

NORTHEAST INVESTORS TRUST
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Shares of Beneficial Interest

STATEMENT OF ADDITIONAL INFORMATION

February 1, 2019

This Statement of Additional Information supplements the Prospectus for the Trust dated February 1, 2018 and should be read in conjunction with the Prospectus. A copy of the Prospectus may be obtained from the Trust at the above address. This Statement of Additional Information is not a prospectus.

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THE TRUST

Northeast Investors Trust, herein called the Trust, is a diversified open-end management investment company organized March 1, 1950 by an Agreement and Declaration of Trust executed under the laws of The Commonwealth of Massachusetts.

INVESTMENT OBJECTIVES, POLICIES AND RESTRICTIONS; GENERAL

As explained in the Prospectus, the purpose of the Trust is to provide investors with a vehicle for investment under the management of the Trustees. Through this Trust, the Trustees will seek to provide a managed, diversified investment program, the primary objective of which shall be the production of income. Capital appreciation is also an objective of the Trust, but its achievement must be compatible with the primary objective.

In addition to the investment objectives and policies described in the Prospectus, the Trust has adopted certain investment restrictions. So long as these restrictions remain in effect, the Trustees may not: (1) Purchase any securities which would cause more than 5% of the Trust's total assets at the time of such purchase to be invested in the securities of any issuer, except the United States Government. (2) Purchase any securities which would cause the Trust at the time of such purchase to own more than 10% of any class of any issuer. (3) Purchase the securities of any issuer that together with any predecessor thereof have been engaged in continuous operation for less than three years, for which purpose the Trustees consider an issuer resulting from an acquisition or reorganization to be engaged in the same business as any party to the acquisition or reorganization transaction. (4) Purchase real estate or commodities or commodities contracts; however, this limitation does not preclude an investment in the securities of organizations which deal in real estate or commodities or commodities contracts or in securities secured by interests in real estate. (5) Purchase the securities of any investment company, except in connection with a merger, consolidation or acquisition or by purchase of securities of closed-end investment companies in regular transactions in the open market. (6) Purchase securities on margin or effect short sales of securities. (7) Make loans, except that the Trust may acquire publicly distributed bonds, debentures, notes and other debt securities, for which purposes the Trustees consider securities which are covered by Rule 144A under the Securities Act of 1933 or offered to a class of security holders of an issuer to be publicly distributed. (8) Act as an underwriter of securities except insofar as the Trust might technically be deemed to be an underwriter for purposes of the Securities Act of 1933 upon the disposition of certain securities. (9) Invest in companies for the purpose of exercising management or control. (10) Invest in puts, calls, straddles, spreads or any combinations thereof. (11) Purchase or retain the securities of any issuer if all Trustees together own more than 1/2 of 1% of the securities of such issuer. (12) Deal as principal with the Trust in the purchase or sale of portfolio securities. (13) Deal as agent with the Trust in the purchase or sale of portfolio securities. (14) Invest in securities for which there is no readily available market, if at the time of acquisition more than 15% of the Trust's assets would be invested in such securities. (15) Purchase participation or other direct interests in oil, gas or other mineral exploration or development programs. (16) Invest in warrants if at the time of acquisition more than 2% of the Trust's assets would be invested in warrants. (17) Invest in securities of foreign issuers if at the time of acquisition more than 10% of the Trust's assets would be invested in such securities. (18) Purchase any security if, after giving effect to such purchase, more than 25% of the Trust's assets would be invested in any one industry. (19) Issue senior securities or borrow money, except that the Trust may borrow funds up to a maximum amount equal to 25% of the Trust's total assets and may pledge assets as security for such borrowings.

For the purposes of the above, issuer refers to a consolidated corporate entity based on its most recent financials. Classes of securities are similarly determined based on most recent financials and thus may, for example, include debt at a subsidiary level, or debt representing different issuances. The purchase of or investment in securities does not encompass participation in exchange offers in or out of formal reorganization proceedings.

The above policies preclude only direct loans, not the acquisition of debt instruments in a secondary market, including participation in financings, including but not limited to debtor-in-possession financings, arising out of the acquisition of debt securities and do not preclude the lending of portfolio securities to broker-dealers. The Trust is not currently engaged in securities lending.

The Trust does not intend to engage in trading for short-term profits, and portfolio turnover will be limited in accordance with the Trust's objective of producing income. This does not, however, preclude an occasional investment for the purpose of short-term capital appreciation. During the fiscal years ended September 30, 2018 and 2017 the rates of total portfolio turnover were 42.69% and 61.33% respectively. Although investment policy or changed circumstances may require, in the opinion of the Trustees, an increased rate of such portfolio turnover, such as experienced in 2017 and 2018 due to investments in shorter duration securities, the Trustees do not anticipate that such turnover will be substantially in excess of that experienced by the Trust in recent years.

