in connection with the error correction as described above. However, if an error is discovered prior to the settlement of the transaction and the trade cannot practicably be broken, the trade will generally be settled in a Loomis Sayles error account, outside of the client’s account, and will not be reflected on the client’s account statements. In this latter circumstance, Loomis Sayles and the broker-dealer, custodian or other parties involved in the transaction (other than the client) will determine who among them is obligated to bear any loss or retain any gain realized in connection with the error correction.

Additionally, subject to the approval of the Chief Compliance Officer or designee thereof, securities purchased in error for one client’s account may be allocated to another client’s account if Loomis Sayles determines that it would be appropriate to do so under the facts and circumstances, such as, but not limited to, a pro rata re-allocation of securities purchased

in error for one account to the remaining accounts in the original order when such accounts have not achieved their desired weighting in the securities being acquired.

While Loomis Sayles' general policy is to execute an off-setting transaction in its error account as soon as practical, under certain circumstances, senior management of Loomis Sayles may decide to maintain the erroneously transacted security in the error account. Under such circumstances, the position is not being maintained for investment purposes, but rather in an effort to mitigate a financial loss with respect to the security. In addition, Loomis Sayles may decide to hedge the position held in the error account with the intention of preventing further loss, while not hedging the same security to the extent that it is held in client accounts for investment purposes.

Loomis Sayles will review all of the relevant facts and circumstances, which may include the netting of gains and losses, when determining the financial impact of an error in a client's account. In addition, if a client realizes a loss in connection with the correction of an error, but it is determined that the client would have experienced an even greater loss from the originally intended transaction, Loomis Sayles may determine that the client was not financially harmed by the error.

With the possible exception of immaterial operational errors such as failed trades and overdraft charges, Loomis Sayles will provide its clients with written notices of errors in their account, and such notice will include a description of the error and its correction and the financial impact on the client's account.

All trade errors and investment guideline breaches will be resolved with the involvement of Loomis Sayles' Chief Compliance Officer or designee thereof, the Chief Investment Officer, if securities purchased in an erroneous transaction will be reallocated to other Loomis Sayles clients, and other legal/compliance, portfolio management, trading or other personnel, as appropriate, in accordance with Loomis Sayles' trade error and investment guideline breach policies and procedures. All such errors will be reported to Loomis Sayles' trading oversight committee, risk management committee and audit committee on a quarterly basis.

### **Ownership Interests of Loomis Sayles and Its Affiliates**

From time to time, Loomis Sayles may recommend or purchase for the accounts of certain clients securities issued by entities (or affiliates of entities) in which a controlling person or other related person of Loomis Sayles has an ownership interest.

In addition, Loomis Sayles (or its affiliates) may recommend to clients that they purchase or sell, or Loomis Sayles may invest on behalf of client accounts in, securities which are also purchased, sold or held:

- by Loomis Sayles for the account of investment pools advised or subadvised by Loomis Sayles and in which Loomis Sayles itself, its affiliates or their personnel may have an ownership or management interest. Such investment pools may include, but are not limited to:

- ◆ mutual funds, hedge funds, collateralized fixed income pools, investment trusts and other public or private investment companies, certain of which may be sponsored or established by Loomis Sayles or its affiliates; and
- ◆ pension or other benefit plans that are sponsored by Loomis Sayles or its affiliates and/or in which employees of such entities have an interest;
- by Loomis Sayles for the account of affiliated clients; or
- by Loomis Sayles' affiliates for their account or for the account of their clients.

### **Certain Investment Funds**

As mentioned above, Loomis Sayles or its affiliates may recommend to clients, or Loomis Sayles may invest for client accounts, in investment funds that are sponsored, advised or subadvised by Loomis Sayles or its affiliates and in which Loomis Sayles, its affiliates or their personnel may have an ownership or management interest. Such investment pools may include, but are not limited to, mutual funds, hedge funds, collateralized fixed income pools, collective investment trusts and other public or private investment companies. For certain of these investment pools, Loomis Sayles Distributors and/or other Affiliated Broker-Dealers may act as principal underwriter, distributor, dealer or placement agent or perform a similar function and/or a Loomis Sayles affiliate may provide other services such as administrative or transfer agent services.

In connection with these relationships, Loomis Sayles or a subsidiary generally receives advisory or trustee fees in its capacity as investment adviser, trustee or subadviser (and in cases where Loomis Sayles acts as subadviser to a Natixis entity, that Natixis entity also receives advisory fees in its capacity as investment adviser) from such investment funds.

When Loomis Sayles purchases shares of a fund advised or subadvised by Loomis Sayles for a separate account client's portfolio, Loomis Sayles' policy, with certain exceptions, is not to charge a separate account advisory fee for any portfolio assets invested in the fund. However, Loomis Sayles will receive advisory fees from the fund and the client will indirectly pay a pro rata portion of those fees. Such fees may be higher than the fees charged by Loomis Sayles for separately managed assets. Loomis Sayles may charge a separate account advisory fee for funds advised or subadvised by it that do not charge management fees and that have been designed for use by separate accounts.

When Loomis Sayles purchases shares of fund that is not advised or subadvised by Loomis Sayles for a separate account client's portfolio (and even where such fund may be advised or subadvised by an affiliate of Loomis Sayles), Loomis Sayles may charge a separate account advisory fee for portfolio assets invested in the fund. In this circumstance, clients should be aware that (a) in addition to the separate account advisory fee charged by Loomis Sayles, the client will be paying fees at the fund level (such as advisory fees and other fund expenses) and (b) the client may have been able to purchase fund shares directly without using the services of Loomis Sayles.



Investment trusts for which a Loomis Sayles subsidiary serves as trustee offer multiple classes of shares with different trustee fees, as well as classes that do not pay a trustee fee. These “no-fee” classes are available to participants advised by Loomis Sayles who pay Loomis Sayles an advisory fee for assets invested in the investment trust under their investment management agreements with Loomis Sayles.

In connection with all purchases of shares of a fund for a separate account client’s portfolio, the client should be aware that such funds may incur additional and/or higher expenses than the expenses incurred for separate accounts. In the case of funds advised or subadvised by Loomis Sayles or its affiliates, such expenses may include payments to Loomis Sayles and/or its affiliates for advisory and other services (such as distribution, administrative or transfer agent services) provided by such entities to the funds.

### **Certain Transactions for Collateralized Fixed Income Pools**

From time to time, Loomis Sayles may act as collateral manager for certain collateralized fixed income pools. Certain of these pools may enter into interest rate protection agreements at the direction of Loomis Sayles. Such interest rate protection agreements may be entered into between the pool and one or more related parties of Loomis Sayles, including but not limited to Natixis Capital Markets, or arranged by one or more related parties of Loomis Sayles who are compensated for making such arrangements. The fact that such interest rate protection agreements may be entered into by a particular pool will be disclosed to the pool’s investors in the pool’s offering documents.

### **Related Persons -- Transactions and Potential Conflicts**

In connection with providing investment management and advisory services to its clients, Loomis Sayles acts independently of other affiliated investment advisers and manages the assets of each of its clients in accordance with the investment mandate selected by such clients.

Related persons of Loomis Sayles are engaged in securities transactions. Loomis Sayles or its related persons may invest in the same securities that Loomis Sayles recommends for, purchases for or sells to its clients. Loomis Sayles and its related persons (to the extent they have independent relationships with the client) may give advice to and take action with their own accounts or with other client accounts that may compete or conflict with the advice Loomis Sayles may give to, or an investment action Loomis Sayles may take on behalf of, the client or may involve different timing than with respect to the client. Since the trading activities of NGAM firms are not coordinated, each firm may trade the same security at about the same time, on the same or opposite side of the market, thereby possibly affecting the price, amount or other terms of the trade execution, adversely affecting some or all clients. Similarly, one or more clients of Loomis Sayles’ related persons may dilute or otherwise disadvantage the price or investment strategies of another client through their own transactions in investments. Loomis Sayles’ management on behalf of its clients may benefit Loomis Sayles or its related persons. For example, clients may, to the extent permitted by applicable law, invest directly or indirectly in the securities of companies in which Loomis Sayles or a related person, for itself or its clients, has an economic interest, and clients, or Loomis Sayles or a related person on behalf its client, may engage in investment transactions

which could result in other clients being relieved of obligations, or which may cause other clients to divest certain investments. The results of the investment activities of a client of Loomis Sayles may differ significantly from the results achieved by Loomis Sayles for other current or future clients. Because certain of Loomis Sayles' clients may be related persons, Loomis Sayles may have incentives to resolve conflicts of interest in favor of certain clients over others (e.g., where Loomis Sayles has an incentive to favor one account over another); however, Loomis Sayles has established policies and procedures that identify and manage such potential conflicts of interest.

Potential conflicts may be inherent in Loomis Sayles' and its related persons' use of multiple strategies. For instance, conflicts could arise where Loomis Sayles and its related persons invest in distinct parts of an issuer's capital structure. Moreover, one or more of Loomis Sayles' clients may own private securities or obligations of an issuer while a client of a related person may own public securities of that same issuer. For example, Loomis Sayles or a related person may invest in an issuer's senior debt obligations for one client and in the same issuer's junior debt obligations for another client. In certain situations, such as where the issuer is financially distressed, these interests may be adverse. Loomis Sayles or a related person may also cause a client to purchase from, or sell assets to, an entity in which other clients may have an interest, potentially in a manner that will adversely affect such other clients. In other cases, Loomis Sayles on behalf of its clients may receive material non-public information ("MNPI") on behalf of some of its clients, which may prevent Loomis Sayles from buying or selling securities on behalf of other of its clients even when it would be beneficial to do so. Conversely, Loomis Sayles may refrain from receiving MNPI on behalf of clients, even when such receipt would benefit those clients, to prevent Loomis Sayles from being restricted from trading on behalf of its other clients. In all of these situations, Loomis Sayles or its related persons, on behalf of itself or its clients, may take actions that are adverse to some or all of Loomis Sayles' clients. Loomis Sayles will seek to resolve conflicts of interest described herein on a case-by-case basis, taking into consideration the interests of the relevant clients, the circumstances that gave rise to the conflict and applicable laws. There can be no assurance that conflicts of interest will be resolved in favor of a particular client's interests. Moreover, Loomis Sayles typically will not have the ability to influence the actions of its related persons.

In addition, certain related persons of Loomis Sayles may engage in banking or other financial services, and in the course of conducting such business, such persons may take actions that adversely affect Loomis Sayles' clients. For example, a related person engaged in lending may foreclose on an issuer or security in which Loomis Sayles' clients have an interest. As noted above, Loomis Sayles typically will not have the ability to influence the actions of its related persons.

Loomis Sayles from time to time purchases securities in public offerings or secondary offerings on behalf of client accounts in which a related person may be a member in the underwriting syndicate. Such participation is in accordance with Loomis Sayles' policies and procedures and applicable law, and Loomis Sayles does not purchase directly from such related person.

# Brokerage Practices

## **Brokerage Discretion**

Generally, Loomis Sayles' clients give it full discretion to choose broker-dealers. Some clients, however, direct Loomis Sayles to use only a specified broker-dealer, while other clients suggest that Loomis Sayles use a specified broker-dealer subject to Loomis Sayles' ability to obtain best execution when executing transactions with such specified broker-dealer.

## **When Loomis Sayles Selects Broker-Dealers**

### **Generally**

When Loomis Sayles has full discretion in the selection of brokers dealers for the execution of client transactions, it seeks to obtain quality executions at favorable security prices and at competitive commission rates, where applicable, through broker-dealers including Electronic Communication Networks (ECNs), Alternative Trading Systems (ATSs) or other execution systems that in Loomis Sayles' opinion can provide the best overall net results for its clients. Fixed income securities are generally purchased from the issuer or a primary market maker acting as principal on a net basis with no brokerage commission paid by the client. Such securities, as well as equity securities, may also be purchased from underwriters at prices which include underwriting fees.

### **Commissions and Other Factors in Broker-Dealer Selection**

Loomis Sayles uses its best efforts to obtain information as to the general level of commission rates being charged by the brokerage community, from time to time, and to evaluate the overall reasonableness of brokerage commissions paid on client portfolio transactions by reference to such data. In making this evaluation, all factors affecting liquidity and execution of the order, as well as the amount of the capital commitment by the broker or dealer, are taken into account. Other relevant factors may include, without limitation: (a) the execution capabilities of the brokers and/or dealers, (b) research and other products or services provided by such broker-dealers which are expected to enhance Loomis Sayles' general portfolio management capabilities, (c) the size of the transaction, (d) the difficulty of execution, (e) the operations facilities of the brokers and/or dealers involved, (f) the risk in positioning a block of securities, (g) fair dealing and (h) the quality of the overall brokerage and research services provided by the broker-dealer.

The Loomis Sayles equity trading personnel perform an internal evaluation which consists of reviewing the broker-dealers with whom Loomis Sayles has executed client transactions, to rate such firms on: the quality of their sales coverage, execution capabilities, willingness to commit capital on transactions, market knowledge, competitive commissions rates and prices and their ability to effect difficult trades in less liquid, smaller capitalized, and more closely held issues. Loomis Sayles believes that this evaluation process is an important and helpful component of its efforts to effectively manage its clients' portfolios and achieve the best execution of its clients' equity security transactions.

Externally, Global Trading Analytics, LLC ("GTA") performs trading cost analysis of Loomis Sayles' trading in certain fixed income securities (primarily sovereign governments, agencies, US corporates, mortgages, municipal bonds, certain foreign corporates and foreign currency). GTA's trading cost analysis includes key measurement points for analyzing fixed income trading. These measurement points are displayed on an overall basis for all of the trades included in the analysis, on a fund-by-fund basis, by market sector and by dealer.

Externally, Investment Technology Group, Inc. ("ITG") performs a quarterly trade cost analysis of our equity trading operations and executions performed on the equity trading desk. ITG evaluates the transactional process from three perspectives: portfolio management, the trading desk and brokerage. Using decision capture versus slippage, timeliness and cause and effect diagnostics methodologies, ITG provides recommendations that seek to optimize the trading process.

### Soft Dollars

Brokerage trading activity is an essential factor in accessing Wall Street and third-party firm research, as well as key market data. First and foremost, Loomis Sayles recognizes that it has a fiduciary duty to obtain the best execution of its clients' transactions. Importantly, Loomis Sayles will only allocate brokerage to firms that charge higher commissions when we believe the cost is reasonable in relation to the research and execution services received. In making the evaluation of the amount paid, all factors affecting liquidity and execution of the order, the amount of capital commitment by the broker or dealer, and the research and research services provided by the broker-dealer are taken into account.

Therefore, Loomis Sayles' receipt of brokerage and research products or services are factors in Loomis Sayles' selection of a broker-dealer to execute transactions for client accounts where Loomis Sayles believes that the broker-dealer will provide quality execution of the transactions. Such brokerage and research products or services may be paid for with Loomis Sayles' own assets or may, in connection with transactions in equity securities effected for client accounts for which Loomis Sayles exercises investment discretion, be paid for with client commissions (i.e. "soft dollars").

For purposes of this soft dollars discussion, the term "commission" includes commissions paid to brokers in connection with transactions effected on an agency basis. Loomis Sayles does not generate soft dollars on fixed income transactions. However, certain fixed income accounts that invest in equities may generate soft dollars on said equity transactions. Furthermore, certain fixed income accounts that invest in equities may prohibit soft dollars.

Loomis Sayles will only acquire research and brokerage products and services with soft dollars if they qualify as eligible products and services under the safe harbor of Section 28(e) of the Securities Exchange Act of 1934. Eligible research services and products that may be acquired by Loomis Sayles are those products and services that may provide advice, analysis or reports that will aid Loomis Sayles in carrying out its investment decision-making responsibilities. Eligible research must reflect the expression of reasoning or knowledge (having inherently intangible and non-physical attributes) and may include the following research items: traditional research reports; discussions with research analysts and corporate

executives; seminars or conferences; financial and economic publications that are not targeted to a wide public audience; software that provides analysis of securities portfolios; market research including pre-trade and post-trade analytics; and market data. Eligible brokerage services and products that may be acquired by Loomis Sayles are those services or products that (i) are required to effect securities transactions; (ii) perform functions incidental to securities transactions; or (iii) is a service that is required by an applicable self-regulatory organization ("SRO") or SEC rule(s). The brokerage and research products or services provided to Loomis Sayles by a particular broker-dealer may include both (a) products and services created by such broker-dealer, (b) products and services created by other broker-dealers, and (c) products and services created by a third party ("third-party services").

If Loomis Sayles receives a particular product or service that both aids it in carrying out its investment decision-making responsibilities (i.e., a "research use") and provides non-research related uses, Loomis Sayles will make a good faith determination as to the allocation of the cost of such "mixed-use item" between the research and non-research uses, and will only use soft dollars to pay for the portion of the cost relating to its research use.

In connection with Loomis Sayles' use of soft dollars, a client's account may pay a broker-dealer an amount of commission for effecting a transaction for the client's account in excess of the amount of commission it or another broker-dealer would have charged for effecting that transaction if Loomis Sayles determines in good faith that the amount of commission is reasonable in relation to the value of the brokerage and research products or services provided by the broker-dealer, viewed in terms of either the particular transaction or Loomis Sayles' overall responsibilities with respect to the accounts as to which Loomis Sayles exercises investment discretion.

Loomis Sayles may use soft dollars to acquire brokerage or research products and services that have potential application to all client accounts or to a certain group of client accounts. However, the products or services may not be used in connection with the management of some of the accounts which paid commissions to the broker-dealer providing the products or services and may be used in connection with the management of other accounts. In addition, certain unpaid balances for third-party research services acquired during a given year may be carried over in the following year. However, Loomis Sayles is diligent in seeking to ensure that such balances do not have a material adverse effect on the average commission rate paid by Loomis Sayles' clients.

Loomis Sayles' use of soft dollars to acquire brokerage and research products and services benefits Loomis Sayles by allowing it to obtain such products and services without having to purchase them with its own assets. Loomis Sayles believes that its use of soft dollars also benefits client accounts as described above. However, conflicts may arise between a client's interest in paying the lowest commission rates available and Loomis Sayles' interest in receiving brokerage and research products and services from particular brokers and dealers without having to purchase such products and services with Loomis Sayles' own assets.

Loomis Sayles' traders are diligent in ensuring that the firm's average cost per share is appropriate, in consideration of the number and types of securities being purchased and sold and the various services rendered by broker-dealers, and well within recognized industry

ranges of \$.01-\$.04 per share. The total average commission rate in 2011 was approximately \$.03 per share.

In addition to the CCA arrangements described below, Loomis Sayles has entered into arrangements with a number of broker-dealers including ECNs, ATNs and other electronic systems whereby a portion of the commissions generated by the transactions executed with such firms is directed to the cost of these research services.

Client directed brokerage arrangements, which are described below, may limit or prevent Loomis Sayles from using such clients' commission dollars to pay for research and research services, and therefore, certain clients may have more of their commissions directed for research and research services than others.

#### Client Commission Arrangements

Loomis Sayles has entered into several client commission arrangements ("CCAs") (also known as commission sharing arrangements) with some of its key broker-dealer relationships. At the same time, Loomis Sayles has significantly reduced the number of brokers with which it will trade. In a CCA, subject to best execution, Loomis Sayles will allocate a higher portion of its clients' equity trading with broker-dealers who have agreed to unbundle their commission rates in order to enable Loomis Sayles to separately negotiate rates for execution and research and research services. The execution rates Loomis Sayles has negotiated with such firms vary depending on the difficulty of the orders Loomis Sayles has asked the CCAs to execute, but they will generally be between \$.005 and \$.02 per share. The research and research services rate with such firms will also vary, but will generally result in a total cost of no more than \$.04 per share.

Pursuant to the CCA agreements Loomis Sayles has with these broker-dealers, each firm will pool the research commissions accumulated during a calendar quarter and then, at the direction of Loomis Sayles, pay various broker-dealers and third party services from this pool for the research and research services such firms have provided to Loomis Sayles. These CCAs are deemed to be soft dollar arrangements, and Loomis Sayles and each CCA intends to comply with the applicable requirements of Section 28(e) of the Securities Exchange Act of 1934, as amended, as well as the Commission Guidance Regarding Client Commission Practices under Section 28(e) in the SEC Release No. 34-54165 dated July 18, 2006.

Loomis Sayles has a comprehensive internal voting process whereby Loomis Sayles' equity portfolio managers and research analysts vote on various aspects of a broker-dealer's qualitative services, which include without limitation: research and other services, idea generation, discussions with research analysts and corporate executives, seminars and conferences. This internal voting process is performed on a quarterly basis, and Loomis Sayles uses the results of this internal vote to determine, in good faith, the value of the research and research services it receives from the broker-dealers that provide such services, and it will pay such broker-dealers for these services through its CCAs and/or through trading directly with the broker-dealers.

The CCAs enable Loomis Sayles to strengthen its relationships with its key broker-dealers, and limit the broker-dealers with whom it trades to those with whom it has an electronic interface, while still maintaining the research relationships with broker-dealers that provide Loomis Sayles with research and research services. In addition, the ability to unbundle the execution and research components of commissions enables Loomis Sayles to manage commissions more efficiently and to provide greater transparency to its clients in their commission reports.

In addition to trading with the CCA broker-dealers discussed above, Loomis Sayles continues to trade with full service broker-dealers and ECNs, ATNs and other electronic systems.

### **Where Clients Direct Brokerage**

In general, transaction costs, whether in the form of a commission, spread or other compensation, are a client asset and it is Loomis Sayles' responsibility to seek to apply and utilize that asset so as to achieve the best overall net results when trading for clients, subject to any restrictions clients may have placed on Loomis Sayles' ability to select brokers. Loomis Sayles believes that its clients are more likely to receive the best results possible on transactions executed for their accounts when it is not limited in selecting the executing brokers. However, Loomis Sayles will accept written instructions from its clients to direct brokerage to a broker ("Directed Broker") pursuant to commission recapture or other arrangements wherein Loomis Sayles understands that clients may receive cash rebates, expense payments or expense reimbursements, custody, check writing, products, consulting and other services from their Directed Brokers in return for the commissions generated when Loomis Sayles places orders for their accounts with such Directed Brokers.

Loomis Sayles is responsible for achieving best execution for its clients. However, Loomis Sayles ability to achieve best execution for its clients may be partially or wholly limited by the nature of the Directed Brokerage arrangement a client has instructed Loomis Sayles to follow. The following describes the manner in which transactions for Directed Accounts will be handled, and it provides important information that clients should be aware of generally about Directed Brokerage arrangements:

- When feasible and Loomis Sayles believes it is appropriate, Loomis Sayles will batch "directed" orders with the orders for the same securities for other Loomis Sayles clients who have not directed Loomis Sayles to use a particular broker, and execute such orders ("batched order(s)") with the broker that Loomis Sayles believes will provide the best execution of the batched order provided that the amount of brokerage a client has requested Loomis Sayles to direct is within the acceptable limits established by Loomis Sayles for the relevant product group, discussed below. When such executing broker is not a client's Directed Broker, Loomis Sayles may use a "step out" transaction whereby Loomis Sayles instructs the executing broker to "step out" the Direct Brokerage client's portion of the batched order to its Directed Broker who will clear, settle and confirm the transaction, and charge the client the commission rate that it has negotiated with the Directed Broker. Generally, there are no additional charges for "step out" transactions.

