Northeast Investors Trust

September 30, 2017

125 High Street Boston, MA 02110 1-800-225-6704

Letter to Shareholders

Dear Fellow Shareholders,

During the fiscal year ended September 30, 2017, Northeast Investors Trust recorded a positive total return of 11.78%. This compares favorably with the total return of 9.06% on the Bank of America/Merrill Lynch US High Yield Index. We are pleased with these results. Relative performance during the fiscal year was aided by our defensive posture against rising interest rates. Moreover, because short-term bonds have less interest rate risk than do longer-term bonds, the risk-adjusted returns compare even more favorably.

The performance of individual credits and some post-reorganization securities was mixed. Long-time holdings such as Citigroup and NL Industries contributed to performance, and we have since sold most of the former position. On the other hand, we saw recent weakness in both Viskase and Energy XXI, in both cases in part because of the potential for discounted securities offerings. In the latter case, the price weakness of Energy XXI during the fiscal year and through this writing is in stark contrast to the rising prices of oil, its principal product.

Looking forward, we harbor some concerns about the frothy state of the bond markets, with a continued particular focus on the risk of rising interest rates. As of this writing, prices in the government bond markets are, in our view, currently reflecting a trajectory of future rate increases that remains materially slower than that suggested by the Federal Reserve's own projections. With this in mind, the portfolio remains overweight securities with effective short maturities — so-called "yield-to-call" securities — in an effort to reduce the Trust's relative interest rate risk.

To be sure, there is some thought that credit spreads might be negatively correlated with interest rates — that is to say: in a rising rate environment, corporate bond yields might not rise as quickly because of the likelihood that rising interest rates are accompanied with improved corporate profitability. While we in general subscribe to that thesis, we are also mindful to the current tight level of spreads to Treasuries in the market.

We remain significant shareholders in the fund, and so there is a continued mutuality of interest.

Sincerely,

Bruce H. Monrad

Bruce H. Monrad
Chairman of the Trustees