The Trust has adopted policies and procedures with respect to the disclosure of portfolio securities. The Trust will publicly disclose the complete schedule of its holdings, as reported on a fiscal quarter-end basis, by making the information publicly available in a manner consistent with SEC disclosure requirements. The Trust will file a complete portfolio schedule of investments with the SEC on form N-CSR within ten (10) days of the transmission to shareholders of any annual or semiannual report; these are generally transmitted within sixty (60) days after the close of the fiscal period covered by the report. The Trust will also file a complete portfolio schedule of investments with the SEC on form N-Q not later than sixty (60) days after the close of the first and third fiscal quarters. The Trust will not make available any other schedule of portfolio holdings to any person or institution other than in the ordinary course of business, such as to our auditors or custodian. The Trust may make quarterly portfolio holdings available to ranking or ratings agencies, but only after the information has been filed with the SEC or posted on our website. Certain agencies may contract with the Trust to receive the portfolio holdings monthly, but may not make the information available to the public until 60 days after the calendar quarter or until posted on the Trust's website.

The compensation of Bruce H. Monrad as portfolio manager for the Trust is set forth in this Statement of Additional Information under the caption "Compensation of Trustees", and information about his share ownership in the Trust is set forth under the caption "Trustees and Officers". Bruce H. Monrad does not have portfolio management responsibilities for any other investment company or pooled fund and is not primarily responsible for the day to day portfolio management for any accounts other than the Trust.

TRUSTEES & OFFICERS

The Trustees of Northeast Investors Trust are Ernest E. Monrad, Bruce H. Monrad, Peter J. Blampied, George P. Beal, and Charles R. Daugherty. Under Massachusetts Law, the Trustees are generally responsible for protecting the interests of the shareholders by overseeing the operation and management of the Trust. The table below provides certain information about the Trust's Trustees and Officers. The mailing address for the Trustees and Officers of the Trust is 125 High Street, Suite 1802, Boston, MA 02110.

<u>Name/Age/Service*</u>	<u>Position</u>	<u>Principal Occupation(s)/Other Directorships During the Past Five Years</u>
<u>Affiliated Trustees and Trust Officers</u>		
Ernest E. Monrad# Age: 88 Years of Service: 58	Trustee	Trustee of Northeast Investors Trust; Director and Chairman of Sippican Capital Advisors LLC
Bruce H. Monrad# Age: 56 Years of Service: 25	Trustee and Chairman	Trustee and Chairman of Northeast Investors Trust
Gordon C. Barrett Age: 61 Years of Service: 30	Executive Vice President, Chief Financial Officer	Chief Financial Officer of Northeast Investors Trust; President of Sippican Capital Advisors LLC
David A. Randall Age: 52 Years of Service: 18	Chief Compliance Officer, Vice President	Officer of Northeast Investors Trust

Independent Trustees

Peter J. Blampied Age: 76 Years of Service: 18	Trustee	Director of A.W. Perry, Inc.
George P. Beal Age: 65 Years of Service: 14	Trustee	Managing Partner, Boston Family Office LLC; Director of Breckinridge Capital Advisors
Charles R. Daugherty Age: 65 Years of Service: 14	Trustee	Managing Partner, Stanwich Advisors, LLC

* The Trustees serve until their resignation or either the appointment or election of a successor, and the Officers serve at the pleasure of the Trustees.

Ernest E. Monrad and Bruce H. Monrad are father and son, respectively.

The following is additional information about the background of each of the Trustees:

Interested Trustees

Mr. E. Monrad

Ernest E. Monrad became a trustee of Northeast Investors Trust in 1960. Mr. Monrad is a member and former director of the Boston Security Analysts Society and a member of the Massachusetts Bar. He is a former director of New America High Income Fund, Inc., former director of Furman Lumber, former trustee of Century Shares Trust and former trustee of Northeast Investors Growth Fund.

Mr. B. Monrad

Bruce H. Monrad is trustee and portfolio manager of Northeast Investors Trust, specializing in high yield securities. Previously he worked for Prudential-Bache Securities as a financial analyst.

Independent Trustees

Mr. Blampied

Peter J. Blampied was President of Corcoran Management Co. Inc, one of the region's leading residential management firms, from 1998-2008. He was previously Chairman, President and CEO of Boston Five Bancorp and Vice Chairman of Citizens Bank of Massachusetts. He is a former director of Access Capital Strategies, LLC. He is a director of A.W. Perry, Inc., a privately owned real estate developer, owner and manager.