- More often than not, a client's Directed Broker is not the broker-dealer Loomis Sayles selects when seeking the best execution of a transaction. As a result, a significant amount of the transactions that are executed in furtherance of a client's directed brokerage arrangement are executed by the broker-dealer Loomis Sayles believes is providing the best execution of the transaction, and then that broker-dealer is instructed by Loomis Sayles to step out a portion of the transaction to the client's Directed Broker. Therefore, Loomis Sayles has established the following limitations on the extent to which it will step out client transactions to their Directed Broker(s). An exception to these limitations applies to wrap fee accounts that pay a wrap fee to the wrap sponsor, which in part covers the cost of all of the transactions executed for the wrap account.

Large Cap Value	25%	Equity Research Core	25%
Large Cap Growth	25%	Mid Cap Value	15%
Equity Research Core	25%	Mid Cap Growth	15%
Focused Value	25%	Small Cap Growth	10%
Energy and Basic Materials	25%	Small Cap Value	10%
Financial Services	25%	Small/Mid Cap	10%
Technology and Communications	25%	Global Equity Opportunities	10%
Capital Income	10%	SMID Growth	10%

- If a client requires that Loomis Sayles only executes transactions with its Directed Broker, and such client does not permit Loomis Sayles to use "step outs" or if a "step out" is not possible or practical for the particular transaction either due to the type of transaction, the amount of the transaction to be "stepped out", or the amount of transactions Loomis Sayles has already stepped out for a client account, such client's orders will generally follow the orders of Loomis Sayles' other client accounts that are trading in the same securities, at the same time, that have been batched for execution. In such instances, Loomis Sayles will may or may not achieve best execution.
- Depending on the Directed Broker a client has instructed Loomis Sayles to use, the amount of brokerage a client has instructed Loomis Sayles to direct to its Directed Broker, the commission rate and/or fees a client has agreed to pay its Directed Broker, the securities Loomis Sayles is purchasing and selling for the client's account, and the order in which such clients' trades are being executed, Loomis Sayles may or may not achieve best execution when it uses a client's Directed Broker to execute transactions for its account.
- Unless explicitly permitted or directed by a client, Loomis Sayles will not negotiate or re-negotiate commission rates with clients' Directed Brokers. Generally, when Loomis Sayles negotiates commission rates for its non-directed accounts such accounts pay commissions ranging from \$.01 to \$.04 per share, depending on the nature of the transaction. In 2011, Loomis Sayles achieved an average commission rate of approximately \$.03 per share for its client accounts that did not have directed brokerage or commission recapture arrangements.



- Clients that require Loomis Sayles to direct 100% of their transactions to their Directed Broker(s) will not be included in the purchase of IPOs or secondary offerings.
- Conflicts may arise between a client's interest in receiving best execution on transactions effected for its account and Loomis Sayles' interest in receiving client referrals from a client's Directed Broker.
- As a result of the considerations detailed above, directed brokerage accounts may not generate returns equal to those of non-directed accounts.

In agreeing to satisfy a client's directions to execute transactions for its account through a Directed Broker, Loomis Sayles understands that it is such client's responsibility to ensure that:

- (i) all services provided by the Directed Broker will inure solely to the benefit of the client's account and any beneficiaries of the account, all expenses paid are proper and permissible expenses of the account, and may properly be provided in consideration for brokerage commissions or other remuneration paid to the Directed Broker;
- (ii) using the Directed Broker in the manner directed is in the best interests of the client's account and any beneficiaries of the account, taking into consideration the services provided by the Directed Broker;
- (iii) its directions will not conflict with any obligations that persons acting for the client's account may have to the account, its beneficiaries or any third parties, including any fiduciary obligations that persons acting for the account may have to obtain the most favorable price and execution for the account and its beneficiaries; and
- (iv) persons acting for the client's account have the requisite power and authority to provide the directions on behalf of the account and have obtained all consents, approvals or authorizations from any beneficiaries of the account and third parties that may be required under applicable law or instruments governing the account.

In addition to the above, as investment adviser or subadviser for certain investment company clients, such clients may ask Loomis Sayles to direct brokerage for such clients to certain broker-dealers that have agreed to use a portion of the cost of the commissions related to such brokerage to pay operating expenses of the applicable investment company client(s) to defray that client's expenses. When satisfying such directions, Loomis Sayles will generally follow the process described above under "Where Clients Direct Brokerage."

As previously mentioned, client directed brokerage arrangements may limit or prevent Loomis Sayles from using such clients' commission dollars to pay for research and research services, and therefore, certain clients may have more of their commissions directed for research and research services than others.

### **Aggregation of Orders; Directed Brokerage**

When Loomis Sayles believes it is desirable, appropriate and feasible to purchase or sell the same security for a number of client accounts at the same time, Loomis Sayles may (but is not obligated to) aggregate its clients' orders ("Aggregated Orders"), including orders on behalf of affiliated clients and hedge funds, in a way that seeks to obtain more favorable executions, in terms of the price at which the security is purchased or sold, the cost of the execution of the orders, and the efficiency of the processing of the transactions. Subject to certain exceptions, all client accounts participating in an Aggregated Order, including affiliated clients and hedge funds, will participate at the average price at which the Aggregated Order was executed and will bear a pro rata portion of the execution cost of the Aggregated Order. When an Aggregated Order cannot be completely filled on the day it is placed in the market for execution, the portion of the Aggregated Order that is filled on any particular day will generally be allocated to each account participating in the Aggregated Order on a pro rata basis relative to the number of securities that were intended to be traded for each account participating in that Aggregated Order, and such accounts will generally participate at the average price at which such partially-filled Aggregated Order was executed and will bear a pro rata portion of the execution cost of the partially-filled Aggregated Order for such day.

Notwithstanding the above, a portfolio manager or an appropriate designee thereof and/or a trader may allocate shares/bonds purchased or sold in a manner that is other than pro rata, when a pro rata allocation would be impractical or would lead to an inefficient or undesirable result. Examples of such instances include, but are not limited to, when the portfolio manager, appointed designee thereof and/or trader determine(s) that it would be appropriate to round off odd-lots or a small number of shares/bonds received by an account pursuant to a pro rata allocation, or when the portfolio manager and/or trader determine(s) that it would be appropriate, given the limited number of shares/bonds actually purchased or sold, to fill one or more account(s) completely due the account's weighting in the security relative to the portfolio manager's target weighting for the security/sector, or when the portfolio manager is seeking to invest the cash of a new client account or a significant cash add from an existing client account.

Although Loomis Sayles believes that the ability to aggregate orders for client accounts will in general benefit its clients as a whole over time, in any particular instance, such aggregation may result in a less favorable price or execution for any particular client than might have been obtained if a particular transaction had been effected on an unaggregated basis.

With respect to client accounts that have provided Loomis Sayles with directions to use specific brokers or dealers to execute some or all of their trades, compliance with such directions may in some instances result in such a directed brokerage account not participating in an Aggregated Order. As a result, the directed brokerage account may receive a less favorable price or execution, or incur higher execution costs, in particular transactions than if the directed brokerage account had participated in an Aggregated Order with other client accounts.

While the Loomis Sayles fixed income products that are managed out of the firm's Boston office use the Boston fixed income trading desk to execute their client transactions, Loomis

Sayles has a core fixed income product that is managed and traded out of the firm's San Francisco office, and a separate fixed income trading desk located in the San Francisco office used to execute the transactions of this core fixed income product ("Core Disciplined Alpha"). All of the firm's compliance policies and procedures, oversight capabilities, research, operations, technology, and other supporting tools are applied to and made available to the Core Disciplined Alpha investment team. However, the transaction orders for the Core Disciplined Alpha clients are generally placed in the market separately (i.e., not aggregated with like orders of the Boston fixed income trading desk), and in such instances, each trading desk allocates its executed transactions separately (i.e., not pro-rata among all Boston based and San Francisco based clients). In addition, while the investment decisions for Core Disciplined Alpha clients are made independently by the Core Disciplined Alpha investment team, their use of the firm's research, risk management and other investment tools, and the fact that their orders are generally not aggregated and executed with the orders of the Boston fixed income clients, creates the possibility that the like orders of the different offices may compete in the market place when they transact the same security at or about the same time, on the same side of the market. This has the potential to affect the price, amount or other terms of the transaction executions realized by the clients of each office. Any effect of substantially contemporaneous market activities is likely to be more pronounced where the supply or liquidity of the security is limited.

In addition, Loomis Sayles Investments Limited ("Loomis Sayles Investments"), a wholly-owned subsidiary of Loomis Sayles headquartered in the United Kingdom, may provide trade recommendations to Loomis Sayles and place trade orders with broker-dealers at Loomis Sayles' direction for the benefit of Loomis Sayles' clients. Said trade recommendations and execution services will be primarily in securities that are traded in Europe. The Loomis Sayles global fixed income products and other products that invest in Europe will likely take advantage of Loomis Sayles Investments' trade recommendations and order placement services. However, not all products that invest in European securities will take advantage of such recommendations and order placement services.

Brokerage allocation is handled in the same manner for hedge funds as it is for long-only accounts.

### **Trading Oversight Committee**

Loomis Sayles has established a trading oversight committee to oversee and assist in the development and evaluation of various aspects of Loomis Sayles' trading and brokerage practices. Among other things, the trading oversight committee will establish and review Loomis Sayles' policies and procedures with respect to such areas as selection of brokers and dealers, receipt and use of products and services provided by brokers and dealers, trade errors and best execution. The trading oversight committee is chaired by the Chief Compliance Officer and reports to Loomis Sayles' Risk Management Committee and Board of Directors as appropriate and necessary.

## Review of Accounts

### **Investment Management Teams**

Loomis Sayles has organized its business into a series of investment teams. Each investment team manages assets in a set of distinct investment styles. Some portfolio managers manage assets across different investment teams.

The investment management teams meet regularly to establish parameters for, and to evaluate the composition of, accounts managed in that investment style. The investment professionals associated with the investment platforms take into consideration any internal recommendations made by Loomis Sayles' research departments regarding the universe of securities followed by the research departments.

Each client is assigned to a portfolio manager or team and may be assigned additional client service personnel. The portfolio manager or team (or client service personnel) confers with the client to understand the investment objectives and guidelines for the account. The portfolio manager or team generally has the ultimate discretion to purchase and sell securities for the client's account and bears primary responsibility for managing the account's investments in accordance with the objectives and guidelines. In certain circumstances, various accounts for which a portfolio manager or team has responsibility may be related to a single "client relationship." In general, the number of accounts assigned to any particular portfolio manager, team or client service personnel will depend upon the nature of the accounts and the contractual requirements for the accounts. Client portfolios are reviewed on a continuing basis rather than on an arbitrary, periodic schedule or sequence.

With respect to transactions in fixed income securities, traders who are not necessarily members of investment management teams may exercise limited discretion in selecting the issuer, issue and price of securities purchased or sold for client accounts within parameters designated by the portfolio manager or investment management team for the account. The portfolio manager or team takes into consideration any internal recommendations made by Loomis Sayles' research departments but is not bound by such recommendations.

### **Supervisory Oversight**

The chief investment officer ("CIO") has supervisory responsibility for the firm's fixed income and equity investment management activities.

### **Peer Evaluation Committee**

Loomis Sayles has established a Peer Evaluation Committee that has responsibility for performing such reviews of Loomis Sayles' investment management activities as it deems necessary or appropriate to understand the investment management activities of Loomis Sayles' investment professionals, and to understand the investment philosophy, disciplines, risk management approach and profile, and drivers of current and historical performance of each Loomis Sayles product.

The Peer Evaluation Committee seeks to improve the investment management process at Loomis Sayles by encouraging the free exchange of investment ideas, the development of new investment expertise and techniques, and the continuing professional growth and development of the firm's investment management professionals, and by setting up appropriate forums to challenge the assumptions and decisions made, and themes utilized, by the firm's investment professionals from time to time.

The CIO has full responsibility for the functions of the Peer Evaluation Committee. The Committee generally reviews the performance, attribution, risk profile and investment activities for each investment style. The Committee reports investment related risks to the Loomis Sayles Risk Management Committee, the CEO, or Board of Directors, as deemed necessary.

### **Client Reports**

Loomis Sayles generally provides written account reports to separate account clients on either a monthly or quarterly basis. Standard reports include a complete list of account holdings and account performance information. These reports and related account information is also available on the Loomis Sayles website through its eservice platform. Certain clients may receive additional information if required by their advisory agreement.

## **Client Referrals and Other Compensation**

### **Amounts Paid by Loomis Sayles**

Loomis Sayles pays commissions to certain of its employees to compensate them for new business brought to the firm and for capital additions to existing business. The commissions are generally a specified percentage of revenues received by Loomis Sayles from a new account or from additional capital contributed to an existing account. Commission payments are generally for the first three years of the client relationship and they are paid over this time period.

In addition, from time to time Loomis Sayles enters into arrangements with affiliates and unaffiliated third parties for their assistance in referring business to the firm or providing client service to the firm's clients. Loomis Sayles may pay cash compensation to these third parties, where such cash compensation may be equal to a specified percentage of the advisory fees received by Loomis Sayles from accounts obtained through the third party.

### **Amounts Received or Paid in Connection with Certain Investment Funds**

In connection with the sale of certain mutual funds that are distributed by an affiliate of Loomis Sayles Distributors, Loomis Sayles Distributors may receive a portion of fees or commissions received by such affiliates. In certain circumstances, Loomis Sayles Distributors also may pay certain amounts to affiliates and unaffiliated third parties. In connection with the sale of interests in Natixis International Funds (Dublin) I plc, the Funds may pay commissions to affiliates or unaffiliated third parties. Loomis Sayles and/or an

affiliate may also enter into arrangements with affiliates or unaffiliated third parties to pay cash compensation to these parties for sales of such funds.

In certain instances, Loomis Sayles or an affiliate may rebate a portion of the investment management fee charged to certain foreign investment pools to parties who are instrumental in arranging for investments to be made in such investment pools (or may otherwise rebate a portion of the investment management fee to certain investors in such foreign investment pools).

### **Other Payments**

In certain cases, an affiliate of Loomis Sayles may enter into an arrangement with one or more of its affiliates (including affiliated employees) or an unaffiliated third party for their assistance in referring business to Loomis Sayles or providing client service to Loomis Sayles' clients. Such affiliate of Loomis Sayles may pay cash compensation to such parties in that connection. Loomis Sayles may or may not be aware of the existence or terms of any such arrangements.

However, Loomis Sayles does make payments to certain entities in order to receive performance and database analytics as well as research, and to attend periodic conferences and workshops on investment trends, industry developments and analytical techniques. Entities that receive such payments may also serve as consultants to clients for whom Loomis Sayles provides investment advisory services, and for prospective clients to whom Loomis Sayles may provide such services. Loomis Sayles does not consider such payments to be direct or indirect compensation to any person for client referrals. These arrangements are reviewed annually.

## **Custody**

Loomis Sayles does not maintain physical custody of client assets, but Loomis Sayles and certain of its related persons are deemed to have custody over certain investment pools for which Loomis Sayles or its related persons serve as general partner, managing member or in a similar capacity. Such investment pools maintain unaffiliated "qualified custodians," undergo "surprise" audits or, in the alternative, annual audits of their financial statements and the audited financial statements are provided to clients. Loomis Sayles' clients generally retain their own custodians and maintain a separate agreement with their custodian governing the custodial services provided.

Loomis Sayles provides separate account clients with account statements that are based on information obtained from its internal accounting system. While Loomis Sayles takes great care in reconciling its information with that of client custodians, there may be some discrepancies. Loomis Sayles urges clients to compare any Loomis Sayles account statements with those of their custodian.

## **Currency Conversions**

If permitted by a client's investment guidelines, Loomis Sayles may engage in foreign currency exchange transactions with dealers as part of its investment strategy. There are also certain categories of foreign currency exchange transactions which do not involve active investment decisions or trading with third party dealers. Unless specifically directed by a client, repatriations of income and dividends for non-global fixed income accounts generally are converted back to base currency through the client's custodian in accordance with the custodian's procedures. Procedures tend to vary among custodians, particularly with respect to execution price, fees and timing and clients should ensure that their custodian's repatriation program is appropriate for them. Due to the desire to maintain currency exposure, Loomis Sayles' global accounts generally do not automatically convert income back to base currency unless directed by the client. A similar process exists for transactions in restricted currencies, which involve converting currency for purchase and sale transactions to comply with local requirements.

## **Investment Discretion**

### **Investment Discretion**

Generally, Loomis Sayles' clients give it investment discretion over assets placed under Loomis Sayles' management. When Loomis Sayles has investment discretion, it is authorized to make all investment decisions and to direct the execution of all transactions for the client's account (subject to the investment objectives and guidelines applicable to the account) without consulting with the client in connection with each transaction. Before Loomis Sayles accepts discretionary authority, it must have a signed investment advisory agreement with the client that covers the assets subject to Loomis Sayles' discretion. While not required, many client contracts include the execution of a power of attorney that specifically authorizes Loomis Sayles to take actions on the client's behalf.

Most clients customize the investment guidelines with respect to their account(s), and may specify, among other things, permissible investments, diversification requirements, quality constraints (in the case of fixed income) and prohibited investments.

Certain clients, however, retain Loomis Sayles on a non-discretionary basis (e.g., wrap fee accounts). When Loomis Sayles is retained on a non-discretionary basis, it makes recommendations for the client's account but all investment decisions are made by the client and account transactions are executed only by the client or otherwise in accordance with the client's advisory agreement.

If the client and Loomis Sayles trade the same security at about the same time, on the same or opposite side of the market, the price, amount or other terms of the trade execution may be affected. Any effect of substantially contemporaneous market activities is likely to be most pronounced where the supply or other liquidity of the security traded is limited.

Each client account is governed by the written investment guidelines the client provides to

Loomis Sayles. The fixed income guideline conventions listed below are applied only in the absence of written direction from the client. Questions regarding these conventions should be directed to the client's Client Portfolio Manager at Loomis Sayles.

### **Fixed Income Guideline Conventions**

1. **US Government Agency Securities** – Loomis Sayles has adopted the convention used by Barclays Capital, which includes debt of all federal agencies and government sponsored enterprises, most notably FNMA, FHLB and FHLMC.
2. **Securitized Agency and Securitized Credit Securities** – Securitized agency securities include securities that have an implied or explicit guarantee by the US Government or government sponsored enterprises. Securitized credit securities include asset-backed securities (ABS), residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), collateralized debt obligations (CDO) and collateralized loan obligations (CLO). Securitized agency securities, ABS, RMBS, and CMBS are deemed eligible investments unless specifically prohibited. Certificates issued by equipment trusts, which hold only equipment leased by one obligor, are not considered to be ABS.
3. **Securitized Agency and Securitized Credit Pools** – Each securitized agency and securitized credit pool is classified as a separate issuer for the purposes of calculating issuer restrictions. The shares outstanding of the entire pool, and not the shares outstanding of each individual tranche, will be used to calculate the percentage held of an outstanding issue.
4. **Securitized Credit and Securitized Agency Classifications** – Loomis Sayles currently relies on Bloomberg and Barclays for the security classification of most asset classes with the exception of securitized assets and bank loans. While Bloomberg does classify securitized assets, it does so at a very high level and not in a way that distinguishes the different asset classes and accompanying risks. Therefore, pursuant to formal policies and procedures, the Loomis Sayles Securitized Asset Investment Team will assign a security classification to securitized assets based on the security's offering document. Any subsequent classification changes to a securitized asset must be reviewed by the Compliance Department to ensure appropriateness. The Securitized Credit classification will include all securitized sectors in the benchmark; provide subcategories for ABS, RMBS, CMBS and CDO/CLO; separate Agency and Non-Agency RMBS into different categories; and combine ABS Home Equity and Non-Agency CMOs into one category under RMBS. Client guidelines and restrictions that prohibit ABS or ABS Home Equity Loan will prohibit the account from purchasing securities in the RMBS categories of Subprime, HELOC and Second Lien Loans.
5. **Preferred Stocks** – Preferred stock is deemed an eligible investment for high yield and full discretion accounts unless specifically prohibited.
6. **Convertible Securities** – Convertible securities are deemed eligible investments for high yield and full discretion accounts unless specifically prohibited. Securities



received due to the conversion of a convertible security are deemed permissible unless specifically prohibited.

7. **Supranational Securities** – Supranational securities are securities issued by an entity designated or supported by national governments to promote economic reconstruction, development or trade among nations. Examples of supranational entities include International Bank of Reconstruction and Development (“IBRD”) and the European Investment Bank (“EIB”). For purposes of complying with country guideline restrictions, the supranational entity’s headquarters will be used. Therefore, IBRD is classified as a US issuer and EIB is classified as a non-US issuer.
8. **Yankee Securities** – Yankee securities are US dollar denominated securities issued in the US by foreign domiciled issuers and traded in US markets. Yankee securities, including emerging markets Yankee securities, are deemed eligible investments unless specifically prohibited, so long as they otherwise meet the quality parameters of the guidelines.
9. **Foreign Securities** – Foreign fixed income securities are all securities that are not denominated in US dollars, including fixed income securities of US issuers denominated in non-US dollars. Securities of foreign issuers that are denominated in US dollars (e.g., Yankee and Eurodollar securities) are not treated as foreign securities.
10. **Emerging Market Securities** – Emerging Market debt securities are those that are issued by sovereign or corporate entities domiciled in a country which carries a sovereign quality rating below investment grade by either S&P or Moody's or is unrated by both S&P and Moody's or which are denominated in the currencies of such countries. As of September 2012, the sovereign quality ratings for Brazil, Chile, China, Columbia, India, Malaysia, Mexico, Peru, Russia, South Africa, Taiwan and Thailand, among others, are investment grade by both S&P and Moody's and therefore, securities issued in, domiciled in, or denominated in the currencies of these countries will NOT be considered Emerging Market debt securities for purposes of any client investment guidelines and restrictions that either prohibit or limit Emerging Market debt securities.
11. **Duration** – Unless otherwise specified, effective duration is used to calculate the average portfolio duration.
12. **Maturity** – For accounts that limit the maturity of individual bonds, Loomis Sayles may from time to time invest in bonds that exceed the maturity requirement by a few days or weeks.
13. **Industry/Sector Classification** – Loomis Sayles utilizes the Barclays Capital industry classifications to determine industry and sector allocations for all fixed income securities except for securitized credit, securitized agency and bank loan securities. Industry classifications will be based on Barclays Level 4 and sector classifications will be based on Barclays Level 3.

