NORTHEAST
INVESTORS TRUST

Paying Dividends for Over 60 Years

May 2018

Dear Fellow Shareholders:

During the first half of fiscal 2018, Northeast Investors Trust recorded a total return of -2.3%, which compares to the total return of the Bank of America/Merrill Lynch US High Yield Index of -0.5%.

The Trust benefited significantly from its positioning against the risk of rising rates. During this period, the yield on the 10-year benchmark Treasury rose approximately 0.3%, which caused its price to fall approximately 3% and pressured other fixed income investments. In contrast, nearly all of the Trust's purchases in the last year or so were bonds with short effective maturities which therefore saw a much more muted response to rising interest rates.

The Trust, however, saw significant weakness in the bonds of Cenveo, which movement essentially offset the relative strength mentioned above in the bond portfolio. A few of the Trust's equity positions were additional detractors from performance, with Energy XXI and Viskase subtracting a combined total of approximately 2% from the Trust's performance during the period. Both companies' stocks were arguably pressured in part by announced or possible capital raises, and, particularly in the case of Viskase, we view the price movement as technical rather than fundamental.

Looking forward, we continue to remain relatively defensive against the risk of rising interest rates, which to date have risen again almost as much since the March 31 end of the semi-annual period. Although the rise in yields has removed some of the downside risk in fixed income markets, that increase has been off historically low levels, and our central case is that the risk remains biased toward higher interest rates still. We are also earning everhigher yields on the shorter-term bonds that we purchase with available cash.

Continuing on that theme, we note that the cash dividend was increased for the November payment in order to comply with federal tax calculations by calendar year end. However, it also was a factor in reducing the payment for the remaining three quarters of our fiscal year (ending September 2018), in order to match distributions to income. Also, the shorter-term bonds in which we have recently concentrated our purchases tend to have a lower yield than do longer-term bonds, which has a further impact. As mentioned above, however, as yields have increased in the last year and, with more interest rate increases forecast, the yields on our new short-term bond purchases have only increased.

In summary, the portfolio retains an unusual profile: an overweighting of shorter-term securities which are traditionally viewed as having relative stability, and then a much smaller but more aggressive portion of the portfolio in eclectic special situations, including equities arising from legacy bond positions. We are hopeful that this so-called "Barbell" approach is prudent and will continue to be effective.

Sincerely,

Bruce H. Monrad

Bruce H. Monrad is chairman and portfolio manager of Northeast Investors Trust (ticker: NTHEX), a no-load, high-yield 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 since 1989.

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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.