NORTHEAST INVESTORS TRUST

Paying Dividends for Over 60 Years

September 2017

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 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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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.