14. **Bank Loan Classifications** - Loomis Sayles currently relies on bank loan offering documents in order to obtain data for new bank loans and it relies on data from a variety of sources (e.g. Bloomberg, EDGAR, company websites, etc.) for data relating to existing bank loans. Updates to credit ratings are obtained from the Moody's and S&P websites. The Loomis Bank Loan Team reviews the bank loan classifications on an ongoing basis to ensure that the data remains accurate.
15. **Rating Gradation** – For purposes of complying with minimum credit quality requirements, the lowest gradation on a rating is permissible (e.g., where guidelines require that an investment be rated at least B, securities rated B- and above are permissible).
16. **Rating Agencies** – Unless otherwise specified, S&P and Moody's ratings will be used to determine the credit quality of a security.
17. **Split Rated Securities** – If a security does not have equivalent ratings from S&P and Moody's the higher rating is applied for the purposes of calculating credit quality restrictions.
18. **Government, Agency, Government Sponsored Entity, and Provincial Security Ratings** – If a Government, Agency, Government Sponsored Entity or Provincial security is not rated by S&P or Moody's, the security's sovereign quality rating will be used to determine the credit quality of the security.
19. **Non-Rated Securities** – For purposes of complying with minimum credit quality requirements, if a security is only rated by one agency, a rating of NR by the other rating agencies will not be evaluated (e.g. where guidelines require that an investment be rated at least B, a security rated B/NR is deemed permissible).
20. **Weighted Average Quality Calculation** – For purposes of calculating the weighted average quality of a portfolio, Loomis Sayles uses a linear rating scale whereby the ratings of various agencies are mapped to numeric equivalents in order to calculate the portfolio's average quality. This methodology is consistent with the Barclays Capital methodology for calculating average quality for its indices. If the guidelines permit investments in common stocks, the common stocks held in the portfolio will be excluded from the weighted average quality calculation.
21. **Commingled Funds** – Investments in commingled funds will follow the guidelines specified in the commingled fund's offering memorandum or prospectus and statement of additional information, and will not be subject to the client guidelines with the exception of the credit quality, duration, country and currency restrictions, if any. In applying these restrictions, the credit quality, duration, country and currency of the commingled fund will be used and not the credit qualities, durations, countries and currencies of the underlying instruments in the commingled fund.

22. **Forward Foreign Currency Transactions** – If an account permits the use of non-dollar securities, unless otherwise specified, the account may enter into forward foreign currency transactions to hedge against non-dollar exposure.
23. **Rule 144A Securities** – Rule 144A Securities are deemed eligible investments for all accounts that qualify as a Qualified Institutional Buyer (“QIB”) unless specifically prohibited.
24. **TBA Mortgage Securities** – TBA mortgage securities (“TBAs”) are eligible investments unless the client’s investment guidelines prohibit such instruments. A TBA represents a contract for the purchase or sale of mortgage-backed securities to be delivered at a future agreed upon date, where the specific pool numbers or the number of pools that will be delivered to fulfill the trade obligation or terms of the contract are unknown at the time of the trade.
25. **Tracking Error** – Unless otherwise specified, Loomis Sayles will measure tracking error using an ex-post calculation.
26. **Accrued Income** – Loomis Sayles will include accrued income in its definition of market value for purposes of complying with guideline exposure limits. Accrued income is defined as fixed income accruals and equity dividends receivable.
27. **Currency Linked Notes** – Currency linked notes are deemed eligible investments for accounts that permit non-dollar exposure, unless specifically prohibited.
28. **Pre-refunded Municipal Securities** – Municipal securities that are prerefunded, or escrowed to maturity, will be assigned a AAA/Aaa rating in our compliance system for purposes of complying with client rating restrictions.
29. **Swaptions** – Loomis Sayles uses a third party vendor, SuperDerivatives for swaptions security analytics.
30. **Leverage** – Loomis Sayles will only invest in derivatives instruments that are permitted by a client’s guidelines. Certain derivatives and TBAs have the ability to create leverage in a client’s portfolio due to the forward obligations they create. There are numerous definitions of leverage (e.g., custodian, accounting, physical, etc.), and as many different methods for calculating leverage. Loomis Sayles’ procedures provide that when an account enters into a forward obligation it shall maintain liquid assets to cover its obligations according to the following guidelines: (1) credit default swap protection sold by the account, uncovered (naked), written call and put options, and all non-derivative instruments with forward obligations will be covered with cash, cash equivalent assets and other High Quality Liquid Assets (defined as obligations rated at least A- by S&P, A3 by Moody's, or A- by Fitch), equal to 100% of the notional amount or the delta adjusted notional amount in the case of options, (2) credit default swap protection bought by the account (short position) will be covered with cash, cash equivalent assets and other High Quality Liquid Assets equal to the mark-to-market obligation of the swap plus the net present value of the total premiums to be paid for such swap for a rolling forward 12

month period, (3) purchases of call and put options and written call and put options used for hedging purposes will require no cover, and (4) all other derivatives not addressed above will be covered with cash, cash equivalent assets and other High Quality Liquid Assets equal to the mark-to-market obligation of the derivative plus any premium and an additional amount in order to establish an additional cushion, as determined by Loomis Sayles in its discretion. The collateral held by a counterparty or agent thereof may be taken into consideration when determining the cover guidelines described above. Forward currency transactions used to hedge an account back to its base currency will be covered by the underlying securities being hedged by such forwards. In addition, derivatives that are used to hedge a portfolio's duration to a hedged benchmark as required by a client's investment management agreement are exempt from the cover requirements described above.

An account's guideline that prohibits leverage will not preclude Loomis Sayles from using permissible derivatives provided that the forward obligations created by said derivatives are covered as described above in the account for risk management purposes.

Finally, the process followed for the 40 Act Mutual Funds is consistent with the SEC's guidance in this area.

Cash equivalent assets include the following:

- (a) Custodian STIF;
- (b) Time Deposits, Certificates of Deposits, Bankers' Acceptances;
- (c) Repurchase Agreements collateralized by US Treasury securities;
- (d) Commercial Paper with a credit quality of A1/P1 or better;
- (e) Corporate obligations with a maturity of less than one year with a credit quality of A or better;
- (f) Asset Backed Securities, Commercial Mortgage Backed Securities and Mortgage Backed Securities with an effective duration of not longer than 1 year and an expected average life of not longer than 5 years and a credit quality of A or better; and
- (g) Floating rate securities of the issuers listed above that reset at least annually and have a credit quality of A or better.

## Voting Client Securities

### **Loomis Sayles' Proxy Voting Policies and Procedures**

The Loomis Sayles Proxy Voting Policies and Procedures Manual directs the Proxy Committee on how to vote on the most common proxy proposals. Topics covered include the Board of Directors, Proxy Contests and Defenses, Auditors, Tender Offer Defenses, Governance Provisions, Capital Structure, Executive and Director Compensation, State of Incorporation, Mergers and Corporate Restructurings, Mutual Fund Proxies, and Social and Environmental Issues.

A copy of the Proxy Voting Policies and Procedures Manual is available upon request by calling 1-800-343-2029, by writing to Loomis Sayles or via the internet at <http://www.loomissayles.com/internet/internet.nsf/content?readform&ctype=importantinfo&channel=pr&disp=101#PV>.

Loomis Sayles utilizes the services of third parties (“Proxy Voting Services”) for providing research and recommendations and in voting proxies for those accounts and funds for which Loomis Sayles has voting authority. All issues presented for shareholder vote will be considered under the direction of the Proxy Committee and, when necessary, the equity analyst following the company. Loomis Sayles will generally follow the Proxy Voting Service’s recommendation, unless it deviates from Loomis Sayles’ express policy or the Proxy Committee determines that the client’s best interests are served by voting otherwise.

In addition to reviewing the Proxy Voting Services’ recommendations and directing the Proxy Voting Services on how to vote, the Proxy Committee also: (1) implements, reviews and updates the firm’s policies and procedures; (2) oversees the voting process; (3) engages and oversees third-party vendors, including Proxy Voting Services; and (4) develops and modifies the firm’s policies and procedures, as appropriate or necessary. Loomis Sayles has established several policies to ensure that proxy votes are voted in its clients’ best interest and are not affected by any possible conflicts of interest. First, except in certain limited instances, Loomis Sayles votes in accordance with its pre-determined policies set forth in its manual. Second, where the manual allows for discretion, Loomis Sayles will generally consider the recommendations of the Proxy Voting Service in making its voting decisions. However, if the Proxy Committee determines that the Proxy Voting Service’s recommendation is not in the best interest of its clients, then the Proxy Committee may use its discretion to vote against the Proxy Voting Service’s recommendation, but only after taking the following steps: (1) conducting a review for any material conflict of interest Loomis Sayles may have and, (2) if any material conflict is found to exist, excluding anyone at Loomis Sayles who is subject to that conflict of interest from participating in the voting decision in any way. However, if deemed necessary or appropriate by the Proxy Committee after full prior disclosure of any conflict, that person may provide information, opinions or recommendations on any proposal to the Proxy Committee. In such event the Proxy Committee will make reasonable efforts to obtain and consider, prior to directing any vote information, opinions or recommendations from or about the opposing position on any proposal.

There may be instances where Loomis Sayles is not able to vote proxies on a client's behalf, such as when ballot delivery instructions have not been processed by a client's custodian, the Proxy Voting Service has not received a ballot for a client's account or under other circumstances beyond Loomis Sayles' control. In addition, Loomis Sayles may abstain from voting if it is in the client's best interest to do so such as where foreign corporations follow share-blocking practices or where proxy material is not available in English.

Clients that wish to make a specific direction with respect to any proxy proposal may do so in writing addressed to their Client Portfolio Manager with sufficient advance notice prior to an issuer's voting deadline. Clients may also address questions about a specific proxy solicitation or make a request for a voting history report to their Client Portfolio Manager.

Clients of Loomis Sayles' mutual funds may obtain the voting history of their fund (or other Loomis Sayles funds) by accessing Loomis Sayles' website.

Clients that do not provide voting discretion to Loomis Sayles will receive any proxy solicitation materials resulting from their account holdings directly from the issuer or their agent.

## **Financial Information**

**Not applicable**

## PRIVACY POLICY

<b>FACTS</b>	<b>WHAT DOES LOOMIS SAYLES DO WITH YOUR PERSONAL INFORMATION?</b>	
<b>Why?</b>	Financial companies choose how they share your personal information. Federal law gives you the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.	
<b>What?</b>	<p>The types of personal information we collect and share depend on the product or service you have with us. This information can include:</p> <ul style="list-style-type: none"><li>• Social Security number</li><li>• Risk tolerance</li><li>• Account balances and account transactions</li><li>• Assets</li><li>• Investment experience</li></ul> <p>When you are no longer our customer, we continue to share your information as described in this notice.</p>	
<b>How?</b>	All financial companies need to share customers' personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers' personal information; the reasons Loomis Sayles chooses to share; and whether you can limit this sharing.	
Reasons we can share your personal information for:		
<b>Everyday business purposes.</b> such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	Yes	No
<b>Marketing purposes.</b> to offer our products and services to you	No	We don't share
<b>Joint marketing with other financial companies.</b>	No	We don't share
<b>Our affiliates' everyday business purposes.</b> This includes information about your transactions and experiences	No	We don't share
<b>Non affiliates to market to you.</b>	No	We don't share
<b>Questions?</b>	Call 617-310-3668 or go to <a href="http://www.loomissayles.com">www.loomissayles.com</a> if you have questions regarding our privacy policy.	

Who we are	
<b>Who is providing this notice?</b>	Loomis, Sayles & Company, L.P. and its subsidiaries, Loomis Sayles Distributors, L.P. and Loomis Sayles Trust Company, LLC. (collectively referred to as "Loomis Sayles")
What we do	
<b>How does Loomis Sayles protect my personal information?</b>	To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings.
<b>How does Loomis Sayles collect my personal information?</b>	For example, we collect your personal information when you: <ul style="list-style-type: none"> <li>• Enter into an investment advisory contract</li> <li>• Open an account</li> <li>• Tell us about your investment or retirement portfolio</li> <li>• Provide account information</li> <li>• Give us your contact information</li> <li>• Show your government-issued ID</li> </ul>
<b>Why can't I limit all sharing?</b>	Federal law gives you the right to limit only: <ul style="list-style-type: none"> <li>• Sharing for affiliates' everyday business purposes—information about your creditworthiness</li> <li>• Affiliates from using your information to market to you</li> <li>• Sharing for non-affiliates to market to you</li> </ul> State laws and individual companies may give you additional rights to limit sharing.
Definitions	
<b>Affiliates</b>	Companies related by common ownership or control. They can be financial and nonfinancial companies
<b>Non affiliates</b>	Companies not related by common ownership or control. They can be financial and nonfinancial companies.
<b>Joint Marketing</b>	A formal agreement between non-affiliated companies that together market financial products or services to you.



## Appendix

### **FIXED INCOME SECURITIES, PRACTICES AND CERTAIN RISKS**

Following is a description of certain fixed income securities and practices, and the associated risks, in which the Loomis Sayles Fixed Income strategies may invest, subject to each strategy's objective and the specific investment guidelines applicable to each client.

#### **Debt Securities**

Debt securities are used by issuers to borrow money. The issuer usually pays a fixed, variable or floating rate of interest and must repay the amount borrowed at the maturity of the security. Some debt securities, such as zero-coupon securities, do not pay interest but are sold at a discount from their face values. Debt securities include corporate bonds, government securities and mortgage- and other asset-backed securities. Debt securities include a broad array of short-, medium- and long-term obligations issued by the U.S. or foreign governments, government or international agencies and instrumentalities, and corporate issuers of various types. Some debt securities represent uncollateralized obligations of their issuers; in other cases, the securities may be backed by specific assets (such as mortgages or other receivables) that have been set aside as collateral for the issuer's obligation. Debt securities generally involve an obligation of the issuer to pay interest or dividends on either a current basis or at the maturity of the securities, as well as the obligation to repay the principal amount of the security at maturity.

*Risks.* Debt securities are subject to market risk and credit risk. Credit risk relates to the ability of the issuer to make payments of principal and interest and includes the risk of default. Sometimes, an issuer may make these payments from money raised through a variety of sources, including, with respect to issuers of municipal securities, (i) the issuer's general taxing power, (ii) a specific type of tax, such as a property tax, or (iii) a particular facility or project such as a highway. The ability of an issuer to make these payments could be affected by general economic conditions, issues specific to the issuer, litigation, legislation or other political events, the bankruptcy of the issuer, war, natural disasters, terrorism or other major events. U.S. Government securities do not involve the credit risks associated with other types of fixed-income securities; as a result, the yields available from U.S. Government securities are generally lower than the yields available from corporate and municipal debt securities. Market risk is the risk that the value of the security will fall because of changes in market rates of interest. Generally, the value of debt securities falls when market rates of interest are rising. Some debt securities also involve prepayment or call risk. This is the risk that the issuer will repay an account the principal on the security before it is due, thus depriving the account of a favorable stream of future interest payments.

Because interest rates vary, it is impossible to predict the income of an account that invests in debt securities for any particular period.

#### **Adjustable Rate Mortgage Security ("ARM")**

An ARM, like a traditional mortgage security, is an interest in a pool of mortgage loans that provides investors with payments consisting of both principal and interest, as mortgage loans in the underlying mortgage pool are paid off by the borrowers. ARMs have interest rates that are reset at periodic intervals, usually by reference to some interest rate index or market interest rate. Although the rate adjustment feature may act as a buffer to reduce sharp changes in the value of adjustable rate securities, these securities are still subject to changes in value based on changes in market interest rates or changes in the issuer's creditworthiness. Since the interest rates are reset only periodically, changes in the interest rate on ARMs may lag behind changes in prevailing market interest rates. Also, some ARMs (or the underlying mortgages) are subject to caps or floors that limit the maximum change in interest rate during a specified period or over the life of the security. As a result, changes in the interest rate on an ARM may not fully reflect changes in prevailing market interest rates during certain periods. Because of the resetting of interest rates, ARMs are less likely than non-adjustable rate securities of comparable quality and maturity to increase significantly in value when market interest rates fall.

ARMs involve risks similar to those described in the section “Mortgage-Related Securities.”

### **Asset-Backed Securities**

The securitization techniques used to develop mortgage securities are also being applied to a broad range of other assets. Mortgage-backed securities are a type of asset-backed security. Through the use of trusts and special purpose vehicles, assets, such as automobile and credit card receivables, are being securitized in pass-through structures similar to mortgage pass-through structures or in a pay-through structure similar to a collateralized mortgage obligation structure (described below). Generally, the issuers of asset-backed bonds, notes or pass-through certificates are special purpose entities and do not have any significant assets other than the receivables securing such obligations. In general, the collateral supporting asset-backed securities is of shorter maturity than mortgage loans. Instruments backed by pools of receivables are similar to mortgage-backed securities in that they are subject to unscheduled prepayments of principal prior to maturity. When the obligations are prepaid, an account will ordinarily reinvest the prepaid amounts in securities, the yields of which reflect interest rates prevailing at the time. Therefore, an account’s ability to maintain a portfolio that includes high-yielding asset-backed securities will be adversely affected to the extent that prepayments of principal must be reinvested in securities that have lower yields than the prepaid obligations. Moreover, prepayments of securities purchased at a premium could result in a realized loss. The value of some asset-backed securities in which an account invests may be particularly sensitive to changes in prevailing interest rates, and the ability of an account to successfully utilize these instruments may depend in part upon the ability of Loomis Sayles to forecast interest rates and other economic factors correctly. Asset-backed securities involve risks similar to those described in the section “Mortgage-Related Securities.”

### **Bank Loans**

Bank loans include senior secured and unsecured floating rate loans made by U.S. banks and other financial institutions to corporate customers. Typically, these loans hold the most senior position in a borrower’s capital structure, may be secured by the borrower’s assets and have interest rates that reset frequently. These loans generally will not be rated investment-grade by the rating agencies. Economic downturns generally lead to higher non-payment and default rates and a senior loan could lose a substantial part of its value prior to a default. However, as compared to junk bonds, senior floating rate loans are typically senior in the capital structure and are often secured by collateral of the borrower. An account’s investments in loans are subject to credit risk, and even secured bank loans may not be adequately collateralized. The interest rates on many bank loans reset frequently, and therefore investors are subject to the risk that the return will be less than anticipated when the investment was first made. Most bank loans, like most investment-grade bonds, are not traded on any national securities exchange. Bank loans generally have less liquidity than investment-grade bonds and there may be less public information available about them. An account may participate in the primary syndicate for a bank loan or it may also purchase loans from other lenders (sometimes referred to as loan assignments).

An account may also acquire a participation interest in another lender’s portion of the senior loan. Large loans to corporations or governments may be shared or syndicated among several lenders, usually banks. An account may participate in such syndicates, or can buy part of a loan, becoming a direct lender. Participation interests involve special types of risk, including liquidity risk and the risks of being a lender. If an account purchases a participation interest, it may only be able to enforce its rights through the lender, and may assume the credit risk of the lender in addition to the credit risk of the borrower.

### **Loans, Loan Participations and Assignments**

An account may invest in direct debt instruments, which are interests in amounts owed by a corporate, governmental, or other borrower to lenders or lending syndicates (loans and loan participations), to suppliers of goods or services (trade claims or other receivables), or to other parties.

Purchasers of loans and other forms of direct indebtedness depend primarily upon the creditworthiness of the borrower for payment of principal and interest. Direct debt instruments may not be rated by any nationally recognized rating agency. Loans that are fully secured offer an account more protections than an unsecured loan in the event of non-payment of scheduled interest or principal. However,

there is no assurance that the liquidation of collateral from a secured loan would satisfy the borrower's obligation, or that the collateral can be liquidated. Indebtedness of borrowers whose creditworthiness is poor involves substantially greater risks, and may be highly speculative. Borrowers that are in bankruptcy or restructuring may never pay off their indebtedness, or may pay only a small fraction of the amount owed.

When investing in a loan participation, an account typically will have the right to receive payments only from the lender to the extent the lender receives payments from the borrower, and not from the borrower itself. Likewise, an account typically will be able to enforce its rights only through the lender, and not directly against the borrower. As a result, an account will assume the credit risk of both the borrower and the lender that is selling the participation.

Investments in loans through direct assignment of a financial institution's interests with respect to a loan may involve additional risks to an account. For example, if the loan is foreclosed, an account could become part owner of any collateral, and would bear the costs and liabilities associated with owning and disposing of the collateral. In addition, it is conceivable that under emerging legal theories of lender liability, an account could be held liable as a co-lender. In the case of loan participations, direct debt instruments may also involve a risk of insolvency of the lending bank or other intermediary. Direct debt instruments that are not in the form of securities may offer less legal protection to an account in the event of fraud or misrepresentation. In the absence of definitive regulatory guidance, an account may rely on Loomis Sayles' research to attempt to avoid situations where fraud or misrepresentation could adversely affect an account.

A loan is often administered by a bank or other financial institution that acts as agent for all holders. The agent administers the terms of the loan, as specified in the loan agreement. Unless, under the terms of the loan or other indebtedness, an account has direct recourse against the borrower, it may have to rely on the agent to apply appropriate credit remedies against a borrower.

## **Second Lien Loans**

Second lien loans are subject to the same risks associated with investment in senior loans and non-investment grade bonds. However, second lien loans are second in right of payment to senior loans and therefore are subject to additional risk that the cash flow of the borrower and any property securing the loan may be insufficient to meet scheduled payments after giving effect to the senior secured obligations of the borrower. Second lien loans are expected to have greater price volatility than senior loans and may be less liquid. There is also a possibility that originators will not be able to sell participations in second lien loans, which would create greater credit risk exposure.

## **Other Secured Loans**

Secured loans other than senior loans and second lien loans are subject to the same risks associated with investment in senior loans, second lien loans and non-investment grade bonds. However, such loans may rank lower in right of payment than any outstanding senior loans and second lien loans of the borrower and, therefore, are subject to additional risk that the cash flow of the borrower and any property securing the loan may be insufficient to meet scheduled payments after giving effect to the higher ranking secured obligations of the borrower. Lower ranking secured loans are expected to have greater price volatility than senior loans and second lien loans and may be less liquid. There is also a possibility that originators will not be able to sell participations in lower ranking secured loans, which would create greater credit risk exposure.

## **Unsecured Loans**

Unsecured loans are subject to the same risks associated with investment in senior loans, second lien loans, other secured loans and non-investment grade bonds. However, because unsecured loans have lower priority in right of payment to any higher ranking obligations of the borrower and are not backed by a security interest in any specific collateral, they are subject to additional risk that the cash flow of the borrower and available assets may be insufficient to meet scheduled payments after giving effect to any higher ranking obligations of the borrower. Unsecured loans are expected to have greater price volatility than senior loans, second lien loans and other secured loans and may be less liquid. There is also a possibility that originators will not be able to sell participations in unsecured loans, which would create greater credit risk exposure.

## **Funding Agreements**

An account may invest in Guaranteed Investment Contracts (“GICs”) and similar funding agreements. In connection with these investments, an account makes cash contributions to a deposit fund of an insurance company’s general account. The insurance company then credits to an account on a monthly basis guaranteed interest, which is based on an index (such as LIBOR). The funding agreements provide that this guaranteed interest will not be less than a certain minimum rate. The purchase price paid for an accounting agreement become part of the general assets of the insurance company. Generally, funding agreements are not assignable or transferable without the permission of the issuing company, and an active secondary market in some funding agreements does not currently exist.

## **Collateralized Mortgage Obligations (“CMOs”)**

CMOs are securities backed by a portfolio of mortgages or mortgage securities held under indentures. CMOs may be issued either by U.S. Government instrumentalities or by non-governmental entities. CMOs are not direct obligations of the U.S. Government. The issuer’s obligation to make interest and principal payments is secured by the underlying portfolio of mortgages or mortgage securities. CMOs are issued with a number of classes or series which have different maturities and which may represent interests in some or all of the interest or principal on the underlying collateral or a combination thereof. CMOs of different classes are generally retired in sequence as the underlying mortgage loans in the mortgage pool are repaid. In the event of sufficient early prepayments on such mortgages, the class or series of CMO first to mature generally will be retired prior to its maturity. Thus, the early retirement of a particular class or series of CMO held by an account would have the same effect as the prepayment of mortgages underlying a mortgage pass-through security. CMOs and other asset-backed and mortgage-backed securities may be considered derivative securities. CMOs involve risks similar to those described in the section “Mortgage-Related Securities.”