Mr. Beal

George P. Beal is one of the founders of The Boston Family Office LLC, a registered investment adviser, and now is its Managing Partner as well as a portfolio manager. He is a director of Breckinridge Capital Advisors. Previously, Mr. Beal was employed at Cambridge Trust Co. and Bank of New England handling various duties ranging from commercial loans, branch management, operations and retail banking.

Mr. Daugherty

Charles R. Daugherty founded Stanwich Advisors, LLC, a leading independent boutique investment bank that provides advisory and fundraising services. Mr. Daugherty spent 26 years at Deutsche Bank/BT Alex Brown where he founded the Private Equity Group and served as Managing Director and Global Group Head.

The majority of the Trust’s Board of Trustees (the “Board”) are Independent Trustees. The Board has overall responsibility for overseeing the investment program of the Trust and its management and operations. The Board exercises the same powers, authority and responsibilities on behalf of the Trust as are customarily exercised by the directors of an investment company registered under the 1940 Act organized as a corporation and has authority to oversee and establish policies regarding the management, conduct and operation of the Trust’s business. The Board has designated Bruce H. Monrad, an Interested Trustee, to serve as Chairman. The Independent Trustees have not designated a lead Trustee.

The Board has two standing committees: the Audit Committee, and the Nominating and Governance Committee, each of which consists of Messrs. Blampied, Daugherty and Beal. These committees are therefore composed entirely of Independent Trustees, and all of the Independent Trustees serve on each committee. Both committees met four times during the last fiscal year. The Audit Committee assists the Board in fulfilling its responsibilities for accounting and financial reporting practices and provides a channel of communication between the Board and the Trust’s independent accountants. The provision of audit and non-audit services by the Trust’s independent accountants is subject to prior approval by the Audit Committee. The Nominating and Governance Committee considers candidates for Trustee and reviews matters relating to Board governance. The Nominating and Governance Committee will consider the experience, qualifications, attributes and skills of Trustee nominees and Trustees when looking to fill vacant Board or committee seats and will consider the benefits of a diverse Board in enhancing its oversight of management performance, particularly in today’s global investment environment. The Committee has not established a procedure for shareholders to nominate Trustees.

The Trust believes that its leadership structure is appropriate because it provides for the effective, independent oversight of management on behalf of the Trust’s shareholders by having the independent Trustees as a majority of the Board and through their exclusive service on all committees. The Board conducts a self-evaluation annually, which includes an evaluation of the effectiveness of the Board and its committee structure. In addition, the Independent Trustees have engaged their own independent counsel to advise them on matters relating to their responsibilities in connection with the Trust.

Senior management, on a regular basis, undertakes risk assessments aimed at identifying key risks that the Trust may face, as described in the Trust’s prospectus, the probability of occurrence of those risks and the potential impact. The Board and senior management have active discussions regarding the risks to which the Trust is subject. The Board reviews the Trust’s portfolio and regular reports provided to it that integrate strategy and operational and investment initiatives with risk exposures.

As part of its oversight, the Board assesses the quality of information it is receiving, how well this information provides a basis for evaluating the risk factors affecting the Trust, as described in the Trust’s prospectus, how management evaluates risk, and the quality of the risk management oversight structure. The Board engages in open discussions with management on how economic factors affect or may affect the Trust’s performance. It reviews the Trust’s periodic and current reports and prospectuses, with a particular focus on risk disclosures. In addition, as deemed appropriate, the Board or the Independent Trustees engage counsel or other parties to advise them on matters relating to risks associated with the Trust’s operations.

The following table shows the dollar range of shares of the Trust beneficially owned by each Trustee.

<u>Name of Trustee</u>	<u>Dollar Range of Equity Securities in the Trust</u>
<i><u>Trustees Who Are “Interested Persons” of the Trust</u></i>	
Ernest E. Monrad	Over \$2,000,000
Bruce H. Monrad	Over \$2,000,000
<i><u>Trustees Who Are Not “Interested Persons” of the Trust</u></i>	
Peter J. Blampied	Over \$100,000
George P. Beal	Over \$100,000
Charles R. Daugherty	None

The total number of shares owned beneficially by the Trustees, officers and members of their immediate families on September 30, 2018 was 6,047,993 shares (10.63%).

The Trust has adopted a Code of Ethics governing personal securities transactions by persons (access persons) associated with the Trust who have access to information about its investment operations. The Code does permit investments by Trust personnel for their own accounts, but requires systematic reporting of transactions and holdings as required by law. The Code of Ethics of the Trust is on file as an exhibit to this registration statement and may be obtained through the Securities and Exchange Commission.

