

Paying Dividends for Over 60 Years

September 2018

Dear Fellow Shareholders:

During the second half of fiscal 2018, the total return for Northeast Investors Trust was 2.0%, which compares to the return of 3.45% for the ICE Bank of America Merrill Lynch US High Yield Index.

The Trust entered the period with its bond holdings defensively positioned against the risk of rising interest rates. Indeed, the yield on the benchmark 10-year Treasury rose from 2.74% to 3.06% during the period, causing a principal loss of approximately 2.5% and producing a negative total return for holders of the benchmark security. We are therefore pleased with the risk-adjusted returns provided by the bond portfolio.

The broader high yield market also held up relatively well during this period, with yield spreads compared to Treasuries compressing, albeit temporarily. (Since October 1, interest rates on Treasury bonds have risen further, and the high yield market has suffered an abrupt principal loss of roughly 3%. Because of the Trust's defensive positioning, its core bond portfolio fared relatively well despite this pressure.)

Performance between industry sectors within the Trust's holdings did not vary noticeably, because of the overriding theme of lowering the interest rate risk level of the core bond portfolio. However, it should be reported that the Trust reduced its energy exposure materially during the period as oil prices rose to over \$70 per barrel.

On the other hand, the Trust had mixed performance in its "out of index" securities during the second half of the fiscal year. Appreciable gains were witnessed in the stocks of Viskase and Energy XXI Gulf Coast (which was the subject of a takeover), while the Trust saw weakness in the securities of NL Industries, Homer City and Advanced Lighting Technologies.

Looking forward, we are relatively pleased with how the portfolio is positioned, given the twin (albeit somewhat mutually exclusive) risks of rising interest rates and rising bond spreads. We believe that the risk-adjusted returns in shorter-maturity high yield bonds continue to look attractive. Having said that, we are also trying to evaluate when it might be appropriate to target higher yields in the bond portfolio, given the abrupt weakness recently n the overall high yield market.

We remain committed and large shareholders in the Trust in our own right, and we hope our strategy will continue to provide superior risk-adjusted returns going forward.

Sincerely, Bruce H. Monrad



Bruce H. Monrad is chairman and portfolio manager of Northeast Investors Trust (ticker: NTHEX), a no-load, highyield bond fund whose primary objective is the production of income. Bruce is among the longest-tenured fixed income fund managers in the industry, having run Northeast Investors Trust for more than 29 years. **DISCLAIMER:** From time to time a Trustee or an employee of Northeast Investors Trust may express views regarding a particular company, security, industry or market sector. The views expressed by any such person are the views of only that individual as of the time expressed and do not necessarily represent the views of the Trust or any other person in the Northeast Investors Trust organization. Any such views are subject to change at any time based upon market or other conditions, and Northeast Investors Trust disclaims any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions for Northeast Investors Trust are based on numerous factors, may not be relied on as an indication of trading intent on behalf of the Trust.

Past performance does not guarantee future results, and an investment in the Trust is not guaranteed. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than that quoted. Additional performance data may be obtained by calling 1-800-225-6704 or by visiting http://northeastinvestors.com/fund/performance-information

The ICE BofA Merrill Lynch US High Yield Index is an unmanaged market value-weighted index comprised of approximately 2,200 domestic and Yankee high yield bonds, including deferred interest bonds and payment-in-kind securities. Issues included in the index have maturities of one year or more and have a credit rating lower than BBB-/Baa3, but are not in default.

Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information about the Trust is contained in the prospectus or summary prospectus, either of which may be obtained by calling 1-800-225-6704 or by visiting www.northeastinvestors.com. Please read either one carefully before investing.

Mutual fund investing involves risk. The Trust invests in lower rated debt securities which may be subject to increased market volatility based on factors such as: the ability of an issuer to make current interest payments, the potential for principal loss if an issuer declares bankruptcy, and the potential difficulty in disposing of certain securities in a timely manner at a desired price and therefore can present an increased risk of investment loss.