## **Convertible Securities**

Convertible securities include corporate bonds, notes or preferred stocks of U.S. or foreign issuers that can be converted into (exchanged for) common stocks or other equity securities. Convertible securities also include other securities, such as warrants, that provide an opportunity for equity participation. Since convertible securities may be converted into equity securities, their values will normally vary in some proportion with those of the underlying equity securities. Convertible securities usually provide a higher yield than the underlying equity, however, so that the price decline of a convertible security may sometimes be less substantial than that of the underlying equity security. Convertible securities are generally subject to the same risks as non-convertible fixed-income securities, but usually provide a lower yield than comparable fixed-income securities. Many convertible securities are relatively illiquid.

## **Fixed-Income Securities**

Fixed-income securities pay a specified rate of interest or dividends, or a rate that is adjusted periodically by reference to some specified index or market rate. Fixed-income securities include securities issued by federal, state, local and foreign governments and related agencies, and by a wide range of private or corporate issuers. Fixed-income securities include, among others, bonds, debentures, notes, bills and commercial paper. Because interest rates vary, it is impossible to predict the income of an account for any particular period. In addition, the prices of fixed-income securities generally vary inversely with changes in interest rates. Prices of fixed-income securities may also be affected by items related to a particular issue or to the debt markets generally.

***Investment-Grade Fixed-Income Securities.*** To be considered investment-grade quality, at least one of the three major rating agencies (Fitch, Moody’s or S&P) must have rated the security in one of their respective top four rating categories at the time an account acquires the security or, if the security is unrated, Loomis Sayles must have determined it to be of comparable quality.

***Lower-Quality Fixed-Income Securities.*** Lower-quality fixed-income securities (commonly referred to as “junk bonds”) are below investment-grade quality. To be considered below investment-grade quality, none of the three major rating agencies (Fitch’s, Moody’s and S&P) must have rated the security in one

of their respective top four rating categories at the time an account acquires the security or, if the security is unrated, Loomis Sayles must have determined it to be of comparable quality.

Lower-quality fixed-income securities are subject to greater credit risk and market risk than higher-quality fixed-income securities. Lower-quality fixed-income securities are considered predominantly speculative with respect to the ability of the issuer to make timely principal and interest payments. If an account invests in lower-quality fixed-income securities, an account's achievement of its objective may be more dependent on Loomis Sayles' own credit analysis than is the case with accounts that invest in higher-quality fixed-income securities. The market for lower-quality fixed-income securities may be more severely affected than some other financial markets by economic recession or substantial interest rate increases, by changing public perceptions of this market, or by legislation that limits the ability of certain categories of financial institutions to invest in these securities. In addition, the secondary market may be less liquid for lower-quality fixed-income securities. This lack of liquidity at certain times may affect the values of these securities and may make the evaluation and sale of these securities more difficult. Lower-quality fixed-income securities may be in poor standing or in default and typically have speculative characteristics.

An account may continue to hold fixed-income securities that are downgraded in quality subsequent to their purchase if Loomis Sayles believes it would be advantageous to do so.

### **Inflation-Linked and Inflation-Indexed Securities**

The principal amount of these securities increases with increases in the price index used as a reference value for the securities. In addition, the amounts payable as coupon interest payments increase when the price index increases because the interest amount is calculated by multiplying the principal amount (as adjusted) by a fixed coupon rate.

Although inflation-linked securities protect their holders from long-term inflationary trends, short-term increases in inflation may result in a decline in value. The values of inflation-linked securities generally fluctuate in response to changes to real interest rates, which are in turn tied to the relationship between nominal interest rates and the rate of inflation. If inflation were to rise at a rate faster than nominal interest rates, real interest rates might decline, leading to an increase in value of the inflation-linked securities. In contrast, if nominal interest rates increased at a faster rate than inflation, real interest rate might rise, leading to a decrease in the value of inflation-linked securities. If inflation is lower than expected during a period an account holds inflation-linked securities, the account may earn less on such securities than on a conventional security. If interest rates rise due to reasons other than inflation (for example, due to changes in currency exchange rates), investors in inflation-linked securities may not be protected to the extent that the increase is not reflected in the price index used as a reference for the securities. There can be no assurance that the price index used for an inflation-linked security will accurately measure the real rate of inflation in the prices of goods and services. Inflation-linked and inflation-indexed securities include Treasury Inflation-Protected Securities issued by the U.S. Government (see the section "U.S. Government Securities" for additional information), but also may include securities issued by state, local and non-U.S. Governments and corporations and supranational entities.

### **Mortgage Dollar Rolls**

A dollar roll involves the sale of a security by an account and its agreement to repurchase the instrument at a specified time and price, and may be considered a form of borrowing for some purposes. An account will designate on its records or segregate with its custodian bank assets determined to be liquid in an amount sufficient to meet its obligations under the transactions. A dollar roll involves potential risks of loss that are different from those related to the securities underlying the transactions. An account may be required to purchase securities at a higher price than may otherwise be available on the open market. Since the counterparty in the transaction is required to deliver a similar, but not identical, security to the account, the security that the account is required to buy under the dollar roll may be worth less than an identical security. There is no assurance that an account's use of the cash that it receives from a dollar roll will provide a return that exceeds borrowing costs.

## **Mortgage-Related Securities**

Mortgage-related securities include Government National Mortgage Association (“GNMA”) or Federal National Mortgage Association (“FNMA”) certificates, which differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that principal may be prepaid at any time because the underlying mortgage loans generally may be prepaid at any time. As a result, if an account purchases these assets at a premium, a faster-than-expected prepayment rate will tend to reduce yield to maturity, and a slower-than-expected prepayment rate may have the opposite effect of increasing yield to maturity. If an account purchases mortgage-related securities at a discount, faster-than-expected prepayments will tend to increase, and slower-than-expected prepayments tend to reduce, yield to maturity. Prepayments, and resulting amounts available for reinvestment by an account, are likely to be greater during a period of declining interest rates and, as a result, are likely to be reinvested at lower interest rates. Accelerated prepayments on securities purchased at a premium may result in a loss of principal if the premium has not been fully amortized at the time of prepayment. Although these securities will decrease in value as a result of increases in interest rates generally, they are likely to appreciate less than other fixed-income securities when interest rates decline because of the risk of prepayments. In addition, an increase in interest rates would also increase the inherent volatility of an account by increasing the average life of the account’s portfolio securities. The value of some mortgage-backed or asset-backed securities in which an account invests may be particularly sensitive to changes in prevailing interest rates, and the ability of an account to successfully utilize these instruments may depend in part upon the ability of Loomis Sayles to forecast interest rates and other economic factors correctly. The risk of non-payment is greater for mortgage-related securities that are backed by mortgage pools that contain “subprime” or “Alt-A” loans (loans made to borrowers with weakened credit histories, less documentation or with a lower capacity to make timely payments on their loans), but a level of risk exists for all loans. Market factors adversely affecting mortgage loan repayments may include a general economic downturn, high unemployment, a general slowdown in the real estate market, a drop in the market prices of real estate or an increase in interest rates resulting in higher mortgage payments by holders of adjustable-rate mortgages. The market for mortgage-related securities has recently experienced high volatility and a lack of liquidity. As a result, the value of many of these securities has significantly declined. There can be no assurance that these markets will become more liquid or less volatile, and it is possible that the value of these securities could decline further. Securities issued by the GNMA and the FNMA and similar issuers may also be exposed to risks described in the section “U.S. Government Securities.”

## **Pay-in-Kind Securities**

Pay-in-kind securities pay dividends or interest in the form of additional securities of the issuer, rather than in cash. These securities are usually issued and traded at a discount from their face amounts. The amount of the discount varies depending on various factors, such as the time remaining until maturity of the securities, prevailing interest rates, the liquidity of the security and the perceived credit quality of the issuer. The market prices of pay-in-kind securities generally are more volatile than the market prices of securities that pay interest periodically and are likely to respond to changes in interest rates to a greater degree than are other types of securities having similar maturities and credit quality.

## **Rule 144A Securities and Section 4(2) Commercial Paper**

Rule 144A securities are privately offered securities that can be resold only to certain qualified institutional buyers pursuant to Rule 144A under the Securities Act. An account may also purchase commercial paper issued under Section 4(2) of the Securities Act. Investing in Rule 144A securities and Section 4(2) commercial paper could have the effect of increasing the level of an account’s illiquidity to the extent that qualified institutional buyers become, for a time, uninterested in purchasing these securities. Rule 144A securities and Section 4(2) commercial paper are treated as illiquid unless Loomis Sayles has determined that the particular issue is liquid.

## **Step-Coupon Securities**

Step-coupon securities trade at a discount from their face value and pay coupon interest. The coupon rate is low for an initial period and then increases to a higher coupon rate thereafter. Market values of these types of securities generally fluctuate in response to changes in interest rates to a greater degree than

conventional interest-paying securities of comparable term and quality. Under many market conditions, investments in such securities may be illiquid, making it difficult for an account to dispose of them or determine their current value.

### **“Stripped” Securities**

Stripped securities are usually structured with two or more classes that receive different proportions of the interest and principal distribution on a pool of U.S. Government or foreign government securities or mortgage assets. In some cases, one class will receive all of the interest (the interest-only or “IO” class), while the other class will receive all of the principal (the principal-only or “PO” class). Stripped securities commonly have greater market volatility than other types of fixed-income securities. In the case of stripped mortgage securities, if the underlying mortgage assets experience greater than anticipated payments of principal, an account may fail to recoup fully its investments in IOs.. Stripped securities may be considered derivative securities, discussed in the section “Derivative Instruments.”

### **Structured Notes**

These instruments are debt obligations issued by industrial corporations, financial institutions or governmental or international agencies. Traditional debt obligations typically obligate the issuer to repay the principal plus a specified rate of interest. Structured notes, by contrast, obligate the issuer to pay amounts of principal or interest that are determined by reference to changes in some external factor or factors, or the principal and interest rate may vary from the stated rate because of changes in these factors. For example, the issuer’s obligations could be determined by reference to changes in the value of a commodity (such as gold or oil) or commodity index, a foreign currency, an index of securities (such as the S&P 500 Index) or an interest rate (such as the U.S. Treasury bill rate). In some cases, the issuer’s obligations are determined by reference to changes over time in the difference (or “spread”) between two or more external factors (such as the U.S. prime lending rate and the total return of the stock market in a particular country, as measured by a stock index). In some cases, the issuer’s obligations may fluctuate inversely with changes in an external factor or factors (for example, if the U.S. prime lending rate goes up, the issuer’s interest payment obligations are reduced). In some cases, the issuer’s obligations may be determined by some multiple of the change in an external factor or factors (for example, three times the change in the U.S. Treasury bill rate). In some cases, the issuer’s obligations remain fixed (as with a traditional debt instrument) so long as an external factor or factors do not change by more than the specified amount (for example, if the value of a stock index does not exceed some specified maximum), but if the external factor or factors change by more than the specified amount, the issuer’s obligations may be sharply reduced.

Structured notes can serve many different purposes in the management of an account. For example, they can be used to increase an account’s exposure to changes in the value of assets that the account would not ordinarily purchase directly (such as commodities or stocks traded in a market that is not open to U.S. investors). They can also be used to hedge the risks associated with other investments an account holds. For example, if a structured note has an interest rate that fluctuates inversely with general changes in a country’s stock market index, the value of the structured note would generally move in the opposite direction to the value of holdings of stocks in that market, thus moderating the effect of stock market movements on the value of an account’s portfolio as a whole.

*Risks.* Structured notes involve special risks. As with any debt obligation, structured notes involve the risk that the issuer will become insolvent or otherwise default on its payment obligations. This risk is in addition to the risk that the issuer’s obligations (and thus the value of an account’s investment) will be reduced because of adverse changes in the external factor or factors to which the obligations are linked. The value of structured notes will in many cases be more volatile (that is, will change more rapidly or severely) than the value of traditional debt instruments. Volatility will be especially high if the issuer’s obligations are determined by reference to some multiple of the change in the external factor or factors. Many structured notes have limited or no liquidity, so that an account would be unable to dispose of the investment prior to maturity. As with all investments, successful use of structured notes depends in significant part on the accuracy of Loomis Sayles’ analysis of the issuer’s creditworthiness and financial prospects, and of Loomis Sayles’ forecast as to changes in relevant economic and financial market conditions and factors. In instances where the issuer of a structured note is a foreign entity, the usual risks associated with investments in foreign securities (described below) apply.

Structured notes may be considered derivative securities.

### **Tax-Exempt Securities**

Tax-exempt securities (“Tax-Exempt Securities”) refers to debt securities, the interest from which is, in the opinion of bond counsel to the issuer (or on the basis of other authority believed by the respective account’s portfolio manager to be reliable), exempt from U.S. federal income tax. Tax-Exempt Securities include debt obligations issued by or on behalf of states, territories and possessions of the United States and their political subdivisions (for example, counties, cities, towns, villages and school districts) and authorities to obtain funds for various public purposes, including the construction of a wide range of public facilities such as airports, bridges, highways, housing, hospitals, mass transportation, schools, streets and water and sewer works. Other public purposes for which certain Tax-Exempt Securities may be issued include the refunding of outstanding obligations, obtaining funds for federal operating expenses, or obtaining funds to lend to public or private institutions for the construction of facilities such as educational, hospital and housing facilities. In addition, certain types of private activity bonds have been or may be issued by public authorities or on behalf of state or local governmental units to finance privately operated housing facilities, sports facilities, convention or trade facilities, air or water pollution control facilities and certain local facilities for water supply, gas, electricity or sewage or solid waste disposal. Such obligations are included within the term “Tax-Exempt Securities” if the interest paid thereon, is, in the opinion of bond counsel to the issuer (or on the basis of other authority believed by an account’s portfolio manager to be reliable), exempt from U.S. federal income taxation.

There are variations in the quality of Tax-Exempt Securities, both within a particular classification and between classifications, depending on numerous factors.

The two principal classifications of tax-exempt bonds are general obligation bonds and limited obligation (or revenue) bonds. General obligation bonds are obligations involving the credit of an issuer possessing taxing power and are payable from the issuer’s general unrestricted revenues and not from any particular fund or source. The characteristics and method of enforcement of general obligation bonds vary according to the law applicable to the particular issuer, and payment may be dependent upon an appropriation by the issuer’s legislative body. Limited obligation bonds are payable only from the revenues derived from a particular facility or class of facilities, or in some cases from the proceeds of a special excise or other specific revenue source such as the user of the facility. Tax-exempt private activity bonds are in most cases revenue bonds and generally are not payable from the unrestricted revenues of the issuer. The credit and quality of such bonds are usually directly related to the credit standing of the corporate user of the facilities. Principal and interest on such bonds are the responsibilities of the corporate user (and any guarantor).

The yields on Tax-Exempt Securities are dependent on a variety of factors, including general money market conditions, the financial condition of the issuer, general conditions of the Tax-Exempt Securities market, the size of a particular offering, the maturity of the obligation and the rating of the issue. Further, information about the financial condition of an issuer of tax-exempt bonds may not be as extensive as that made available by corporations whose securities are publicly traded. The ratings of Moody’s and S&P represent their opinions as to the quality of the Tax-Exempt Securities which they undertake to rate. It should be emphasized, however, that ratings are general and are not absolute standards of quality. Consequently, Tax-Exempt Securities with the same maturity, interest rate and rating may have different yields while Tax-Exempt Securities of the same maturity and interest rate with different ratings may have the same yield. Subsequent to its purchase by an account, an issue of Tax-Exempt Securities or other investments may cease to be rated or the rating may be reduced below the minimum rating required for purchase by an account. Neither event may require the elimination of an investment from an account, but Loomis Sayles will consider such an event as part of its normal, ongoing review of all the account’s portfolio securities.

Tax-Exempt Securities are subject to the provisions of bankruptcy, insolvency and other laws affecting the rights and remedies of creditors, such as the federal Bankruptcy Code, and laws, if any, which may be enacted by Congress or the state legislatures extending the time for payment of principal or interest, or both, or imposing other constraints upon enforcement of such obligations. There is also the possibility that as a result of litigation or other conditions, the power or ability of issuers to meet their obligations for the payment of interest and principal on their Tax-Exempt Securities may be materially affected or that their obligations may be found to be invalid and unenforceable. Such litigation or conditions may from time to time have the effect



of introducing uncertainties in the market for tax-exempt bonds or certain segments thereof, or materially affecting the credit risk with respect to particular bonds. Adverse economic, legal or political developments might affect all or a substantial portion of an account's Tax-Exempt Securities in the same manner.

From time to time, proposals have been introduced before Congress for the purpose of restricting or eliminating the U.S. federal income tax exemption for interest on debt obligations issued by states and their political subdivisions and similar proposals may well be introduced in the future. If such a proposal were enacted, the availability of Tax-Exempt Securities for investment by an account and the value of such account's portfolio securities could be materially affected.

All debt securities, including tax-exempt bonds, are subject to credit and market risk. Generally, for any given change in the level of interest rates, prices for longer maturity issues tend to fluctuate more than prices for shorter maturity issues.

## **U.S. Government Securities**

**U.S. Treasury Bills** - Direct obligations of the U.S. Treasury that are issued in maturities of one year or less. No interest is paid on Treasury bills; instead, they are issued at a discount and repaid at full face value when they mature. They are backed by the full faith and credit of the U.S. Government.

**U.S. Treasury Notes and Bonds** - Direct obligations of the U.S. Treasury issued in maturities that vary between one and 30 years, with interest normally payable every six months. These obligations are backed by the full faith and credit of the U.S. Government.

**Treasury Inflation-Protected Securities ("TIPS")** - Fixed-income securities whose principal value is periodically adjusted according to the rate of inflation. The interest rate on TIPS is fixed at issuance, but over the life of the bond this interest may be paid on an increasing or decreasing principal value that has been adjusted for inflation. Although repayment of the original bond principal upon maturity is guaranteed, the market value of TIPS is not guaranteed, and will fluctuate.

**"Ginnie Maes"** - Debt securities issued by a mortgage banker or other mortgagee which represent an interest in a pool of mortgages insured by the Federal Housing Administration or the Rural Housing Service or guaranteed by the Veterans Administration. The GNMA guarantees the timely payment of principal and interest when such payments are due, whether or not these amounts are collected by the issuer of these certificates on the underlying mortgages. It is generally understood that a guarantee by GNMA is backed by the full faith and credit of the United States. Mortgages included in single family or multi-family residential mortgage pools backing an issue of Ginnie Maes have a maximum maturity of 30 years. Scheduled payments of principal and interest are made to the registered holders of Ginnie Maes (such as an account) each month. Unscheduled prepayments may be made by homeowners, or as a result of a default. Prepayments are passed through to the registered holder (such as a client account, which would reinvest any prepayments) of Ginnie Maes along with regular monthly payments of principal and interest.

**"Fannie Maes"** - The FNMA is a government-sponsored corporation owned entirely by private stockholders that purchases residential mortgages from a list of approved seller/servicers, including state and federally chartered savings and loan associations, mutual funds savings banks, commercial banks, credit unions and mortgage banks. Fannie Maes are pass-through securities issued by FNMA that are guaranteed as to timely payment of principal and interest by FNMA, but these obligations are not backed by the full faith and credit of the U.S. Government.

**"Freddie Macs"** - The Federal Home Loan Mortgage Corporation ("FHLMC") is a corporate instrumentality of the U.S. Government. Freddie Macs are participation certificates issued by FHLMC that represent an interest in residential mortgages from FHLMC's National Portfolio. FHLMC guarantees the timely payment of interest and ultimate collection of principal, but these obligations are not backed by the full faith and credit of the U.S. Government.

*Risks.* U.S. Government securities generally do not involve the credit risks associated with

investments in other types of fixed-income securities, although, as a result, the yields available from U.S. Government securities are generally lower than the yields available from corporate fixed-income securities. Like other debt securities, however, the values of U.S. Government securities change as interest rates fluctuate. Fluctuations in the value of portfolio securities will not affect interest income on existing portfolio securities. Because the magnitude of these fluctuations will generally be greater at times when an account's average maturity is longer, under certain market conditions an account may, for temporary defensive purposes, accept lower current income from short-term investments rather than investing in higher yielding long-term securities. Securities such as those issued by Fannie Mae and Freddie Mac are guaranteed as to the payment of principal and interest by the relevant entity (*e.g.*, FNMA or FHLMC) but have not been backed by the full faith and credit of the U.S. Government. Instead, they have been supported only by the discretionary authority of the U.S. Government to purchase the agency's obligations. An event affecting the guaranteeing entity could adversely affect the payment of principal or interest or both on the security, and therefore, these types of securities should be considered to be riskier than U.S. Government securities.

S&P downgraded its long-term sovereign credit rating on the United States from "AAA" to "AA+" on August 5, 2011. Although the complete impact of the downgrade is uncertain as of the date of this Statement, it may result in increased volatility or liquidity risk. Further, the value of the Funds' shares may be adversely affected by S&P's downgrade or any future downgrades of the U.S. Government's credit rating given that the Funds may invest in U.S. Government securities.

In September 2008, the U.S. Treasury Department announced that the government would be taking over the FNMA and FHLMC and placing the companies in a conservatorship. The companies remain in conservatorship, and the effect that this conservatorship will have on the companies' debt and equity securities is unclear. Although the U.S. government has recently provided financial support to FNMA and FHLMC, there can be no assurance that it will support these or other government-sponsored enterprises in the future. In addition, any such government support may benefit the holders of only certain classes of an issuer's securities.

The values of TIPS generally fluctuate in response to changes in real interest rates, which are in turn tied to the relationship between nominal interest rates and the rate of inflation. If inflation were to rise at a faster rate than nominal interest rates, real interest rates might decline, leading to an increase in value of TIPS. In contrast, if nominal interest rates increased at a faster rate than inflation, real interest rates might rise, leading to a decrease in value of TIPS. If inflation is lower than expected during the period an account holds TIPS, the account may earn less on the TIPS than on a conventional bond. If interest rates rise due to reasons other than inflation (for example, due to changes in currency exchange rates), investors in TIPS may not be protected to the extent that the increase is not reflected in the bonds' inflation measure. There can be no assurance that the inflation index for TIPS will accurately measure the real rate of inflation in the prices of goods and services.

See the section "Mortgage-Related Securities" for additional information on these securities.

### **Zero Coupon Securities**

An account may invest in zero coupon securities, which are debt obligations that do not entitle the holder to any periodic payments of interest either for the life of the obligation or for an initial period after the issuance of the obligation; the holder generally is entitled to receive the par value of the security at maturity. These securities are issued and traded at a discount from their face amounts. The amount of the discount varies depending on such factors as the time remaining until maturity of the securities, prevailing interest rates, the liquidity of the security, and the perceived credit quality of the issuer. The market prices of zero coupon securities generally are more volatile than the market prices of securities that pay interest periodically and are likely to respond to changes in interest rates to a greater degree than coupon bonds having similar maturities and credit quality.