COMPENSATION OF TRUSTEES

Under the Declaration of Trust, the Trustees are entitled to receive an annual fee equal to 1/2 of 1% of the principal of the Trust, computed at the end of each quarter year at the rate of 1/8 of 1% of the principal at the close of such quarter. The principal of the Trust for this purpose is taken as a total of the value of the portfolio and other assets less all liabilities, except accrued Trustees' fees, valued set forth below under "Price and Net Asset Value". The total Trustee fee paid to the Trustees and former officers for each of the fiscal years ended September 30, 2016, 2017 and 2018 was \$1,432,043, \$1,608,292 and \$1,326,840 respectively.

The following table shows the aggregate compensation paid during the fiscal year ended September 30, 2018 to the Trustees and former officers of the Trust from the Trustees' fee or otherwise.

Name and Position	Aggregate Compensation Paid
Ernest E. Monrad, Trustee	\$ 54,760
Bruce H. Monrad, Trustee, Chairman and President	\$ 1,078,330
Gordon C. Barrett, Executive Vice President, and CFO*	\$ 296,626
Robert B. Minturn~	\$ 73,750
Peter J. Blampied, Trustee	\$ 40,000
George P. Beal, Trustee	\$ 40,000
Charles R. Daugherty, Trustee	\$ 40,000

~ This compensation was paid as retirement benefits.

* Paid directly by the Trust; all other amounts shown are paid from the Trustees' fee.

Under the Declaration of Trust, the Trustees are required to furnish the Trust financial and statistical services for the Trust and such office space as the Trust may require. Except as shown above, during the fiscal year ended September 30, 2018, no retirement benefits were paid to any Trustee or former Trustee.

CUSTODIAN AND INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The custodian for the Trust is State Street Bank and Trust Company, 1 Iron Street, Boston, Massachusetts. The custodian maintains custody of the Trust's assets. The Trust acts as its own Transfer and Shareholder Servicing Agent.

The Trust has selected RSM US LLP, located at 80 City Square, Boston, Massachusetts 02129, as its independent registered public accounting firm for the current fiscal year. The firm provides services including (i) audit of annual financial statements and (ii) provides other audit, tax, and related services to the Trust.

BROKERAGE

Decisions to buy and sell securities for the Trust and as to assignment of its portfolio business and negotiation of its commission rates are made by the Trustees. It is the Trustees' policy to obtain best execution when processing transactions, in doing so, the Trustees assign portfolio executions and negotiate commission rates in accordance with the reliability and quality of a broker/dealer's services and their value and expected contribution to the performance of the Trust. Such portfolio transactions may be carried out with broker-dealers that have provided the Trustees or the Trust with research and other investment related services. Such services may include furnishing advice as to the value of securities, the advisability of investing in, purchasing or selling securities, and the availability of securities or purchasers or sellers of securities; furnishing portfolio analyses and reports concerning issuers, industries, securities, economic factors and trends; and effecting securities transactions and performing functions incidental thereto (such as clearance and settlement). During the fiscal year ended September 30, 2018, the Trust engaged in portfolio transactions involving principal trades totaling \$124,990,072 with market makers and other dealers. The Trust paid broker commissions of \$9,803 for the year ended September 30, 2018. During the fiscal years ended September 30, 2016 and 2017 brokerage commissions paid totaled \$0 and \$12,909 respectively. All such portfolio transactions completed by the Trust during the year ended September 30, 2018 were carried out with broker-dealers that have provided the Trust with research, and other investment related services.

PRICE AND NET ASSET VALUE

It is the current policy of the Trust that the public offering price of shares of the Trust equal their net asset value, the Trust receiving the full amount paid by the investor. The net asset value is determined as of the close of the New York Stock Exchange on each day that the Exchange is open. It is the only price available to investors whose orders are received prior to the close of the Exchange on that day. The price to investors whose applications for purchase are received after the close of the New York Stock Exchange or on a non-business day will be the net asset value next determined. The net asset value of the Trust's shares is determined by dividing the market value of the Trust's securities, plus any cash and other assets (including income accrued) less all liabilities by the number of shares outstanding. An adjustment will be made to the Trust's price for fractions of a cent to the next highest cent. The Trust makes no payments to third parties for the daily computation of its net asset value.