### **Variable and Floating Rate Instruments**

Variable and floating rate instruments may include variable amount master demand notes that permit the indebtedness thereunder to vary in addition to providing for periodic adjustments in the interest rate. These also include leveraged inverse floating rate debt instruments, or "inverse floaters". The interest rate of

an inverse floater resets in the opposite direction from the market rate of interest on a security or interest to which it is related. An inverse floater may be considered to be leveraged to the extent that its interest rate varies by a magnitude that exceeds the magnitude of the change in the index rate of interest, and is subject to many of the same risks as derivatives. The higher degree of leverage inherent in inverse floaters is associated with greater volatility in their market values. Certain of these investments may be illiquid. The absence of an active secondary market with respect to these investments could make it difficult for an account to dispose of a variable or floating rate note if the issuer defaulted on its payment obligation or during periods that an account is not entitled to exercise its demand rights, and an account could, for these or other reasons, suffer a loss with respect to such instruments.

### **Collateralized Debt Obligations**

An account may invest in collateralized debt obligations (“CDOs”), which includes collateralized bond obligations (“CBOs”), collateralized loan obligations (“CLOs”) and other similarly structured securities. CBOs and CLOs are types of asset-backed securities. A CBO is a trust which is backed by a diversified pool of high risk, below investment grade fixed income securities. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans, and subordinate corporate loans, including loans that may be rated below investment grade or equivalent unrated loans. CDOs may charge management fees and administrative expenses.

For both CBOs and CLOs, the cash flows from the trust are split into two or more portions, called tranches, varying in risk and yield. The riskiest portion is the “equity” tranche which bears the bulk of defaults from the bonds or loans in the trust and serves to protect the other, more senior tranches from default in all but the most severe circumstances. Since it is partially protected from defaults, a senior tranche from a CBO trust or CLO trust typically have higher ratings and lower yields than their underlying securities, and can be rated investment grade. Despite the protection from the equity tranche, CBO or CLO tranches can experience substantial losses due to actual defaults, increased sensitivity to defaults due to collateral default and disappearance of protecting tranches, market anticipation of defaults, as well as aversion to CBO or CLO securities as a class.

The risks of an investment in a CDO depend largely on the type of the collateral securities and the class of the CDO in which an account invests. Normally, CBOs, CLOs and other CDOs are privately offered and sold, and thus, are not registered under the securities laws. As a result, investments in CDOs may be characterized by an account as illiquid securities, however an active dealer market may exist for CDOs allowing a CDO to qualify for Rule 144A transactions. In addition to the normal risks associated with fixed income securities discussed elsewhere (e.g., interest rate risk and default risk), CDOs carry additional risks including, but are not limited to: (i) the possibility that distributions from collateral securities will not be adequate to make interest or other payments; (ii) the quality of the collateral may decline in value or default; (iii) classes of a CDO that are subordinate to other classes; and (iv) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the issuer or unexpected investment results.

### **Equity Securities**

Equity securities are securities that represent an ownership interest (or the right to acquire such an interest) in a company and may include common and preferred stocks, securities exercisable for, or convertible into, common or preferred stocks, such as warrants, convertible debt securities and convertible preferred stock, and other equity-like interests in an entity. Equity securities may take the form of stock in a corporation, limited partnership interests, interests in limited liability companies, real estate investment trusts (“REITs”) or other trusts and other similar securities. Common stocks represent an equity or ownership interest in an issuer. Preferred stocks represent an equity or ownership interest in an issuer that pays dividends at a specified rate and that has precedence over common stock in the payment of dividends. In the event that an issuer is liquidated or declares bankruptcy, the claims of owners of bonds and other debt securities take precedence over holders of preferred stock, whose claims take precedence over the claims of those who own common stock.

While offering greater potential for long-term growth, equity securities generally are more volatile and more risky than some other forms of investment, particularly debt securities. The value of an account's investment in equity securities may decrease, potentially by a significant amount. An account may invest in

equity securities of companies with relatively small market capitalizations. Securities of such companies may be more volatile than the securities of larger, more established companies and the broad equity market indices. See the section "Small Capitalization Companies" under "Equity Securities, Practices and Certain Risks." An account's investments may include securities traded "over-the-counter" ("OTC") as well as those traded on a securities exchange. Some securities, particularly OTC securities, may be more difficult to sell under some market conditions.

### **Preferred Stock**

Preferred stock pays dividends at a specified rate and generally has preference over common stock in the payment of dividends and the liquidation of the issuer's assets, but is junior to the debt securities of the issuer in those same respects. Unlike interest payments on debt securities, dividends on preferred stock are generally payable at the discretion of the issuer's board of directors. Shareholders may suffer a loss of value if dividends are not paid. The market prices of preferred stocks are subject to changes in interest rates and are more sensitive to changes in the issuer's creditworthiness than are the prices of debt securities. Under normal circumstances, preferred stock does not carry voting rights.

### **REITs**

REITs are pooled investment vehicles that invest primarily in either real estate or real estate-related loans. REITs involve certain unique risks in addition to those risks associated with investing in the real estate industry in general (such as possible declines in the value of real estate, lack of availability of mortgage funds or extended vacancies of property). Equity REITs may be affected by changes in the value of the underlying property owned by the REITs, while mortgage REITs may be affected by the quality of any credit extended. REITs are dependent upon management skills, are not diversified and are subject to heavy cash flow dependency, risks of default by borrowers and self-liquidation. REITs are also subject to the possibilities of failing to qualify for tax-free pass-through of income under the Code and failing to maintain their exemptions from registration under the Investment Company Act of 1940, as amended.

REITs (especially mortgage REITs) are also subject to interest rate risks, including prepayment risk. When interest rates decline, the value of a REIT's investment in fixed rate obligations can be expected to rise. Conversely, when interest rates rise, the value of a REIT's investment in fixed rate obligations can be expected to decline. If the REIT invests in adjustable rate mortgage loans the interest rates on which are reset periodically, yields on a REIT's investments in such loans will gradually align themselves to reflect changes in market interest rates. This causes the value of such investments to fluctuate less dramatically in response to interest rate fluctuations than would investments in fixed rate obligations. REITs may have limited financial resources, may trade less frequently and in limited volume and may be subject to more abrupt or erratic price movements than more widely held securities.

### **Warrants and Rights**

A warrant is an instrument that gives the holder a right to purchase a given number of shares of a particular security at a specified price until a stated expiration date. Buying a warrant generally can provide a greater potential for profit or loss than an investment of equivalent amounts in the underlying common stock. The market value of a warrant does not necessarily move with the value of the underlying securities. If a holder does not sell the warrant, it risks the loss of its entire investment if the market price of the underlying security does not, before the expiration date, exceed the exercise price of the warrant. Investment in warrants is a speculative activity. Warrants pay no dividends and confer no rights (other than the right to purchase the underlying securities) with respect to the assets of the issuer. A right is a privilege granted to existing shareholders of a corporation to subscribe for shares of a new issue of common stock before it is issued. Rights normally have a short life, usually two to four weeks, are often freely transferable and entitle the holder to buy the new common stock at a lower price than the public offering price.

Low exercise price call warrants are equity call warrants with an exercise price that is very low relative to the market price of the underlying instrument at the time of issue. Low exercise price call warrants are typically used to gain exposure to stocks in difficult to access local markets. The warrants typically have a strike price set such that the value of the warrants will be identical to the price of the underlying stock. The value of

the warrants is correlated with the value of the underlying stock price and therefore, the risk and return profile of the warrants is similar to owning the underlying securities. In addition, the owner of the warrant is subject to the risk that the issuer of the warrant (*i.e.*, the counterparty) will default on its obligations under the warrant. The warrants have no voting rights. Dividends issued to the warrant issuer by the underlying company will generally be distributed to the warrant holders, net of any taxes or commissions imposed by the local jurisdiction in respect of the receipt of such amount. In addition, the warrants are not exchangeable into shares of the underlying stock. Low exercise price call warrants are typically sold in private placement transactions, may be illiquid and may be classified as derivative instruments.

### **Foreign Securities**

In addition to the risks associated with investing in securities generally, such investments present additional risks not typically associated with investments in comparable securities of U.S. issuers. The non-U.S. securities in which an account may invest, all or a portion of which may be non-U.S. dollar-denominated, may include, among other investments: (a) debt obligations issued or guaranteed by non-U.S. national, provincial, state, municipal or other governments or by their agencies or instrumentalities, including “Brady Bonds”; (b) debt obligations of supranational entities; (c) debt obligations of the U.S. Government issued in non-dollar securities; (d) debt obligations and other fixed-income securities of foreign corporate issuers; and (e) non-U.S. dollar-denominated securities of U.S. corporate issuers. In addition to the risks associated with investing in securities generally, such investments present additional risks not typically associated with investments in comparable securities of U.S. issuers.

There may be less information publicly available about a foreign corporate or government issuer than about a U.S. issuer, and foreign corporate issuers are not generally subject to accounting, auditing and financial reporting standards and practices comparable to those in the United States. The securities of some foreign issuers are less liquid and at times more volatile than securities of comparable U.S. issuers. Foreign brokerage commissions and securities custody costs are often higher than those in the United States, and judgments against foreign entities may be more difficult to obtain and enforce. With respect to certain foreign countries, there is a possibility of governmental expropriation of assets, confiscatory taxation, political or financial instability and diplomatic developments that could affect the value of investments in those countries. The receipt of interest on foreign government securities may depend on the availability of tax or other revenues to satisfy the issuer’s obligations.

Since most foreign securities are denominated in foreign currencies or traded primarily in securities markets in which settlements are made in foreign currencies, the value of these investments and the investment income available for distribution may be affected favorably or unfavorably by changes in currency exchange rates or exchange control regulations. To the extent an account may purchase securities denominated in foreign currencies, a change in the value of any such currency against the U.S. dollar will result in a change in the U.S. dollar value of the account’s assets and the account’s income available for distribution.

### **Exchange Traded Funds, Mutual Funds and Other Pooled Vehicles**

As an alternative to the direct investment in securities, an account may invest or take short positions in a Loomis Sayles-affiliated mutual fund or other pooled vehicle (“Affiliated Funds”) or exchange-traded fund (“ETF”). Loomis Sayles may set up one or more private investment funds that invest in bank loans, cash equivalents and other fixed income securities or instruments as investment vehicles for cash balances. These investments may represent a significant portion of an account or an individual strategy. Investments in such vehicles (other than those sponsored or advised by Loomis Sayles) may involve a layering of fees and other costs, and may be subject to limitations on redemptions. These vehicles, including one or more Affiliated Funds, may have more favorable indemnification protections for Loomis Sayles or an affiliate, than those relating to an account.

### **Depository Receipts**

Depository receipts are instruments issued by banks that represent an interest in equity securities held by arrangement with the bank. Depository receipts can be either “sponsored” or “unsponsored.” Sponsored depository receipts are issued by banks in cooperation with the issuer of the underlying equity securities.

Un-sponsored depositary receipts are arranged without involvement by the issuer of the underlying equity securities and, therefore, less information about the issuer of the underlying equity securities may be available and the price may be more volatile than sponsored depositary receipts. American Depositary Receipts (“ADRs”) are depositary receipts that are bought and sold in the United States and are typically issued by a U.S. bank or trust company which evidence ownership of underlying securities by a foreign corporation. European Depositary Receipts (“EDRs”) and Global Depositary Receipts (“GDRs”) are depositary receipts that are typically issued by foreign banks or trust companies which evidence ownership of underlying securities issued by either a foreign or United States corporation. All depositary receipts, including those denominated in U.S. dollars, will be subject to foreign currency risk.

The effect of changes in the dollar value of a foreign currency on the dollar value of an account’s assets and on the investment income available for distribution may be favorable or unfavorable. An account may incur costs in connection with conversions between various currencies.

Because an account may invest in ADRs, changes in foreign economies and political climates are more likely to affect the account value than an account that invests exclusively in U.S. companies. There may also be less government supervision of foreign markets, resulting in non-uniform accounting practices and less publicly available information. If an account’s portfolio is over-weighted in a certain geographic region, any negative development affecting that region will have a greater impact on the account than an account that is not over-weighted in that region.

### **Emerging Markets**

Investments in foreign securities may include investments in emerging or developing countries, whose economies or securities markets are not yet highly developed. Special considerations associated with these investments (in addition to the considerations regarding foreign investments generally) may include, among others, greater political uncertainties, an economy’s dependence on revenues from particular commodities or on international aid or development assistance, currency transfer restrictions, very limited numbers of potential buyers for such securities, less developed custodial and deposit systems and delays and disruptions in securities settlement procedures.

In determining whether to invest in securities of foreign issuers, Loomis Sayles may consider the likely effects of foreign taxes on the net yield available to the account. Compliance with foreign tax laws may reduce an account’s income available for distribution.

### **Supranational Entities**

A supranational entity is an entity designated or supported by national governments to promote economic reconstruction, development or trade amongst nations. Examples of supranational entities include the International Bank for Reconstruction and Development (also known as the World Bank) and the European Investment Bank. Obligations of supranational entities are subject to the risk that the governments on whose support the entity depends for its financial backing or repayment may be unable or unwilling to provide that support. Obligations of a supranational entity that are denominated in foreign currencies will also be subject to the risks associated with investments in foreign currencies, as described in the section “Foreign Currency Transactions.”

### **Foreign Currency Transactions**

Many foreign securities in an account’s portfolio will be denominated in foreign currencies or traded in securities markets in which settlements are made in foreign currencies. Any income on such securities is generally paid to the account in foreign currencies. The value of these foreign currencies relative to the U.S. dollar varies continually, causing changes in the dollar value of an account’s portfolio investments (even if the local market price of the investments is unchanged) and changes in the dollar value of an account’s income available for distribution. The effect of changes in the dollar value of a foreign currency on the dollar value of an account’s assets and on the investment income available for distribution may be favorable or unfavorable.

To protect against a change in the foreign currency exchange rate between the date on which an account contracts to purchase or sell a security and the settlement date for the purchase or sale, to gain exposure to one or more foreign currencies or to “lock in” the equivalent of a dividend or interest payment in another currency, an account might purchase or sell a foreign currency on a spot (*i.e.*, cash) basis at the prevailing spot rate or may enter into futures contracts on an exchange. If conditions warrant, an account may also enter into contracts with banks or broker-dealers to purchase or sell foreign currencies at a future date (“forward contracts”). An account will maintain cash or other liquid assets eligible for purchase by an account either designated on the account’s records or held in a segregated account with the custodian in an amount at least equal to the lesser of (i) the difference between the current value of the account’s liquid holdings that settle in the relevant currency and the account’s outstanding obligations under currency forward contracts, or (ii) the current amount, if any, that would be required to be paid to enter into an off-setting forward currency contract which would have the effect of closing out the original forward contract. Forward contracts are subject to many of the same risks as derivatives described in the section “Derivative Instruments.” Forward contracts may give rise to ordinary income or loss to the extent such income or loss results from fluctuations in the value of the foreign currency concerned. In addition, the effect of changes in the dollar value of a foreign currency on the dollar value of an account’s assets and on the investment income available for distribution may be favorable or unfavorable. An account may incur costs in connection with conversions between various currencies, and the account will be subject to increased illiquidity and counterparty risk because forward contracts are not traded on an exchange and often are not standardized.

An account may buy and write options on foreign currencies in a manner similar to that in which futures or forward contracts on foreign currencies will be utilized. An account may use options on foreign currencies to hedge against adverse changes in foreign currency conversion rates. For example, a decline in the U.S. dollar value of a foreign currency in which portfolio securities are denominated will reduce the U.S. dollar value of such securities, even if their value in the foreign currency remains constant. In order to protect against such diminutions in the value of the portfolio securities, an account may buy a put on the foreign currency. If the value of the currency declines, an account will have the right to sell such currency for a fixed amount in U.S. dollars, thereby offsetting, in whole or in part, the adverse effect on its portfolio.

Conversely, when a rise in the U.S. dollar value of a currency in which securities to be acquired are denominated is projected, thereby increasing the cost of such securities, an account may buy call options on the foreign currency. The purchase of such options could offset, at least partially, the effects of the adverse movements in exchange rates. As in the case of other types of options, however, the benefit to an account from purchases of foreign currency options will be reduced by the amount of the premium and related transaction costs. In addition, if currency exchange rates do not move in the direction or to the extent desired, an account could sustain losses or lesser gains on transactions in foreign currency options that would require an account to forego a portion or all of the benefits of advantageous changes in those rates.

An account may also write options on foreign currencies. For example, to hedge against a potential decline in the U.S. dollar due to adverse fluctuations in exchange rates, an account could, instead of purchasing a put option, write a call option on the relevant currency. If the decline expected by an account occurs, the option will most likely not be exercised and the diminution in value of portfolio securities be offset at least in part by the amount of the premium received. Similarly, instead of purchasing a call option to hedge against a potential increase in the U.S. dollar cost of securities to be acquired, an account could write a put option on the relevant currency which, if rates move in the manner projected by an account, will expire unexercised and allow an account to hedge the increased cost up to the amount of the premium. If exchange rates do not move in the expected direction, the option may be exercised and an account would be required to buy or sell the underlying currency at a loss, which may not be fully offset by the amount of the premium. Through the writing of options on foreign currencies, an account also may lose all or a portion of the benefits that might otherwise have been obtained from favorable movements in exchange rates.

An account’s use of currency transactions may be limited by tax considerations. Loomis Sayles may decide not to engage in currency transactions, and there is no assurance that any currency strategy used by an account will succeed. In addition, suitable currency transactions may not be available in all circumstances and there can be no assurance that an account will engage in these transactions when they would be beneficial. The foreign currency transactions in which an account may engage involve risks similar to those described in the section “Derivative Instruments.”

Transactions in non-U.S. currencies are also subject to many of the risks of investing in non-U.S. securities described in the section “Foreign Securities.”

### **Money Market Instruments**

An account may seek to minimize risk by investing in money market instruments, which are high-quality, short-term securities. Although changes in interest rates can change the market value of a security, Loomis Sayles expects those changes to be minimal with respect to these securities, which are often purchased for defensive purposes. However, even though money market instruments are generally considered to be high-quality and a low-risk investment, recently a number of issuers of money market and money market-type instruments have experienced financial difficulties, leading in some cases to rating downgrades and decreases in the value of their securities.

Money market obligations of foreign banks or of foreign branches or subsidiaries of U.S. banks may be subject to different risks than obligations of domestic banks, such as foreign economic, political and legal developments and the fact that different regulatory requirements apply. In addition, recently, many money market instruments previously thought to be highly liquid have become illiquid. If an account’s money market instruments become illiquid, an account may be unable to satisfy certain of its obligations or may only be able to do so by selling other securities at prices or times that may be disadvantageous to do so.

### **Commodities and Commodity-Linked Instruments**

Commodities are assets that have tangible properties, such as oil, metals, and agricultural products. A “commodity-linked instrument” is an instrument whose value is linked to the price movement of a commodity, a commodity index, or a commodity option or futures contract. An investment in a commodity-linked instrument does not generally provide a claim to the tangible underlying commodity. An account may invest in a broad range of commodity-linked instruments, including, but not limited to, commodity-linked derivatives (such as commodity-linked swaps, futures, options or options on futures), commodity-linked debt (including leveraged or unleveraged notes that are derivative debt instruments with principal and/or coupon payments linked to the performance of commodities) or commodity-linked ETFs (i.e., ETFs that have their value derived from the price movement of an underlying commodity). An account also may invest in equity and fixed-income securities of issuers in commodity-related industries.

### **Derivative Instruments**

Some accounts may use a number of derivative instruments for risk management purposes or as part of their investment strategies. Generally, derivatives are financial contracts whose value depends upon, or is derived from, the value of an underlying asset, reference rate or index, and may relate to stocks, bonds, interest rates, currencies or currency exchange rates, commodities, related indexes and other assets. For additional information about the use of derivatives in connection with foreign currency transactions, see the section “Foreign Currency Transactions.” Loomis Sayles may decide not to employ any of these strategies and there is no assurance that any derivatives strategy used by an account will succeed. In addition, suitable derivative transactions may not be available in all circumstances and there can be no assurance that an account will engage in these transactions to reduce exposure to other risks when that would be beneficial. Examples of derivative instruments that an account may use include (but are not limited to) options and warrants, futures contracts, options on futures contracts, zero-strike warrants and options, swap agreements and debt-linked and equity-linked securities.

Derivatives involve special risks, including possible default by the other party to the transaction, illiquidity, difficulties in valuation, leverage risk and the risk that the use of derivatives could result in significantly greater losses or lower income or gains than if they had not been used. See the subsection “Certain Additional Risks of Derivative Instruments.” Recently, several broker-dealers and other financial institutions have experienced extreme financial difficulty, sometimes resulting in the bankruptcy of the institution. Although Loomis Sayles monitors the creditworthiness of the account’s counterparties, there can be no assurance that the account’s counterparties will not experience similar difficulties, possibly resulting in losses to the account.



Several types of derivative instruments in which an account may invest are described in more detail below.

### **Futures Contracts**

Futures transactions involve an account's buying or selling futures contracts. A futures contract is an agreement between two parties to buy and sell a particular security, commodity, currency or other asset, or group or index of securities, commodities, currencies or other assets, for a specified price on a specified future date. A futures contract creates an obligation by the seller to deliver and the buyer to take delivery of the type of instrument or cash (depending on whether the contract calls for physical delivery or cash settlement) at the time and in the amount specified in the contract. In the case of futures on an index, the seller and buyer agree to settle in cash, at a future date, based on the difference in value of the contract between the date it is opened and the settlement date. The value of each contract is equal to the value of the index from time to time multiplied by a specified dollar amount. For example, S&P 500 Index futures trade in contracts equal to \$250 multiplied by the S&P 500 Index.

When a trader, such as an account, enters into a futures contract, it is required to deposit with (or for the benefit of) its broker as "initial margin" an amount of cash or liquid securities equal to approximately 2% to 5% of the delivery or settlement price of the contract (depending on applicable exchange rules). Initial margin is held to secure the performance of the holder of the futures contract. As the value of the contract changes, the value of futures contract positions increases or declines. At the end of each trading day, the amount of such increase and decline is received and paid respectively by and to the holders of these positions. The amount received or paid is known as "variation margin." If an account has a long position in a futures contract it will designate on an account's records or establish a segregated account with an account's custodian liquid assets eligible for purchase by an account equal to its daily marked to market net obligation under the contract (less any margin on deposit). For short positions in futures contracts, an account will designate on an account's records or establish a segregated account with the custodian with liquid assets eligible for purchase by an account that, when added to the amounts deposited as margin, equal its daily marked to market net obligation under the futures contracts. Gain or loss on a futures position is equal to the net variation margin received or paid over the time the position is held, plus or minus the amount received or paid when the position is closed, minus brokerage commissions.

Although many futures contracts call for the delivery (or acceptance) of the specified instrument, futures are usually closed out before the settlement date through the purchase (or sale) of a comparable contract. If the price of the sale of the futures contract by an account is less than the price of the offsetting purchase, an account will realize a loss. A futures sale is closed by purchasing a futures contract for the same aggregate amount of the specific type of financial instrument or commodity and with the same delivery date. Similarly, the closing out of a futures purchase is closed by the purchaser selling an offsetting futures contract.

### **Interest Rate Caps, Floors and Collars**

An account may use interest rate caps, floors and collars for the same purposes or similar purposes as for which it uses interest rate futures contracts and related options. Interest rate caps, floors and collars are similar to interest rate swap contracts because the payment obligations are measured by changes in interest rates as applied to a notional amount and because they are generally individually negotiated with a specific counterparty. The purchase of an interest rate cap entitles the purchaser, to the extent that a specific index exceeds a specified interest rate, to receive payments of interest on a notional principal amount from the party selling the interest rate cap. The purchase of an interest rate floor entitles the purchaser, to the extent that a specified index falls below specified interest rates, to receive payments of interest on a notional principal amount from the party selling the interest rate floor. The purchase of an interest rate collar entitles the purchaser, to the extent that a specified index exceeds or falls below a specified interest rate, to receive payments of interest on a notional principal amount from the party selling the interest rate collar.

### **Options and Warrants**

Options transactions may involve an account's buying or writing (selling) options on securities,

futures contracts, securities indices (including futures on securities indices) or currencies. An account may engage in these transactions either to enhance investment return or to hedge against changes in the value of other assets that it owns or intends to acquire. Options can generally be classified as either “call” or “put” options. There are two parties to a typical options transaction: the “writer” and the “buyer.” A call option gives the buyer the right to buy a security or other asset (such as an amount of currency or a futures contract) from, and a put option gives the buyer the right to sell a security or other asset to, the option writer at a specified price, on or before a specified date. The buyer of an option pays a premium when purchasing the option, which reduces the return on the underlying security or other asset if the option is exercised, and results in a loss if the option expires unexercised. The writer of an option receives a premium from writing an option, which may increase its return if the option expires or is closed out at a profit. An “American-style” option allows exercise of the option at any time during the term of the option. A “European-style” option allows an option to be exercised only at a specific time or times, such as the end of its term. Options may be traded on or off an established securities or options exchange.

If the holder of an option wishes to terminate its position, it may seek to effect a closing sale transaction by selling an option identical to the option previously purchased. The effect of the purchase is that the previous option position will be canceled. An account will realize a profit from closing out an option if the price received for selling the offsetting position is more than the premium paid to purchase the option; an account will realize a loss from closing out an option transaction if the price received for selling the offsetting option is less than the premium paid to purchase the option. Since premiums on options having an exercise price close to the value of the underlying securities or futures contracts usually have a time value component (*i.e.*, a value that diminishes as the time within which the option can be exercised grows shorter), the value of an options contract may change as a result of the lapse of time even though the value of the futures contract or security underlying the option (and of the security or other asset deliverable under the futures contract) has not changed.

### **Options on Indices**

Put and call options on indices are similar to puts and calls on securities or futures contracts except that all settlements are in cash and gain or loss depends on changes in the index in question rather than on price movements in individual securities or futures contracts. When an account writes a call on an index, it receives a premium and agrees that, prior to the expiration date, the purchaser of the call, upon exercise of the call, will receive from an account an amount of cash if the closing level of the index upon which the call is based is greater than the exercise price of the call. The amount of cash is equal to the difference between the closing price of the index and the exercise price of the call times a specified multiple (“multiplier”), which determines the total dollar value for each point of such difference. When an account buys a call on an index, it pays a premium and has the same rights as to such call as are indicated above. When an account buys a put on an index, it pays a premium and has the right, prior to the expiration date, to require the seller of the put, upon an account’s exercise of the put, to deliver to an account an amount of cash equal to the difference between the exercise price of the option and the value of the index, times a multiplier, similar to that described above for calls. When an account writes a put on an index, it receives a premium and the purchaser of the put has the right, prior to the expiration date, to require an account to deliver to it an amount of cash equal to the difference between the closing level of the index and exercise price times the multiplier if the closing level is less than the exercise price.

### **Exchange-Traded and Over-the-Counter Options**

Some accounts may purchase or write both exchange-traded and OTC options. OTC options differ from exchange-traded options in that they are two-party contracts, with price and other terms negotiated between buyer and seller, and generally do not have as much market liquidity as exchange-traded options.

An exchange-traded option may be closed out only on an exchange that generally provides a liquid secondary market for an option of the same series. If a liquid secondary market for an exchange-traded option does not exist, it might not be possible to affect a closing transaction with respect to a particular option, with the result that an account would have to exercise the option in order to consummate the transaction. Reasons for the absence of a liquid secondary market on an exchange include the following: (i) there may be insufficient trading interest in certain options; (ii) restrictions may be imposed by an exchange on opening transactions or

closing transactions or both; (iii) trading halts, suspensions or other restrictions may be imposed with respect to particular classes or series of options or underlying securities; (iv) unusual or unforeseen circumstances may interrupt normal operations on an exchange; (v) the facilities of an exchange or the Options Clearing Corporation or other clearing organization may not at all times be adequate to handle current trading volume; or (vi) one or more exchanges could, for economic or other reasons, decide or be compelled at some future date to discontinue the trading of options (or a particular class or series of options), in which event the secondary market on that exchange (or in that class or series of options) would cease to exist, although outstanding options on that exchange that had been issued by the Options Clearing Corporation as a result of trades on that exchange would continue to be exercisable in accordance with their terms.

An OTC option (an option not traded on an established exchange) may be closed out only by agreement with the other party to the original option transaction. With OTC options, an account is at risk that the other party to the transaction will default on its obligations or will not permit an account to terminate the transaction before its scheduled maturity. While an account will seek to enter into OTC options only with dealers who agree to or are expected to be capable of entering into closing transactions with an account, there can be no assurance that an account will be able to liquidate an OTC option at a favorable price at any time prior to its expiration. OTC options are not subject to the protections afforded purchasers of listed options by the Options Clearing Corporation or other clearing organizations.

### **Index Warrants**

Put warrants' and call warrants' values vary depending on the change in the value of one or more specified securities indices ("index warrants"). Index warrants are generally issued by banks or other financial institutions and give the holder the right, at any time during the term of the warrant, to receive upon exercise of the warrant a cash payment from the issuer based on the value of the underlying index at the time of exercise. In general, if the value of the underlying index rises above the exercise price of the index warrant, the holder of a call warrant will be entitled to receive a cash payment from the issuer upon exercise based on the difference between the value of the index and the exercise price of the warrant; if the value of the underlying index falls, the holder of a put warrant will be entitled to receive a cash payment from the issuer upon exercise based on the difference between the exercise price of the warrant and the value of the index. The holder of a warrant would not be entitled to any payments from the issuer at a time when, in the case of a call warrant, the exercise price is more than the value of the underlying index, or in the case of a put warrant, the exercise price is less than the value of the underlying index. If an account were not to exercise an index warrant prior to its expiration, then an account would lose the amount of the purchase price paid by it for the warrant. An account will normally use index warrants in a manner similar to its use of options on securities indices.

### **Forward Contracts**

Forward contracts are transactions involving an account's obligation to purchase or sell a specific currency or other asset at a future date at a specified price. For example, forward contracts may be used when Loomis Sayles anticipates that particular foreign currencies will appreciate or depreciate in value or to take advantage of the expected relationships between various currencies, regardless of whether securities denominated in such currencies are held in an account's investment portfolio. Forward contracts may also be used by an account for hedging purposes to protect against uncertainty in the level of future foreign currency exchange rates, such as when an account anticipates purchasing or selling a foreign security. This technique would allow an account to "lock in" the U.S. dollar price of the investment. Forward contracts also may be used to attempt to protect the value of an account's existing holdings of foreign securities. There may be, however, imperfect correlation between an account's foreign securities holdings and the forward contracts entered into with respect to such holdings. The cost to an account of engaging in forward contracts varies with factors such as the currency involved, the length of the contract period and the market conditions then prevailing.

### **Swap Contracts and other Two-Party Contracts**

An account may invest in swap contracts and similar contracts. The following risk factors discuss the risks relating to swaps and similar contracts.

*Swap Contracts.* Swap agreements are two-party contracts entered into primarily by institutional investors for periods ranging from a few weeks to more than one year. In a standard “swap” transaction, two parties agree to exchange the returns (or differentials in rates of return) to be exchanged or “swapped” between the parties, which returns are calculated with respect to a “notional amount” (*i.e.*, the return on or increase in value of a particular dollar amount invested at a particular interest rate) in a particular non-U.S. currency or in a “basket” of securities representing a particular index. An account will usually enter into swaps on a net basis (*i.e.*, the two payment streams are netted out, with an account receiving or paying, as the case may be, only the net amount of the two payments).

*Interest Rate and Currency Swap Contracts.* Interest rate swaps involve the exchange of the two parties’ respective commitments to pay or receive interest on a notional principal amount (*e.g.*, an exchange of floating rate payments for fixed rate payments). Currency swaps similarly involve the exchange of the two parties’ respective commitments to pay or receive fluctuations with respect to a notional amount of two different currencies (*e.g.*, an exchange of payments with respect to fluctuations in the value of the U.S. dollar relative to the Japanese yen).

*Total Return Swap Contracts.* Total return swaps are contracts in which one party agrees to make payments of the total return from the underlying asset(s) which may include securities, baskets of securities, or securities indices during the specified period, in return for payments equal to a fixed or floating rate of interest or the total return from other underlying asset(s).

*Credit Default Swap Contracts.* In a credit default swap, an account makes a stream of payments to another party in exchange for the right to receive a specified return in the event of a default by a third party (*e.g.*, an emerging country) on its obligation. However, if the third party does not default, an account loses its investment and recovers nothing. Credit default swaps involve risk because they are difficult to value, are highly susceptible to liquidity and credit risk, and generally only generate income in the event of an actual default by the issuer of the underlying obligation (as opposed to a credit downgrade or other indication of financial difficulty).

An account may also enter into a credit default swap, where an account guarantees a specified return in the event of a default by a third party in exchange for a stream of payments from another party. In this case, an account would bear the risk of default by the issuer of the underlying obligation. Credit default swaps may be entered into with respect to a particular security, a basket of securities, or an index.

*Swaptions.* Swaptions are options on swaps (typically interest rate swaps). A swaption gives the holder the right but not the obligation to enter into the underlying swap at a specific date in the future, at a particular fixed rate or for a specified term. The buyer and seller of the swaption agree on the strike price, length of the option period, the term of the swap, notional amount, amortization and frequency of settlement. A swaption gives the buyer the right but not the obligation to pay (or receive) a fixed rate on a given date and receive (or pay) a floating rate.

*Contracts for Differences.* Contracts for differences are swap arrangements in which an account may agree with a counterparty that its return (or loss) will be based on the relative performance of two different groups or “baskets” of securities. As to one of the baskets, an account’s return is based on theoretical long futures positions in the securities comprising that basket (with an aggregate face value equal to the notional amount of the contract for differences) and as to the other basket, an account’s return is based on theoretical short futures positions in the securities comprising the basket. An account may also use actual long and short futures positions to achieve the market exposure(s) as contracts for differences.

An account may enter into swaps and contracts for differences for investment return, hedging, risk management and for investment leverage. When using swaps for hedging, an account may enter into an interest rate or currency swap, as the case may be, on either an asset-based or liability-based basis, depending on whether it is hedging its assets or its liabilities. For risk management or leverage purposes an account may also enter into a contract for differences in which the notional amount of the theoretical long position is greater than the notional amount of the theoretical short position.

## **Investment Pools of Swap Contracts**

Some accounts may invest in publicly or privately issued interests in investment pools whose underlying assets are credit default, credit-linked, interest rate, currency exchange, equity-linked or other types of swap contracts and related underlying securities or securities loan agreements. The pools' investment results may be designed to correspond generally to the performance of a specified securities index or "basket" of securities, or sometimes a single security. These types of pools are often used to gain exposure to multiple securities with less of an investment than would be required to invest directly in the individual securities. They may also be used to gain exposure to foreign securities markets without investing in the foreign securities themselves and/or the relevant foreign market. To the extent that an account invests in pools of swap contracts and related underlying securities whose performance corresponds to the performance of a foreign securities index or one or more of foreign securities, investing in such pools will involve risks similar to the risks of investing in foreign securities. In addition to the risks associated with investing in swaps generally, an investing account bears the risks and costs generally associated with investing in pooled investment vehicles, such as paying the fees and expenses of the pool and the risk that the pool or the operator of the pool may default on its obligations to the holder of interests in the pool, such as an account. Interests in privately offered investment pools of swap contracts may be considered illiquid and, except to the extent that such interests are issued under Rule 144A and deemed liquid, subject to an account's restriction on investments in illiquid securities.

## **Synthetic Bonds**

Incidental to other transactions in fixed income securities and/or for investment purposes, an account may also combine options on fixed income securities with cash, cash equivalent investments or other fixed income securities in order to create "synthetic" bonds which approximate desired risk and return profiles. This may be done where a "non-synthetic" security having the desired risk/return profile either is unavailable (*e.g.*, short-term securities of certain non-U.S. governments) or possesses undesirable characteristics (*e.g.*, interest payments on the security would be subject to non-U.S. withholding taxes). An account may also purchase forward non-U.S. exchange contracts in conjunction with U.S. dollar-denominated securities in order to create a synthetic non-U.S. currency denominated security which approximates desired risk and return characteristics where the non-synthetic securities either are not available in non-U.S. markets or possess undesirable characteristics. The use of synthetic bonds may involve risks different from, or potentially greater than, risks associated with direct investments in securities and other assets. Synthetic bonds may increase other account risks, including market risk, liquidity risk, and credit risk, and their value may or may not correlate with the value of the relevant underlying asset.

## **Hybrid Instruments**

An account may invest in hybrid instruments, which are types of potentially high-risk derivatives that combine a traditional stock, bond, or commodity with an option or forward contract. Generally, the principal amount, amount payable upon maturity or redemption, or interest rate of a hybrid is tied (positively or negatively) to the price of some commodity, currency or securities index or another interest rate or some other economic factor (each a "benchmark"). The interest rate or (unlike most fixed income securities) the principal amount payable at maturity of a hybrid security may be increased or decreased, depending on changes in the value of the benchmark. An example of a hybrid could be a bond issued by an oil company that pays a small base level of interest with additional interest that accrues in correlation to the extent to which oil prices exceed a certain predetermined level. Such a hybrid instrument would be a combination of a bond and a call option on oil.

Hybrids can be used as an efficient means of pursuing a variety of investment goals, including currency hedging, duration management, and increased total return. Hybrids may not bear interest or pay dividends. The value of a hybrid or its interest rate may be a multiple of a benchmark and, as a result, may be leveraged and move (up or down) more steeply and rapidly than the benchmark. These benchmarks may be sensitive to economic and political events, such as commodity shortages and currency devaluations, which cannot be readily foreseen by the purchaser of a hybrid. Under certain conditions, the redemption value of a hybrid could be zero. Thus, an investment in a hybrid may entail significant market risks that are not associated with a similar investment in a traditional, U.S. dollar-denominated bond that has a fixed principal amount and

pays a fixed rate or floating rate of interest. The purchase of hybrids also exposes an account to the credit risk of the issuer of the hybrids.

Certain hybrid instruments may provide exposure to the commodities markets. These are derivative securities with one or more commodity-linked components that have payment features similar to commodity futures contracts, commodity options, or similar instruments. Commodity-linked hybrid instruments may be either equity or debt securities, leveraged or unleveraged, and are considered hybrid instruments because they have both security and commodity-like characteristics. A portion of the value of these instruments may be derived from the value of a commodity, futures contract, index or other economic variable.

### **Leverage**

An account may borrow money and may also be deemed to be exposed to leverage through its use of derivative instruments, when measuring the exposure of each instrument on a notional basis. Many of the derivatives utilized by an account have minimal cash or collateral requirements the use of which enables an account to increase its investment exposure to fixed income instruments and securities significantly beyond the net asset value of an account. Leverage can significantly increase the risk profile of an account and can lead to significant losses.

Leverage involves investment exposure to positions in excess of the amount actually invested. Because the use of leverage effectively compounds investment exposure, it can improve the return on invested capital if the leveraged investments increase in value. However, leverage may involve costs to an account and, through the compounding effect, will proportionally enhance the adverse impact to an account if leveraged investments decrease in value.

There can be no assurance that an account will be able to continue any lending arrangement on the same or other favorable terms, or that it will always be able to enter into or renew a lending arrangement. Increased borrowing costs, a decision by a lender not to renew an account's lending arrangement, or an account's inability to find a replacement lender could result in an account having to sell loans or securities at a loss in value.

### **Other Derivatives; Future Developments**

The above discussion relates to an account's proposed use of certain types of derivatives currently available. However, accounts are not limited to the transactions described above. In addition, the relevant markets and related regulations are constantly changing and, in the future, accounts may use derivatives not currently available or widely in use.

### **Certain Additional Risks of Derivative Instruments**

The use of derivative instruments, including the futures contracts, options and warrants, forward currency contracts and swap transactions described above, involves risks in addition to those described above. One risk arises because of the imperfect correlation between movements in the price of derivatives contracts and movements in the price of the securities, indices or other assets serving as reference instruments for the derivative. An account's derivative strategies will not be fully effective unless an account can compensate for such imperfect correlation. There is no assurance that an account will be able to effect such compensation. For example, the correlation between the price movement of the derivatives contract and the hedged security may be distorted due to differences in the nature of the relevant markets. If the price of the futures contract moves more than the price of the hedged security, an account would experience either a loss or a gain on the derivative that is not completely offset by movements in the price of the hedged securities. For example, in an attempt to compensate for imperfect price movement correlations, an account may purchase or sell futures contracts in a greater dollar amount than the hedged securities if the price movement volatility of the hedged securities is historically greater than the volatility of the futures contract. The use of derivatives for other than hedging purposes may be considered a speculative activity, and involves greater risks than are involved in hedging.

The price of index futures may not correlate perfectly with movement in the relevant index due to certain market distortions. One such distortion stems from the fact that all participants in the futures market are subject to margin deposit and maintenance requirements. Rather than meeting additional margin deposit requirements, investors may close futures contracts through offsetting transactions, which could distort the normal relationship between the index and futures markets. Another market distortion results from the deposit requirements in the futures market being less onerous than margin requirements in the securities market, and as a result the futures market may attract more speculators than does the securities market. A third distortion is caused by the fact that trading hours for stock index futures may not correspond perfectly to hours of trading on the exchange to which a particular stock index futures contract relates. This may result in a disparity between the price of index futures and the value of the relevant index due to the lack of continuous arbitrage between the index futures price and the value of the underlying index. Finally, hedging transactions using stock indices involve the risk that movements in the price of the index may not correlate with price movements of the particular portfolio securities being hedged.

Price movement correlation in derivative transactions also may be distorted by the illiquidity of the futures and options markets and the participation of speculators in such markets. If an insufficient number of contracts are traded, commercial users may not deal in futures contracts or options because they do not want to assume the risk that they may not be able to close out their positions within a reasonable amount of time. In such instances, futures and options market prices may be driven by different forces than those driving the market in the underlying securities, and price spreads between these markets may widen. The participation of speculators in the market enhances its liquidity. Nonetheless, the presence of speculators may create temporary price distortions unrelated to the market in the underlying securities.

Positions in futures contracts and options on futures contracts may be established or closed out only on an exchange or board of trade. There is no assurance that a liquid market on an exchange or board of trade will exist for any particular contract or at any particular time. The liquidity of markets in futures contracts and options on futures contracts may be adversely affected by “daily price fluctuation limits” established by commodity exchanges which limit the amount of fluctuation in a futures or options price during a single trading day. Once the daily limit has been reached in a contract, no trades may be entered into at a price beyond the limit, which may prevent the liquidation of open futures or options positions. Prices have in the past exceeded the daily limit on a number of consecutive trading days. If there is not a liquid market at a particular time, it may not be possible to close a futures or options position at such time, and, in the event of adverse price movements, an account would continue to be required to make daily cash payments of variation margin. However, if futures or options are used to hedge portfolio securities, an increase in the price of the securities, if any, may partially or completely offset losses on the futures contract.

The value of an account's derivative instruments may fluctuate based on a variety of market and economic factors. In some cases, the fluctuations may offset (or be offset by) changes in the value of securities or derivatives held in an account's portfolio. All transactions in derivatives involve the possible risk of loss to an account of all or a significant part of the value of its investment. In some cases, the risk of loss may exceed the amount of an account's investment. For example, when an account writes a call option or sells a futures contract without holding the underlying securities, currencies or futures contracts, its potential loss is unlimited. An account may be required, however, to segregate or designate on its records liquid assets in amounts sufficient at all times to satisfy its net obligations under options and futures contracts.

The risks of an account's use of index warrants are generally similar to those relating to its use of index options. Unlike most index options, however, index warrants are issued in limited amounts and are not obligations of a regulated clearing agency, but are backed only by the credit of the bank or other institution which issues the warrant. Also, index warrants generally have longer terms than index options. Although an account will normally invest only in exchange-listed warrants, index warrants are not likely to be as liquid as certain index options backed by a recognized clearing agency. In addition, the terms of index warrants may limit an account's ability to exercise the warrants at such time, or in such quantities, as an account would otherwise wish to do.

The successful use of derivatives will usually depend on Loomis Sayles's ability to forecast securities market, currency market or other financial market movements correctly. For example, an account's ability to hedge against adverse changes in the value of securities held in its portfolio through options and futures also

depends on the degree of correlation between changes in the value of futures or options positions and changes in the values of the portfolio securities. The successful use of certain other derivatives also depends on the availability of a liquid secondary market to enable an account to close its positions on a timely basis. There can be no assurance that such a market will exist at any particular time.

The derivatives markets of foreign countries are small compared to those of the United States and consequently are characterized in most cases by less liquidity than U.S. markets. In addition, foreign markets may be subject to less detailed reporting requirements and regulatory controls than U.S. markets. Furthermore, investments in derivatives markets outside of the United States are subject to many of the same risks as other foreign investments.

### **Repurchase Agreements**

An account may enter into repurchase agreements, by which an account purchases a security and obtains a simultaneous commitment from the seller to repurchase the security at an agreed-upon price and date. The resale price is in excess of the purchase price and reflects an agreed-upon market interest rate unrelated to the coupon rate on the purchased security. Repurchase agreements are economically similar to collateralized loans by an account. Such transactions afford an account the opportunity to earn a return on temporarily available cash at what is considered to be comparatively low market risk. An account may invest in a repurchase agreement that does not produce a positive return to an account if Loomis Sayles believes it is appropriate to do so under the circumstances (for example, to help protect an account's uninvested cash against the risk of loss during periods of market turmoil). While the underlying security may be a bill, certificate of indebtedness, note or bond issued by an agency, authority or instrumentality of the U.S. Government, the obligation of the seller is not guaranteed by the U.S. Government and there is a risk that the seller may fail to repurchase the underlying security. In such event, an account would attempt to exercise rights with respect to the underlying security, including possible disposition in the market. However, an account may be subject to various delays and risks of loss, including (i) possible declines in the value of the underlying security during the period while an account seeks to enforce its rights thereto, (ii) possible reduced levels of income and lack of access to income during this period and (iii) inability to enforce rights and the expenses involved in the attempted enforcement, for example, against a counterparty undergoing financial distress.

### **Reverse Repurchase Agreements**

In a reverse repurchase agreement an account transfers possession of a portfolio instrument to another person, such as a financial institution, broker or dealer, in return for cash, and agrees that on a stipulated date in the future an account will repurchase the portfolio instrument by remitting the original consideration plus interest at an agreed-upon rate. The ability to use reverse repurchase agreements may enable, but does not ensure the ability of, an account to avoid selling portfolio instruments at a time when a sale may be deemed to be disadvantageous. When effecting reverse repurchase agreements, assets of an account in a dollar amount sufficient to make payment of the obligations to be purchased are segregated on the account's records at the trade date and maintained until the transaction is settled. Reverse repurchase agreements are economically similar to secured borrowings by an account.

- **Dollar Rolls** - Dollar rolls are a special type of reverse repurchase agreement in which the portfolio instrument transferred by an account is a mortgage-related security. An account gives up the cash flows during the transaction period but has use of the cash proceeds.