The value of equity securities or equity-like securities such as warrants for which market quotations are readily available, shall be determined on the basis of the last quoted sale prices taken from the primary market or exchange on which they are traded. A bid price may be used if it more closely reflects the fair value of the security as of the close of regular trading on the New York Stock Exchange. Fixed income securities, including securities convertible into equity, shall be valued on the basis of evaluated prices furnished by independent pricing services or from quotations received from dealers who make markets in such securities. The evaluations provided by the pricing services are based on expert analysis of market data and other factors such as last sale, dealer bids, yields, quality, coupon rate, maturity, type of issue, trading characteristics and other relevant bond market data. Securities and other assets for which pricing service or market quotations are not readily available are valued at their fair value as determined in good faith under consistently applied procedures approved by the Board of Trustees. For a further description of the Trust's fair value pricing methodologies, see the Prospectus under "Buying Shares".

As indicated in the Prospectus, purchase and redemption orders may be received on behalf of the Trust by brokers. In certain such cases, where the Trust has authorized such transactions (i) such broker may be authorized to designate other intermediaries to receive purchase and redemption orders for the Trust; (ii) the Trust will be deemed

to have received a purchase or redemption order when an authorized broker or, if applicable, a broker's authorized designee, receives the order; and (iii) customer orders will be priced at the Trust's net asset value next computed after they are received by an authorized broker or the broker's authorized designee.

SHAREHOLDER PLANS

Open Accounts

Upon making an initial investment (minimum amount \$1,000), a shareholder will automatically have an Open Account established for him on the books of the Trust. Once any account is opened there is no limitation to the size or frequency of investment, subject to the policies and procedures described in the prospectus under the caption "Buying Shares". The shareholder will receive a confirmation from the Trust of this and each subsequent transaction in his Account via mail or email showing the current transaction and the current number of shares held. A shareholder may make additional investments in shares of the Trust at any time by ordering the Trust shares at the then applicable public offering price. Share certificates which have been issued to a shareholder may be returned to the Trust at any time for credit to the shareholder's Open Account. Shares held in an Open Account may be redeemed as described in the Prospectus under "Selling Shares". Income dividends and capital gains distributions are credited in shares on the payment date (which may be different than the record date) at the applicable record date closing net asset value, unless a shareholder has elected to receive all income dividends and/or capital gains distributions in cash.

Automatic Investment and Withdrawal Plans

These Plans have been developed to accommodate those who wish to make scheduled purchases or sales of shares of the Trust on a continuing basis without the imposition of any fee or service charge. Subject to the initial investment minimum of \$1,000, any shareholder maintaining an Open Account may request in his application, in the appropriate Automated Investment Plan (AIP) or Scheduled Withdrawal Plan (SWP) form, online or otherwise in writing that investments be made through automatic deductions (minimum \$50) from his bank checking or savings account or that withdrawals be made automatically with the redemption price paid by check or electronic funds transfer. The shareholder may cancel his participation in either Plan at any time, and the Trust may modify or terminate either Plan at any time.

An investor should understand that he is investing in a security, the price of which fluctuates, and that under the Plans he will purchase or sell shares regardless of their price level and that if he terminates the Plan and sells his accumulated shares at a time when their market value is less than his cost, he will incur a loss. In the case of the Automatic Investment Plan, he should also take into account his financial ability to continue the Plan through periods of low prices and understand that the Plan cannot protect him against loss in declining markets.

TAX-ADVANTAGED RETIREMENT PLANS

In addition to regular accounts, the Trust offers tax-advantaged retirement plans which are described briefly below. Contributions to these plans are invested in shares of the Trust; dividends and other distributions are reinvested in shares of the Trust.

Contributions to these retirement plans, within the limits and circumstances specified in applicable provisions of the Internal Revenue Code, are excludable or deductible from the participant's income for federal income tax purposes. In addition, non-deductible or after-tax contributions may be made to these retirement plans to the extent permitted by the Internal Revenue Code. Reinvested dividends and other distributions accumulate free from federal income tax while the shares of the Trust are held in the plan. Distributions from these plans are generally included in income when received; however, after-tax or non-deductible contributions may be recovered without additional federal income tax. Premature distributions, insufficient distributions after age 70 1/2 or excess contributions may result in penalty taxes.

State Street Bank and Trust Company serves as custodian of each of the following plans. Detailed information concerning each of the following plans and copies of the plan documents are available online or upon request to the Trust at its offices.

An individual investor or employer considering any of these retirement plans should read the detailed information for the plan carefully and should consider consulting an attorney or other competent advisor with respect to the requirements and tax aspects of the plan.