### **When-Issued Securities**

"When-issued" securities are traded on a price basis prior to actual issuance. Such purchases will only be made to achieve an account's investment objective and not for leverage. The when-issued trading period generally lasts from a few days to months, or a year or more; during this period dividends on equity securities are not payable. No dividend income accrues to an account prior to the time it takes delivery. A frequent form of when-issued trading occurs when corporate securities to be created by a merger of companies are traded prior to the actual consummation of the merger. When-issued securities may involve a risk of loss if the value of the securities falls below the price committed to prior to actual issuance. An account will either designate on



its records or cause its custodian to establish a segregated account for an account when it purchases securities on a when-issued basis consisting of cash or liquid securities equal to the amount of the when-issued commitments. Securities transactions involving delayed deliveries or forward commitments are frequently characterized as when-issued transactions.

### **Illiquid Securities**

Illiquid securities are those that are not readily resalable, which may include securities whose disposition is restricted by federal securities laws. Securities will generally be considered “illiquid” if such securities cannot be disposed of within seven days in the ordinary course of business at approximately the price at which an account has valued the securities. Investment in restricted or other illiquid securities involves the risk that an account may be unable to sell such a security at the desired time or at the price at which an account values the security. Also, an account may incur expenses, losses or delays in the process of registering restricted securities prior to resale.

Rule 144A securities are privately offered securities that can be resold only to certain qualified institutional buyers pursuant to Rule 144A under the Securities Act. An account may also purchase commercial paper issued under Section 4(2) of the Securities Act. Investing in Rule 144A securities and Section 4(2) commercial paper could have the effect of increasing the level of an account’s illiquidity to the extent that qualified institutional buyers become, for a time, uninterested in purchasing these securities. Rule 144A securities and Section 4(2) commercial paper are treated as illiquid, unless Loomis Sayles has determined, under guidelines established by each Trust’s Board of Trustees, that the particular issue is liquid.

### **Initial Public Offerings**

Some accounts may purchase securities of companies that are offered pursuant to an initial public offering (“IPO”). An IPO is a company’s first offering of securities to the public in the primary market, typically to raise additional capital. An account may purchase a “hot” IPO (also known as a “hot issue”), which is an IPO that is oversubscribed and, as a result, is an investment opportunity of limited availability. As a consequence, the price at which these IPO shares open in the secondary market may be significantly higher than the original IPO price. IPO securities tend to involve greater risk due, in part, to public perception and the lack of publicly available information and trading history. There is the possibility of losses resulting from the difference between the issue price and potential diminished value of the stock once traded in the secondary market. An account’s investment in IPO securities may have a significant impact on an account’s performance and may result in significant capital gains. The availability of IPOs may be limited so that an account does not get the full allocation desired.

### **Private Placements**

An account may invest in securities that are purchased in private placements and, accordingly, are subject to restrictions on resale as a matter of contract or under federal securities laws. Because there may be relatively few potential purchasers for these securities, especially under adverse market or economic conditions or in the event of adverse changes in the financial condition of the issuer, an account could find it more difficult or impossible to sell the securities when Loomis Sayles believes that it is advisable to do so, or may be able to sell the securities only at prices lower than if the securities were more widely held. At times, it also may be more difficult to determine the fair value of the securities for purposes of computing an account’s value.

While private placements may offer opportunities for investment that are not otherwise available on the open market, the securities so purchased are often “restricted securities,” which are securities that cannot be sold to the public without registration under the Securities Act, the availability of an exemption from registration (such as Rule 144 or Rule 144A under the Securities Act) or that are not readily marketable because they are subject to other legal or contractual delays or restrictions on resale.

The absence of a trading market can make it difficult to ascertain a market value for illiquid investments such as private placements. Disposing of illiquid investments may involve time-consuming negotiation and legal expenses, and it may be difficult or impossible for an account to sell the illiquid securities promptly at an acceptable price. An account may have to bear the extra expense of registering the securities for

resale and the risk of substantial delay in effecting the registration. In addition, market quotations are typically less readily available for these securities. The judgment of Loomis Sayles may at times play a greater role in valuing these securities than in the case of unrestricted securities.

Generally, restricted securities may be sold only to qualified institutional buyers in a privately negotiated transaction to a limited number of purchasers in limited quantities after they have been held for a specified period of time and other conditions are met pursuant to an exemption from registration, or in a public offering for which a registration statement is in effect under the Securities Act. An account may be deemed to be an underwriter for purposes of the Securities Act when selling restricted securities to the public. As such, an account may be liable to purchasers of the securities if the registration statement prepared by the issuer, or the prospectus forming a part of the registration statement, is materially inaccurate or misleading.

### **Privatizations**

In a number of countries around the world, governments have undertaken to sell to investors interests in enterprises that the government has historically owned or controlled. These transactions are known as “privatizations” and may in some cases represent opportunities for significant capital appreciation. In some cases, the ability of U.S. investors to participate in privatizations may be limited by local law, and the terms of participation for U.S. investors may be less advantageous than those for local investors. Also, there is no assurance that privatized enterprises will be successful, or that an investment in such an enterprise will retain its value or appreciate in value.

### **Short Sales**

An account may utilize short positions in an attempt to increase an account’s return and/or for hedging purposes. In a short sale, an account sells a security it has borrowed, with the expectation that the security will decline in value. An account’s potential loss is limited only by the maximum attainable price of the security less the price at which the security was sold. Short selling is considered leverage and may involve substantial risk. Loomis Sayles may employ a variety of financial instruments, such as futures, options, forward contracts, swaps and other derivatives, as an alternative to selling securities short. Selling securities short runs the risk of losing an amount greater than the initial investment therein.

Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. Short-selling exposes an account to unlimited risk with respect to that security due to the lack of an upper limit on the price to which an instrument can rise.

Due to the nature of certain account strategies, an account may be subject to the risk that, for some period of time, an account’s short positions may go up while the long positions decline (a “convergent impact”). The occurrence of a convergent impact would aggravate any losses an account may sustain.

## **EQUITY SECURITIES, PRACTICES AND CERTAIN RISKS**

Following is a description of certain equity securities and practices, and the associated risks, in which the Loomis Sayles Equity strategies may invest, subject to each strategy’s objective and the specific investment guidelines applicable to each client.

### **Growth Stocks and Value Stocks**

Growth stocks are those stocks of companies that Loomis Sayles believes have earnings that will grow faster than the economy as a whole. Growth stocks typically trade at higher multiples of current earnings than other stocks. As a result, the values of growth stocks may be more sensitive to changes in current or expected earnings than the values of other stocks. If Loomis Sayles’s assessment of the prospects for a company’s earnings growth is wrong, or if its judgment of how other investors will value the company’s earnings growth is wrong, then the price of that company’s stock may fall or may not approach the value that Loomis Sayles has placed on it.

Value stocks are those stocks of companies that are not expected to experience significant earnings growth, but that Loomis Sayles believes are undervalued compared to their true worth. These companies may have experienced adverse business developments or may be subject to special risks that have caused their stocks to be out of favor. If Loomis Sayles's assessment of a company's prospects is wrong or if other investors do not eventually recognize the value of the company, then the price of the company's stock may fall or may not approach the value that Loomis Sayles has placed on it.

Many stocks may have both "growth" and "value" characteristics, and for some stocks it may be unclear into which category, if any, they fit.

### **Market Capitalizations**

An account may invest in companies with small, medium or large market capitalizations. Large capitalization companies are generally large companies that have been in existence for a number of years and are well established in their market. Mid capitalization companies are generally medium-sized companies that are not as established as large capitalization companies, may be more volatile and are subject to many of the same risks as smaller capitalizations companies.

- **Small Capitalization Companies** – Such investments may involve greater risk than is usually associated with more established companies. These companies often have sales and earnings growth rates that exceed those of companies with larger market capitalization. Such growth rates may in turn be reflected in more rapid share price appreciation. However, companies with smaller market capitalization often have limited product lines, markets or financial resources and may be dependent upon a relatively small management group. These securities may have limited marketability and may be subject to more abrupt or erratic movements in price than securities of companies with larger market capitalization or market averages in general.

### **Investment Companies**

Some accounts may invest in investment companies. Investment companies, including companies such as "iShares," "SPDRs" and "VIPERs," are essentially pools of securities. Investing in investment companies involves substantially the same risks as investing directly in the underlying securities, but may involve additional expenses at the investment company level, such as investment advisory fees and operating expenses. In some cases, investing in an investment company may involve the payment of a premium over the value of the assets held in that investment company's portfolio. As an investor in an investment company, an account will bear its ratable share of the investment company's expenses, including advisory fees.

Despite the possibility of greater fees and expenses, investment in investment companies may be attractive nonetheless for several reasons, especially in connection with foreign investments. Because of restrictions on direct investment by U.S. entities in certain countries, investing indirectly in such countries (by purchasing shares of an investment company that is permitted to invest in such countries) may be the most practical and efficient way for an account to invest in such countries. In other cases, when Loomis Sayles desires to make only a relatively small investment in a particular country, investing through an investment company that holds a diversified portfolio in that country may be more effective than investing directly in issuers in that country. In addition, it may be efficient for an account to gain exposure to particular market segments by investing in shares of one or more investment companies.

### **Preferred Stock**

Preferred stock pays dividends at a specified rate and generally has preference over common stock in the payment of dividends and the liquidation of the issuer's assets, but is junior to the debt securities of the issuer in those same respects. Unlike interest payments on debt securities, dividends on preferred stock are generally payable at the discretion of the issuer's board of directors. Shareholders may suffer a loss of value if dividends are not paid. The market prices of preferred stocks are subject to changes in interest rates and are more sensitive to changes in the issuer's creditworthiness than are the prices of debt securities. Under normal circumstances, preferred stock does not carry voting rights.

## **REITs**

REITs are pooled investment vehicles that invest primarily in either real estate or real estate-related loans. REITs involve certain unique risks in addition to those risks associated with investing in the real estate industry in general (such as possible declines in the value of real estate, lack of availability of mortgage funds or extended vacancies of property). Equity REITs may be affected by changes in the value of the underlying property owned by the REITs, while mortgage REITs may be affected by the quality of any credit extended. REITs are dependent upon management skills, are not diversified and are subject to heavy cash flow dependency, risks of default by borrowers and self-liquidation. REITs are also subject to the possibilities of failing to qualify for tax-free pass-through of income under the Code and failing to maintain their exemptions from registration under the Investment Company Act of 1940, as amended.

REITs (especially mortgage REITs) are also subject to interest rate risks, including prepayment risk. When interest rates decline, the value of a REIT's investment in fixed rate obligations can be expected to rise. Conversely, when interest rates rise, the value of a REIT's investment in fixed rate obligations can be expected to decline. If the REIT invests in adjustable rate mortgage loans the interest rates on which are reset periodically, yields on a REIT's investments in such loans will gradually align themselves to reflect changes in market interest rates. This causes the value of such investments to fluctuate less dramatically in response to interest rate fluctuations than would investments in fixed rate obligations. REITs may have limited financial resources, may trade less frequently and in limited volume and may be subject to more abrupt or erratic price movements than more widely held securities.

## **Exchange Traded Funds, Mutual Funds and Other Pooled Vehicles**

As an alternative to the direct investment in securities, an account may invest or take short positions in a Loomis Sayles-affiliated mutual fund or other pooled vehicle ("Affiliated Funds") or exchange-traded fund ("ETF"). Loomis Sayles may set up one or more private investment funds that invest in bank loans, cash equivalents and other fixed income securities or instruments as investment vehicles for cash balances. These investments may represent a significant portion of an account or an individual strategy. Investments in such vehicles (other than those sponsored or advised by Loomis Sayles) may involve a layering of fees and other costs, and may be subject to limitations on redemptions. These vehicles, including one or more Affiliated Funds, may have more favorable indemnification protections for Loomis Sayles or an affiliate, than those relating to an account.

## **Convertible Securities**

Convertible securities include corporate bonds, notes or preferred stocks of U.S. or foreign issuers that can be converted into (exchanged for) common stocks or other equity securities. Convertible securities also include other securities, such as warrants, that provide an opportunity for equity participation. Since convertible securities may be converted into equity securities, their values will normally vary in some proportion with those of the underlying equity securities. Convertible securities usually provide a higher yield than the underlying equity, however, so that the price decline of a convertible security may sometimes be less substantial than that of the underlying equity security. Convertible securities are generally subject to the same risks as non-convertible fixed-income securities, but usually provide a lower yield than comparable fixed-income securities. Many convertible securities are relatively illiquid.

## **Warrants and Rights**

A warrant is an instrument that gives the holder a right to purchase a given number of shares of a particular security at a specified price until a stated expiration date. Buying a warrant generally can provide a greater potential for profit or loss than an investment of equivalent amounts in the underlying common stock. The market value of a warrant does not necessarily move with the value of the underlying securities. If a holder does not sell the warrant, it risks the loss of its entire investment if the market price of the underlying security does not, before the expiration date, exceed the exercise price of the warrant. Investment in warrants is a speculative activity. Warrants pay no dividends and confer no rights (other than the right to purchase the underlying securities) with respect to the assets of the issuer. A right is a privilege granted to existing shareholders of a corporation to subscribe for shares of a new issue of common stock before it is issued.

Rights normally have a short life, usually two to four weeks, are often freely transferable and entitle the holder to buy the new common stock at a lower price than the public offering price.

Low exercise price call warrants are equity call warrants with an exercise price that is very low relative to the market price of the underlying instrument at the time of issue. Low exercise price call warrants are typically used to gain exposure to stocks in difficult to access local markets. The warrants typically have a strike price set such that the value of the warrants will be identical to the price of the underlying stock. The value of the warrants is correlated with the value of the underlying stock price and therefore, the risk and return profile of the warrants is similar to owning the underlying securities. In addition, the owner of the warrant is subject to the risk that the issuer of the warrant (*i.e.*, the counterparty) will default on its obligations under the warrant. The warrants have no voting rights. Dividends issued to the warrant holder by the underlying company will generally be distributed to the warrant holders, net of any taxes or commissions imposed by the local jurisdiction in respect of the receipt of such amount. In addition, the warrants are not exchangeable into shares of the underlying stock. Low exercise price call warrants are typically sold in private placement transactions, may be illiquid and may be classified as derivative instruments.

### **Foreign Securities**

In addition to the risks associated with investing in securities generally, such investments present additional risks not typically associated with investments in comparable securities of U.S. issuers. The non-U.S. securities in which an account may invest, all or a portion of which may be non-U.S. dollar-denominated, may include, among other investments: (a) debt obligations issued or guaranteed by non-U.S. national, provincial, state, municipal or other governments or by their agencies or instrumentalities, including “Brady Bonds”; (b) debt obligations of supranational entities; (c) debt obligations of the U.S. Government issued in non-dollar securities; (d) debt obligations and other fixed-income securities of foreign corporate issuers; and (e) non-U.S. dollar-denominated securities of U.S. corporate issuers. In addition to the risks associated with investing in securities generally, such investments present additional risks not typically associated with investments in comparable securities of U.S. issuers.

There may be less information publicly available about a foreign corporate or government issuer than about a U.S. issuer, and foreign corporate issuers are not generally subject to accounting, auditing and financial reporting standards and practices comparable to those in the United States. The securities of some foreign issuers are less liquid and at times more volatile than securities of comparable U.S. issuers. Foreign brokerage commissions and securities custody costs are often higher than those in the United States, and judgments against foreign entities may be more difficult to obtain and enforce. With respect to certain foreign countries, there is a possibility of governmental expropriation of assets, confiscatory taxation, political or financial instability and diplomatic developments that could affect the value of investments in those countries. The receipt of interest on foreign government securities may depend on the availability of tax or other revenues to satisfy the issuer’s obligations.

Since most foreign securities are denominated in foreign currencies or traded primarily in securities markets in which settlements are made in foreign currencies, the value of these investments and the investment income available for distribution may be affected favorably or unfavorably by changes in currency exchange rates or exchange control regulations. To the extent an account may purchase securities denominated in foreign currencies, a change in the value of any such currency against the U.S. dollar will result in a change in the U.S. dollar value of an account’s assets and the account’s income available for distribution.

### **Depository Receipts**

Depository receipts are instruments issued by banks that represent an interest in equity securities held by arrangement with the bank. Depository receipts can be either “sponsored” or “unsponsored.” Sponsored depository receipts are issued by banks in cooperation with the issuer of the underlying equity securities. Unsponsored depository receipts are arranged without involvement by the issuer of the underlying equity securities and, therefore, less information about the issuer of the underlying equity securities may be available and the price may be more volatile than sponsored depository receipts. American Depositary Receipts (“ADRs”) are depository receipts that are bought and sold in the United States and are typically issued by a U.S. bank or trust company which evidence ownership of underlying securities by a foreign corporation. European

Depository Receipts (“EDRs”) and Global Depository Receipts (“GDRs”) are depository receipts that are typically issued by foreign banks or trust companies which evidence ownership of underlying securities issued by either a foreign or United States corporation. All depository receipts, including those denominated in U.S. dollars, will be subject to foreign currency risk.

The effect of changes in the dollar value of a foreign currency on the dollar value of an account’s assets and on the investment income available for distribution may be favorable or unfavorable. An account may incur costs in connection with conversions between various currencies.

Because an account may invest in ADRs, changes in foreign economies and political climates are more likely to affect an account than an account that invests exclusively in U.S. companies. There may also be less government supervision of foreign markets, resulting in non-uniform accounting practices and less publicly available information. If an account’s portfolio is over-weighted in a certain geographic region, any negative development affecting that region will have a greater impact on an account than an account that is not over-weighted in that region.

### **Emerging Markets**

Investments in foreign securities may include investments in emerging or developing countries, whose economies or securities markets are not yet highly developed. Special considerations associated with these investments (in addition to the considerations regarding foreign investments generally) may include, among others, greater political uncertainties, an economy’s dependence on revenues from particular commodities or on international aid or development assistance, currency transfer restrictions, very limited numbers of potential buyers for such securities, less developed custodial and deposit systems and delays and disruptions in securities settlement procedures.

In determining whether to invest in securities of foreign issuers, Loomis Sayles may consider the likely effects of foreign taxes on the net yield available to the account. Compliance with foreign tax laws may reduce an account’s income available for distribution.

### **Foreign Currency Transactions**

Many foreign securities in an account’s portfolio will be denominated in foreign currencies or traded in securities markets in which settlements are made in foreign currencies. Any income on such securities is generally paid to an account in foreign currencies. The value of these foreign currencies relative to the U.S. dollar varies continually, causing changes in the dollar value of an account’s portfolio investments (even if the local market price of the investments is unchanged) and changes in the dollar value of an account’s income available for distribution. The effect of changes in the dollar value of a foreign currency on the dollar value of an account’s assets and on the investment income available for distribution may be favorable or unfavorable.

To protect against a change in the foreign currency exchange rate between the date on which an account contracts to purchase or sell a security and the settlement date for the purchase or sale, to gain exposure to one or more foreign currencies or to “lock in” the equivalent of a dividend or interest payment in another currency, an account might purchase or sell a foreign currency on a spot (*i.e.*, cash) basis at the prevailing spot rate or may enter into futures contracts on an exchange. If conditions warrant, an account may also enter into contracts with banks or broker-dealers to purchase or sell foreign currencies at a future date (“forward contracts”). An account will maintain cash or other liquid assets eligible for purchase by an account either designated on an account’s records or held in a segregated account with the custodian in an amount at least equal to the lesser of (i) the difference between the current value of an account’s liquid holdings that settle in the relevant currency and an account’s outstanding obligations under currency forward contracts, or (ii) the current amount, if any, that would be required to be paid to enter into an offsetting forward currency contract which would have the effect of closing out the original forward contract. Forward contracts are subject to many of the same risks as derivatives described in the section “Derivative Instruments.” Forward contracts may give rise to ordinary income or loss to the extent such income or loss results from fluctuations in the value of the foreign currency concerned. In addition, the effect of changes in the dollar value of a foreign currency on the dollar value of an account’s assets and on the investment income available for distribution may be favorable or unfavorable. An account may incur costs in connection with conversions between various currencies, and an

account will be subject to increased illiquidity and counterparty risk because forward contracts are not traded on an exchange and often are not standardized.

An account may buy and write options on foreign currencies in a manner similar to that in which futures or forward contracts on foreign currencies will be utilized. An account may use options on foreign currencies to hedge against adverse changes in foreign currency conversion rates. For example, a decline in the U.S. dollar value of a foreign currency in which portfolio securities are denominated will reduce the U.S. dollar value of such securities, even if their value in the foreign currency remains constant. In order to protect against such diminutions in the value of the portfolio securities, an account may buy put on the foreign currency. If the value of the currency declines, an account will have the right to sell such currency for a fixed amount in U.S. dollars, thereby offsetting, in whole or in part, the adverse effect on its portfolio.

Conversely, when a rise in the U.S. dollar value of a currency in which securities to be acquired are denominated is projected, thereby increasing the cost of such securities, an account may buy call options on the foreign currency. The purchase of such options could offset, at least partially, the effects of the adverse movements in exchange rates. As in the case of other types of options, however, the benefit to an account from purchases of foreign currency options will be reduced by the amount of the premium and related transaction costs. In addition, if currency exchange rates do not move in the direction or to the extent desired, an account could sustain losses or lesser gains on transactions in foreign currency options that would require an account to forego a portion or all of the benefits of advantageous changes in those rates.

An account may also write options on foreign currencies. For example, to hedge against a potential decline in the U.S. dollar due to adverse fluctuations in exchange rates, an account could, instead of purchasing a put option, write a call option on the relevant currency. If the decline expected by an account occurs, the option will most likely not be exercised and the diminution in value of portfolio securities be offset at least in part by the amount of the premium received. Similarly, instead of purchasing a call option to hedge against a potential increase in the U.S. dollar cost of securities to be acquired, an account could write a put option on the relevant currency which, if rates move in the manner projected by an account, will expire unexercised and allow an account to hedge the increased cost up to the amount of the premium. If exchange rates do not move in the expected direction, the option may be exercised and an account would be required to buy or sell the underlying currency at a loss, which may not be fully offset by the amount of the premium. Through the writing of options on foreign currencies, an account also may lose all or a portion of the benefits that might otherwise have been obtained from favorable movements in exchange rates.

An account's use of currency transactions may be limited by tax considerations. Loomis Sayles may decide not to engage in currency transactions, and there is no assurance that any currency strategy used by an account will succeed. In addition, suitable currency transactions may not be available in all circumstances and there can be no assurance that an account will engage in these transactions when they would be beneficial. The foreign currency transactions in which an account may engage involve risks similar to those described in the section "Derivative Instruments."

Transactions in non-U.S. currencies are also subject to many of the risks of investing in non-U.S. securities described in the section "Foreign Securities."

### **Money Market Instruments**

An account may seek to minimize risk by investing in money market instruments, which are high-quality, short-term securities. Although changes in interest rates can change the market value of a security, Loomis Sayles expects those changes to be minimal with respect to these securities, which are often purchased for defensive purposes. However, even though money market instruments are generally considered to be high-quality and a low-risk investment, recently a number of issuers of money market and money market-type instruments have experienced financial difficulties, leading in some cases to rating downgrades and decreases in the value of their securities.

Money market obligations of foreign banks or of foreign branches or subsidiaries of U.S. banks may be subject to different risks than obligations of domestic banks, such as foreign economic, political and legal developments and the fact that different regulatory requirements apply. In addition, recently, many money

market instruments previously thought to be highly liquid have become illiquid. If an account's money market instruments become illiquid, an account may be unable to satisfy certain of its obligations or may only be able to do so by selling other securities at prices or times that may be disadvantageous to do so.

### **Derivative Instruments**

Some accounts may use a number of derivative instruments for risk management purposes or as part of their investment strategies. Generally, derivatives are financial contracts whose value depends upon, or is derived from, the value of an underlying asset, reference rate or index, and may relate to stocks, bonds, interest rates, currencies or currency exchange rates, commodities, related indexes and other assets. For additional information about the use of derivatives in connection with foreign currency transactions, see the section "Foreign Currency Transactions." Loomis Sayles may decide not to employ any of these strategies and there is no assurance that any derivatives strategy used by an account will succeed. In addition, suitable derivative transactions may not be available in all circumstances and there can be no assurance that an account will engage in these transactions to reduce exposure to other risks when that would be beneficial. Examples of derivative instruments that an account may use include (but are not limited to) options and warrants, futures contracts, options on futures contracts, structured notes, zero-strike warrants and options, swap agreements and debt-linked and equity-linked securities.

Derivatives involve special risks, including possible default by the other party to the transaction, illiquidity, difficulties in valuation, leverage risk and the risk that the use of derivatives could result in significantly greater losses or lower income or gains than if they had not been used. See the subsection "Certain Additional Risks of Derivative Instruments." Recently, several broker-dealers and other financial institutions have experienced extreme financial difficulty, sometimes resulting in the bankruptcy of the institution. Although an account's adviser monitors the creditworthiness of an account's counterparties, there can be no assurance that an account's counterparties will not experience similar difficulties, possibly resulting in losses to an account. When used, derivatives may increase the amount and affect the timing and character of taxes payable by an account.

Several types of derivative instruments in which an account may invest are described in more detail below.

### **Leverage**

An account may borrow money and may also be deemed to be exposed to leverage through its use of derivative instruments, when measuring the exposure of each instrument on a notional basis. Many of the derivatives utilized by an account have minimal cash or collateral requirements the use of which enables an account to increase its investment exposure to fixed income instruments and securities significantly beyond the net asset value of an account. Leverage can significantly increase the risk profile of an account and can lead to significant losses.

Leverage involves investment exposure to positions in excess of the amount actually invested. Because the use of leverage effectively compounds investment exposure, it can improve the return on invested capital if the leveraged investments increase in value. However, leverage may involve costs to an account and, through the compounding effect, will proportionally enhance the adverse impact to an account if leveraged investments decrease in value.

There can be no assurance that an account will be able to continue any lending arrangement on the same or other favorable terms, or that it will always be able to enter into or renew a lending arrangement. Increased borrowing costs, a decision by a lender not to renew an account's lending arrangement, or an account's inability to find a replacement lender could result in an account having to sell loans or securities at a loss in value.

### **Futures Contracts**

Futures transactions involve an account's buying or selling futures contracts. A futures contract is an agreement between two parties to buy and sell a particular security, commodity, currency or other asset, or



group or index of securities, commodities, currencies or other assets, for a specified price on a specified future date. A futures contract creates an obligation by the seller to deliver and the buyer to take delivery of the type of instrument or cash (depending on whether the contract calls for physical delivery or cash settlement) at the time and in the amount specified in the contract. In the case of futures on an index, the seller and buyer agree to settle in cash, at a future date, based on the difference in value of the contract between the date it is opened and the settlement date. The value of each contract is equal to the value of the index from time to time multiplied by a specified dollar amount. For example, S&P 500 Index futures may trade in contracts with a value equal to \$250 multiplied by the S&P 500 Index.

When a trader, such as an account, enters into a futures contract, it is required to deposit with (or for the benefit of) its broker as “initial margin” an amount of cash or liquid securities equal to approximately 2% to 5% of the delivery or settlement price of the contract (depending on applicable exchange rules). Initial margin is held to secure the performance of the holder of the futures contract. As the value of the contract changes, the value of futures contract positions increases or declines. At the end of each trading day, the amount of such increase and decline is received and paid respectively by and to the holders of these positions. The amount received or paid is known as “variation margin.” If an account has a long position in a futures contract it will designate on an account’s records or establish a segregated account with an account’s custodian liquid assets eligible for purchase by an account equal to its daily marked to market net obligation under the contract (less any margin on deposit). For short positions in futures contracts, an account will designate on an account’s records or establish a segregated account with the custodian with liquid assets eligible for purchase by an account that, when added to the amounts deposited as margin, equal its daily marked to market net obligation under the futures contracts. Gain or loss on a futures position is equal to the net variation margin received or paid over the time the position is held, plus or minus the amount received or paid when the position is closed, minus brokerage commissions.

Although many futures contracts call for the delivery (or acceptance) of the specified instrument, futures are usually closed out before the settlement date through the purchase (or sale) of a comparable contract. If the price of the sale of the futures contract by an account is less than the price of the offsetting purchase, an account will realize a loss. A futures sale is closed by purchasing a futures contract for the same aggregate amount of the specific type of financial instrument or commodity and with the same delivery date. Similarly, the closing out of a futures purchase is closed by the purchaser selling an offsetting futures contract.

## Options

Options transactions may involve an account’s buying or writing (selling) options on securities, futures contracts, securities indices (including futures on securities indices) or currencies. An account may engage in these transactions either to enhance investment return or to hedge against changes in the value of other assets that it owns or intends to acquire. Options can generally be classified as either “call” or “put” options. There are two parties to a typical options transaction: the “writer” and the “buyer.” A call option gives the buyer the right to buy a security or other asset (such as an amount of currency or a futures contract) from, and a put option gives the buyer the right to sell a security or other asset to, the option writer at a specified price, on or before a specified date. The buyer of an option pays a premium when purchasing the option, which reduces the return on the underlying security or other asset if the option is exercised, and results in a loss if the option expires unexercised. The writer of an option receives a premium from writing an option, which may increase its return if the option expires or is closed out at a profit. An “American-style” option allows exercise of the option at any time during the term of the option. A “European-style” option allows an option to be exercised only at a specific time or times, such as the end of its term. Options may be traded on or off an established securities or options exchange.

If the holder of an option wishes to terminate its position, it may seek to effect a closing sale transaction by selling an option identical to the option previously purchased. The effect of the purchase is that the previous option position will be canceled. An account will realize a profit from closing out an option if the price received for selling the offsetting position is more than the premium paid to purchase the option; an account will realize a loss from closing out an option transaction if the price received for selling the offsetting option is less than the premium paid to purchase the option. Since premiums on options having an exercise price close to the value of the underlying securities or futures contracts usually have a time value component (*i.e.*, a value that diminishes as the time within which the option can be exercised grows shorter), the value of an

options contract may change as a result of the lapse of time even though the value of the futures contract or security underlying the option (and of the security or other asset deliverable under the futures contract) has not changed.

### **Options on Indices**

Put and call options on indices are similar to puts and calls on securities or futures contracts except that all settlements are in cash and gain or loss depends on changes in the index in question rather than on price movements in individual securities or futures contracts. When an account writes a call on an index, it receives a premium and agrees that, prior to the expiration date, the purchaser of the call, upon exercise of the call, will receive from an account an amount of cash if the closing level of the index upon which the call is based is greater than the exercise price of the call. The amount of cash is equal to the difference between the closing price of the index and the exercise price of the call times a specified multiple ("multiplier"), which determines the total dollar value for each point of such difference. When an account buys a call on an index, it pays a premium and has the same rights as to such call as are indicated above. When an account buys a put on an index, it pays a premium and has the right, prior to the expiration date, to require the seller of the put, upon an account's exercise of the put, to deliver to an account an amount of cash equal to the difference between the exercise price of the option and the value of the index, times a multiplier, similar to that described above for calls. When an account writes a put on an index, it receives a premium and the purchaser of the put has the right, prior to the expiration date, to require an account to deliver to it an amount of cash equal to the difference between the closing level of the index and exercise price times the multiplier if the closing level is less than the exercise price.

### **Exchange-Traded and Over-the-Counter Options**

Some accounts may purchase or write both exchange-traded and OTC options. OTC options differ from exchange-traded options in that they are two-party contracts, with price and other terms negotiated between buyer and seller, and generally do not have as much market liquidity as exchange-traded options.

An exchange-traded option may be closed out only on an exchange that generally provides a liquid secondary market for an option of the same series. If a liquid secondary market for an exchange-traded option does not exist, it might not be possible to affect a closing transaction with respect to a particular option, with the result that an account would have to exercise the option in order to consummate the transaction. Reasons for the absence of a liquid secondary market on an exchange include the following: (i) there may be insufficient trading interest in certain options; (ii) restrictions may be imposed by an exchange on opening transactions or closing transactions or both; (iii) trading halts, suspensions or other restrictions may be imposed with respect to particular classes or series of options or underlying securities; (iv) unusual or unforeseen circumstances may interrupt normal operations on an exchange; (v) the facilities of an exchange or the Options Clearing Corporation or other clearing organization may not at all times be adequate to handle current trading volume; or (vi) one or more exchanges could, for economic or other reasons, decide or be compelled at some future date to discontinue the trading of options (or a particular class or series of options), in which event the secondary market on that exchange (or in that class or series of options) would cease to exist, although outstanding options on that exchange that had been issued by the Options Clearing Corporation as a result of trades on that exchange would continue to be exercisable in accordance with their terms.

An OTC option (an option not traded on an established exchange) may be closed out only by agreement with the other party to the original option transaction. With OTC options, an account is at risk that the other party to the transaction will default on its obligations or will not permit an account to terminate the transaction before its scheduled maturity. While an account will seek to enter into OTC options only with dealers who agree to or are expected to be capable of entering into closing transactions with an account, there can be no assurance that an account will be able to liquidate an OTC option at a favorable price at any time prior to its expiration. OTC options are not subject to the protections afforded purchasers of listed options by the Options Clearing Corporation or other clearing organizations.

### **Index Warrants**

Put warrants' and call warrants' values vary depending on the change in the value of one or more

specified securities indices (“index warrants”). Index warrants are generally issued by banks or other financial institutions and give the holder the right, at any time during the term of the warrant, to receive upon exercise of the warrant a cash payment from the issuer based on the value of the underlying index at the time of exercise. In general, if the value of the underlying index rises above the exercise price of the index warrant, the holder of a call warrant will be entitled to receive a cash payment from the issuer upon exercise based on the difference between the value of the index and the exercise price of the warrant; if the value of the underlying index falls, the holder of a put warrant will be entitled to receive a cash payment from the issuer upon exercise based on the difference between the exercise price of the warrant and the value of the index. The holder of a warrant would not be entitled to any payments from the issuer at a time when, in the case of a call warrant, the exercise price is more than the value of the underlying index, or in the case of a put warrant, the exercise price is less than the value of the underlying index. If an account were not to exercise an index warrant prior to its expiration, then an account would lose the amount of the purchase price paid by it for the warrant. An account will normally use index warrants in a manner similar to its use of options on securities indices.

### **Forward Contracts**

Forward contracts are transactions involving an account’s obligation to purchase or sell a specific currency or other asset at a future date at a specified price. For example, forward contracts may be used when Loomis Sayles anticipates that particular foreign currencies will appreciate or depreciate in value or to take advantage of the expected relationships between various currencies, regardless of whether securities denominated in such currencies are held in an account’s investment portfolio. Forward contracts may also be used by an account for hedging purposes to protect against uncertainty in the level of future foreign currency exchange rates, such as when an account anticipates purchasing or selling a foreign security. This technique would allow an account to “lock in” the U.S. dollar price of the investment. Forward contracts also may be used to attempt to protect the value of an account’s existing holdings of foreign securities. There may be, however, imperfect correlation between an account’s foreign securities holdings and the forward contracts entered into with respect to such holdings. The cost to an account of engaging in forward contracts varies with factors such as the currency involved, the length of the contract period and the market conditions then prevailing.

### **Other Derivatives; Future Developments**

The above discussion relates to an account's proposed use of certain types of derivatives currently available. However, an account may not be limited to the transactions described above. In addition, the relevant markets and related regulations are constantly changing and, in the future, an account may use derivatives not currently available or widely in use.

### **Certain Additional Risks of Derivative Instruments**

The use of derivative instruments, including, but not limited to, the futures contracts, options and warrants, forward currency contracts and swap transactions described above, involves risks in addition to those described above. One risk arises because of the imperfect correlation between movements in the price of derivatives contracts and movements in the price of the securities, indices or other assets serving as reference instruments for the derivative. An account’s derivative strategies will not be fully effective unless an account can compensate for such imperfect correlation. There is no assurance that an account will be able to effect such compensation. For example, the correlation between the price movement of the derivatives contract and the hedged security may be distorted due to differences in the nature of the relevant markets. If the price of the futures contract moves more than the price of the hedged security, an account would experience either a loss or a gain on the derivative that is not completely offset by movements in the price of the hedged securities. For example, in an attempt to compensate for imperfect price movement correlations, an account may purchase or sell futures contracts in a greater dollar amount than the hedged securities if the price movement volatility of the hedged securities is historically greater than the volatility of the futures contract. The use of derivatives for other than hedging purposes may be considered a speculative activity, and involves greater risks than are involved in hedging.

The price of index futures may not correlate perfectly with movement in the relevant index due to certain market distortions. One such distortion stems from the fact that all participants in the futures market

are subject to margin deposit and maintenance requirements. Rather than meeting additional margin deposit requirements, investors may close futures contracts through offsetting transactions, which could distort the normal relationship between the index and futures markets. Another market distortion results from the deposit requirements in the futures market being less onerous than margin requirements in the securities market, and as a result the futures market may attract more speculators than does the securities market. A third distortion is caused by the fact that trading hours for stock index futures may not correspond perfectly to hours of trading on the exchange to which a particular stock index futures contract relates. This may result in a disparity between the price of index futures and the value of the relevant index due to the lack of continuous arbitrage between the index futures price and the value of the underlying index. Finally, hedging transactions using stock indices involve the risk that movements in the price of the index may not correlate with price movements of the particular portfolio securities being hedged.

Price movement correlation in derivative transactions also may be distorted by the illiquidity of the futures and options markets and the participation of speculators in such markets. If an insufficient number of contracts are traded, commercial users may not deal in futures contracts or options because they do not want to assume the risk that they may not be able to close out their positions within a reasonable amount of time. In such instances, futures and options market prices may be driven by different forces than those driving the market in the underlying securities, and price spreads between these markets may widen. The participation of speculators in the market enhances its liquidity. Nonetheless, the presence of speculators may create temporary price distortions unrelated to the market in the underlying securities.

Positions in futures contracts and options on futures contracts may be established or closed out only on an exchange or board of trade. There is no assurance that a liquid market on an exchange or board of trade will exist for any particular contract or at any particular time. The liquidity of markets in futures contracts and options on futures contracts may be adversely affected by “daily price fluctuation limits” established by commodity exchanges which limit the amount of fluctuation in a futures or options price during a single trading day. Once the daily limit has been reached in a contract, no trades may be entered into at a price beyond the limit, which may prevent the liquidation of open futures or options positions. Prices have in the past exceeded the daily limit on a number of consecutive trading days. If there is not a liquid market at a particular time, it may not be possible to close a futures or options position at such time, and, in the event of adverse price movements, an account would continue to be required to make daily cash payments of variation margin. However, if futures or options are used to hedge portfolio securities, an increase in the price of the securities, if any, may partially or completely offset losses on the futures contract.

The value of an account's derivative instruments may fluctuate based on a variety of market and economic factors. In some cases, the fluctuations may offset (or be offset by) changes in the value of securities or derivatives held in an account's portfolio. All transactions in derivatives involve the possible risk of loss to an account of all or a significant part of the value of its investment. In some cases, the risk of loss may exceed the amount of an account's investment. For example, when an account writes a call option or sells a futures contract without holding the underlying securities, currencies or futures contracts, its potential loss is unlimited. An account will be required, however, to segregate or designate on its records liquid assets in amounts sufficient at all times to satisfy its net obligations under options and futures contracts.

The risks of an account's use of index warrants are generally similar to those relating to its use of index options. Unlike most index options, however, index warrants are issued in limited amounts and are not obligations of a regulated clearing agency, but are backed only by the credit of the bank or other institution which issues the warrant. Also, index warrants generally have longer terms than index options. Although an account will normally invest only in exchange-listed warrants, index warrants are not likely to be as liquid as certain index options backed by a recognized clearing agency. In addition, the terms of index warrants may limit an account's ability to exercise the warrants at such time, or in such quantities, as an account would otherwise wish to do.

The successful use of derivatives will usually depend on Loomis Sayles's ability to forecast securities market, currency or other financial market movements correctly. For example, an account's ability to hedge against adverse changes in the value of securities held in its portfolio through options and futures also depends on the degree of correlation between changes in the value of futures or options positions and changes in the values of the portfolio securities. The successful use of certain other derivatives also depends on the availability

of a liquid secondary market to enable an account to close its positions on a timely basis. There can be no assurance that such a market will exist at any particular time.

The derivatives markets of foreign countries are small compared to those of the United States and consequently are characterized in most cases by less liquidity than U.S. markets. In addition, foreign markets may be subject to less detailed reporting requirements and regulatory controls than U.S. markets. Furthermore, investments in derivatives markets outside of the United States are subject to many of the same risks as other foreign investments.

### **Repurchase Agreements**

An account may enter into repurchase agreements, by which an account purchases a security and obtains a simultaneous commitment from the seller to repurchase the security at an agreed-upon price and date. The resale price is in excess of the purchase price and reflects an agreed-upon market interest rate unrelated to the coupon rate on the purchased security. Repurchase agreements are economically similar to collateralized loans by an account. Such transactions afford an account the opportunity to earn a return on temporarily available cash at what is considered to be comparatively low market risk. An account may invest in a repurchase agreement that does not produce a positive return to an account if Loomis Sayles believes it is appropriate to do so under the circumstances (for example, to help protect an account's uninvested cash against the risk of loss during periods of market turmoil). While the underlying security may be a bill, certificate of indebtedness, note or bond issued by an agency, authority or instrumentality of the U.S. Government, the obligation of the seller is not guaranteed by the U.S. Government and there is a risk that the seller may fail to repurchase the underlying security. In such event, an account would attempt to exercise rights with respect to the underlying security, including possible disposition in the market. However, an account may be subject to various delays and risks of loss, including (i) possible declines in the value of the underlying security during the period while an account seeks to enforce its rights thereto, (ii) possible reduced levels of income and lack of access to income during this period and (iii) inability to enforce rights and the expenses involved in the attempted enforcement, for example, against a counterparty undergoing financial distress.

### **When-Issued Securities**

"When-issued" securities are traded on a price basis prior to actual issuance. Such purchases will only be made to achieve an account's investment objective and not for leverage. The when-issued trading period generally lasts from a few days to months, or a year or more; during this period dividends on equity securities are not payable. No dividend income accrues to an account prior to the time it takes delivery. A frequent form of when-issued trading occurs when corporate securities to be created by a merger of companies are traded prior to the actual consummation of the merger. When-issued securities may involve a risk of loss if the value of the securities falls below the price committed to prior to actual issuance. An account will either designate on its records or cause its custodian to establish a segregated account for an account when it purchases securities on a when-issued basis consisting of cash or liquid securities equal to the amount of the when-issued commitments. Securities transactions involving delayed deliveries or forward commitments are frequently characterized as when-issued transactions.

### **Initial Public Offerings**

Some accounts may purchase securities of companies that are offered pursuant to an initial public offering ("IPO"). An IPO is a company's first offering of securities to the public in the primary market, typically to raise additional capital. An account may purchase a "hot" IPO (also known as a "hot issue"), which is an IPO that is oversubscribed and, as a result, is an investment opportunity of limited availability. As a consequence, the price at which these IPO shares open in the secondary market may be significantly higher than the original IPO price. IPO securities tend to involve greater risk due, in part, to public perception and the lack of publicly available information and trading history. There is the possibility of losses resulting from the difference between the issue price and potential diminished value of the stock once traded in the secondary market. An account's investment in IPO securities may have a significant impact on an account's performance and may result in significant capital gains.

## **Private Placements**

Some accounts may invest in securities that are purchased in private placements and, accordingly, are subject to restrictions on resale as a matter of contract or under federal securities laws. Because there may be relatively few potential purchasers for these securities, especially under adverse market or economic conditions or in the event of adverse changes in the financial condition of the issuer, an account could find it more difficult or impossible to sell the securities when Loomis Sayles believes that it is advisable to do so, or may be able to sell the securities only at prices lower than if the securities were more widely held. At times, it also may be more difficult to determine the fair value of the securities for purposes of computing an account's value.

While private placements may offer opportunities for investment that are not otherwise available on the open market, the securities so purchased are often "restricted securities," which are securities that cannot be sold to the public without registration under the Securities Act, the availability of an exemption from registration (such as Rule 144 or Rule 144A under the Securities Act) or that are not readily marketable because they are subject to other legal or contractual delays or restrictions on resale.

The absence of a trading market can make it difficult to ascertain a market value for illiquid investments such as private placements. Disposing of illiquid investments may involve time-consuming negotiation and legal expenses, and it may be difficult or impossible for an account to sell the illiquid securities promptly at an acceptable price. An account may have to bear the extra expense of registering the securities for resale and the risk of substantial delay in effecting the registration. In addition, market quotations are typically less readily available for these securities. The judgment of an account's adviser may at times play a greater role in valuing these securities than in the case of unrestricted securities.

Generally, restricted securities may be sold only to qualified institutional buyers in a privately negotiated transaction to a limited number of purchasers in limited quantities after they have been held for a specified period of time and other conditions are met pursuant to an exemption from registration, or in a public offering for which a registration statement is in effect under the Securities Act. An account may be deemed to be an underwriter for purposes of the Securities Act when selling restricted securities to the public. As such, an account may be liable to purchasers of the securities if the registration statement prepared by the issuer, or the prospectus forming a part of the registration statement, is materially inaccurate or misleading.

## **Privatizations**

In a number of countries around the world, governments have undertaken to sell to investors interests in enterprises that the government has historically owned or controlled. These transactions are known as "privatizations" and may in some cases represent opportunities for significant capital appreciation. In some cases, the ability of U.S. investors to participate in privatizations may be limited by local law, and the terms of participation for U.S. investors may be less advantageous than those for local investors. Also, there is no assurance that privatized enterprises will be successful, or that an investment in such an enterprise will retain its value or appreciate in value.

## **Short Sales**

An account may utilize short positions in an attempt to increase an account's return and/or for hedging purposes. In a short sale, an account sells a security it has borrowed, with the expectation that the security will decline in value. An account's potential loss is limited only by the maximum attainable price of the security less the price at which the security was sold. Short selling is considered leverage and may involve substantial risk. Loomis Sayles may employ a variety of financial instruments, such as futures, options, forward contracts, swaps and other derivatives, as an alternative to selling securities short. Selling securities short runs the risk of losing an amount greater than the initial investment therein.

Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. Short-selling exposes an account to unlimited risk with respect to that security due to the lack of an upper limit on the price to which an instrument can rise.

Due to the nature of certain account strategies, an account may be subject to the risk that, for some period of time, an account's short positions may go up while the long positions decline (a "convergent impact"). The occurrence of a convergent impact would aggravate any losses an account may sustain.