Traditional IRA, Roth IRA and Education Savings Account

An individual may open his own Individual Retirement Account (IRA), Roth IRA, or Education Savings Account using a custodial account form approved for this purpose by the IRS. An individual may have an IRA even though he is also an active participant in a pension or profit-sharing plan or certain other plans. However, depending on the individual's adjusted gross income and tax return filing status, contributions for an individual who is an active participant in another plan may be partially or entirely non-deductible. Contributions to a Roth IRA are non-deductible, but income and gains accumulate free of income tax and distributions after age 59 1/2 are generally not taxable. An Education Savings Account can be established only for a Designated Beneficiary who is under age 18 as a method of saving for education expenses. Contributions to an Education Savings Account are non-deductible, but income and gains accumulate free of income tax and distributions are not taxable as long as the amount withdrawn is used for qualified educational expenses.

ANTI-MONEY LAUNDERING COMPLIANCE

Money laundering is the process by which the financial proceeds of criminal activities are given the appearance of legitimacy, thereby concealing their origin and enabling criminals to reap the benefit of their crimes. Typically, illegally obtained cash is passed through legitimate financial institutions and businesses or converted into hard assets. These techniques make it difficult or impossible to trace the money to its illegal origins. The money launderer's goal is to make its financial transactions appear normal, thus creating an apparent legitimate source for the illicit cash, while simultaneously enabling the criminal to evade payment of taxes on the unlawful proceeds.

The Trustees of Northeast Investors Trust (the "Trust") have determined to comply with all applicable anti-money laundering ("AML") laws and regulations and to carry out measures to detect, prevent and deter money laundering, terrorist financing and related illegal activities. It is the policy of the Trust to seek to prevent the misuse of the funds it manages and its personnel and facilities for purposes of money laundering and terrorist financing. The Trust has adopted and enforces policies, procedures and controls to detect and deter the occurrence of money laundering and other illegal activity. These policies and procedures are designed to assure as far as possible that the Trust accepts investments only from legitimate, law-abiding investors.

Consequently, the Trust may request additional information from you to verify your identity and the source of your funds. If you do not provide the requested information, the Trust may not establish your new account. The Trust may also be required to "freeze" a shareholder's account if the Trust believes the investor is involved in suspicious activity or if certain account information matches that of government lists of suspicious persons. If such information is discovered, the Trust may be required to report this information to a government agency and the law may not permit the Trust to inform the shareholder that such actions have taken place.

DIVIDENDS, DISTRIBUTIONS & FEDERAL TAXES

It is the Trust's policy to distribute net investment income and net realized capital gains on sales of investments (less any available capital loss carryforwards) annually. Dividends and distributions are credited in shares of the Trust unless the shareholder elects to receive cash.

Any dividends or distributions paid shortly after a purchase of shares by an investor will have the effect of reducing the per share net asset value of his shares by the per share amount of the dividends or distributions. Furthermore, such dividends or distributions, although in effect a return of capital, may be subject to income taxes, including the 3.8% tax imposed by the Affordable Care Act.

It is the policy of the Trust to distribute its net investment income and net realized gains for each year in taxable dividends and capital gain distributions so as to qualify as a “regulated investment company” under the Internal Revenue Code. The Trust did so qualify during its last taxable year.

A regulated investment company which meets the diversification of assets and source of income requirements prescribed by the Internal Revenue Code is accorded conduit or “pass through” treatment if it distributes to its shareholders at least 90% of its taxable income exclusive of net capital gains, i.e., it will be taxed only on the portion of such income which it retains.

To the extent that a regulated investment company distributes the excess of its net long-term capital gain over its net short-term capital loss (including any capital loss carryforward from prior years), such capital gain is not taxable to the company but it is taxable to the shareholder.

Income dividends and capital gain distributions are taxable as described, whether received in cash or additional shares. Shareholders who have not supplied the Trust with appropriate information with respect to their tax identification or social security number or who are otherwise subject to back-up withholding may have 24% of distributions withheld by the Trust.

The foregoing discussion relates to federal income taxation. Dividends and capital gain distributions may also be subject to state and local taxes, and shareholders should consult with a qualified tax advisor.

CAPITAL SHARES

The Trust has only one class of securities—shares of beneficial interest without par value--of which an unlimited number are authorized. Each share has one vote and when issued, is fully paid and nonassessable. Fractional shares may be issued and when issued, have the same rights proportionately as full shares. The shares are transferable by endorsement or stock power in the customary manner, but the Trust is not bound to recognize any transfer until it is recorded on the books of the Trust. Each share is entitled to participate equally in any dividends or distributions declared by the Trustees. In the event of liquidation of the Trust, the holders of shares are entitled to all assets remaining for distribution after satisfaction of all outstanding liabilities. Distributions would be in proportion to the number of shares held. No shares carry any conversion, subscription, or other preemptive rights.

Under Massachusetts law, shareholders could, under certain circumstances, be held personally liable for the obligations of the Trust. However, the Declaration of Trust provides that the Trustees shall have no power to bind the shareholders personally and requires that all contracts and other instruments shall recite that the same are executed by the Trustees as Trustees and not individually and are solely binding upon the Trust’s assets. The Trust is advised by counsel (Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.) that under the applicable Massachusetts decisions, no personal liability can attach to the shareholders under contracts of the Trust containing this recital. Moreover, the Declaration of Trust provides that any shareholder of the Trust shall be indemnified by the Trust for all loss and expense incurred by reason of his being or having been a shareholder of the Trust. Thus the risk of a shareholder incurring financial loss on account of shareholder liability is limited to circumstances in which the Trust itself would be unable to meet its obligations.

PROXY VOTING GUIDELINES

Written guidelines have been established for proxy voting by the Board of Trustees of the Trust. The purpose of these guidelines is to promote the accountability of a company’s management and board of directors to its shareholders; to align the interests of management with those of shareholders; and to increase disclosure of a company’s business and operations.

The Trust’s proxy voting guidelines generally address proposals submitted to shareholders in the following categories:

Routine Matters

Proposals for the election of directors

The Trust generally supports management's recommendations in selecting director nominees as the Trust believes the company is in the best position to recommend and evaluate a qualified board. Directors should be competent, qualified individuals and should be accountable, responsive to shareholders and should exercise reasonable judgment. The Trust generally supports a board of directors comprised of a majority of independent directors and prefers committees such as audit and nominating committees to also be comprised of independent members.

Proposals for the approval of independent auditors

The Trust generally will rely on the audit committee's recommendation in selecting independent auditors who will provide the best service to the company. The Trust believes the relationship between the company and its auditors should be independent and will vote against proposed auditors whose independence may be compromised.

Compensation Matters

Proposals seeking approval of equity-based compensation, including stock option plans

Companies often offer compensation plans for its officers and employees as a means to attract or maintain desirable employees. These plans may include equity-based compensation (stock options or restricted stock). In general, the Trust will vote for stock-related compensation plans that are reasonably designed and that align the interest of management with those of shareholders by providing officers and employees with an incentive to maximize shareholder value. It will consider the dilutive effects, pricing and re-pricing issues, and other factors in voting on specific proposals.

Proposals related to executive compensation

The Trust believes that executive compensation matters are best left to the discretion of the directors, not the shareholders. The Trust will generally vote against advisory votes on executive compensation (Say-On-Pay) unless such compensation is deemed problematic or does not appear aligned with shareholder interests.

Corporate Control

Proposals relating to changes in corporate control

The Trust generally opposes measures that are designed to prevent or obstruct corporate takeovers. Such measures tend to entrench current management, discourage other offers for the company and depress shareholder value. In most cases, the acquisition or takeover of a company - hostile or otherwise - will increase shareholder value and therefore must be permitted to occur.

Shareholder Rights Plans (Poison Pills)

Shareholder Rights Plans or Poison Pills are instigated by an unwanted takeover attempt and can ultimately make the company appear financially less attractive to potential suitors. Typically, directors have used poison pills without shareholder approval. The Trust will generally vote against all forms of poison pills unless backed by sound business strategy that will likely result in a greater benefit to the shareholders.

Increases in Authorized Common Stock

The Trust will generally approve of increases in authorized shares, provided that the increase will not expose shareholders to excessive dilution and is sought for appropriate corporate purposes.

"Blank Check" Preferred Stock

The Trust will generally vote against "blank check" preferred stock proposals unless the proposal discloses that the stock is specifically required to be issued for valid corporate financing objectives.

Classified or Staggered Boards

Although these types of board structures may provide stability and continuity of board members, they can also be viewed as anti-takeover devices; therefore the Trust will generally vote against classified or staggered boards.

Shareholder Rights

Proposals that affect shareholder rights, including voting rights

The Trust views the exercise of shareholders' rights – including the rights to act by written consent, to call special meetings and to remove directors – to be fundamental to corporate governance.

Cumulative Voting

The Trust generally supports proposals to adopt cumulative voting and will generally vote against proposals to eliminate cumulative voting which may constitute an anti-takeover measure.

Confidential voting

The Trust generally supports proposals to require that voting be confidential because they increase the independence of shareholders who are voting.

Supermajority Voting

The Trust favors simple majority votes by shareholders on matters submitted for their approval and generally will vote in support of shareholders proposals that eliminate supermajority voting requirements.

Dual Class or Super Voting Share Class Capitalizations

The Trust will generally vote against the adoption of a dual or super voting share class capitalization structures that provide disparate voting rights to different groups of shareholders with similar economic investments.

Other Matters

Proposals relating to social and corporate responsibility issues

The Trust will generally vote with management's recommendations on proposals pertaining to social, moral, ethical or corporate matters. These proposals are primarily initiated by shareholders and the effect on shareholder value of such proposals is often unclear, and therefore the Trust will rely on management's assessment of the economic effect of such proposals.

Potential Conflicts of Interest

In the event that any matter for which a proxy is solicited creates a potential conflict of interest between interests of the shareholders of the Trust, on the one hand, and any affiliated person of the Trust, on the other, the voting of such proxy will be referred to the Trustees of the Trust who are not "interested persons" of the Trust as such term is defined under the Investment Company Act of 1940 (the "independent Trustees"); if the potential conflict is with an independent Trustee, such Trustee will abstain from voting on the matter.

Other Situations

With respect to proposals not mentioned above, the Trust will act in the best interest of the shareholders and vote in a manner which will enhance the value of the investment and maximize shareholder value.

The foregoing is a summary. A copy of the complete Proxy Voting Guidelines and the Trust's voting record may be obtained by calling the toll free number in the address set forth on the cover page of this Statement of Additional Information and at the website of the Securities and Exchange Commission (www.sec.gov) or at the website of the Trust (www.northeastinvestors.com).

HISTORICAL PERFORMANCE INFORMATION

From time to time, the Trust may advertise average annual total return. Average annual total return quotations will be computed by finding the average annual compounded rates of return over 1, 5 and 10 year periods that would equate the initial amount invested to the ending redeemable value, according to the following formula:

$$\left(\frac{ERV}{P}\right)^{1/N} - 1$$

Where:

P = a hypothetical initial payment of \$1,000

N = number of years

ERV = ending redeemable value of a hypothetical \$1,000 payment made at the beginning of the 1, 5 and 10 year periods at the end of the 1, 5 or 10 year periods (or fractional portion thereof)

The calculation of average annual total return assumes the reinvestment of all dividends and distributions. The Trust may also advertise total return (a “nonstandardized quotation”) which is calculated differently from average annual total return. A nonstandardized quotation of the total return may be a cumulative return which measures the percentage change in the value of an account between the beginning and end of a period, assuming no activity in the account other than reinvestment of dividends and capital gains distributions. A nonstandardized quotation may also indicate average annual compounded rates of return over periods other than those specified for average annual total return. A nonstandardized quotation of total return will always be accompanied by the Trust’s average annual total return as described above. The Trust’s total returns for the one, five and ten year periods ended December 31, 2018 are set forth in the Prospectus.

From time to time, the Trust may also advertise its yield. A yield quotation is based on a 30-day (or one month) period and is computed by dividing the net investment income per share earned during the period by the maximum offering price per share on the last day of the period, according to the following formula:

$$\text{Yield} = 2\left[\left(\frac{a-b}{cd} + 1\right)^6 - 1\right]$$

Where:

a = dividends and interest earned during the period

b = expenses accrued for the period (net of reimbursements)

c = the average daily number of shares outstanding during the period that were entitled to receive dividends.

d = the maximum offering price per share on the last day of the period

Solely for the purpose of computing yield, dividend income is recognized by accruing 1/360 of the stated dividend rate of the security each day that the Trust owns the security. Generally, interest earned (for the purpose of “a” above) on debt obligations is computed by reference to the yield to maturity of each obligation held based on the market value of the obligation (including actual accrued interest) at the close of business on the last business day prior to the start of the 30-day (or one month) period for which yield is being calculated, or, with respect to obligations purchased during the month, the purchase price (plus actual accrued interest). With respect to the treatment of discount and premium on mortgage or other receivables-backed obligations which are expected to be subject to monthly paydowns of principal and interest, gain or loss attributable to actual monthly paydowns is accounted for as an increase or decrease to interest income during the period and discount or premium on the remaining security is not amortized.

The performance quotations described above are based on historical experience and are not intended to indicate future performance.

To help investors better evaluate how an investment in the Trust might satisfy their investment objective, advertisements regarding the Trust, as well as other publications, may discuss various measures of Trust performance, including current performance ratings and/or rankings appearing online or in financial magazines, newspapers and publications which track mutual fund performance or other information prepared by recognized mutual fund statistical services. Advertisements and other publications may also compare Northeast Investors Trust’s performance to performance as reported by other indices and averages or other investments for which reliable performance information is available. The Trust’s Annual Report contains additional performance information and will be made available to investors upon request and without charge.

FINANCIAL STATEMENTS

The following financial statements are included in this Statement of Additional Information:

1. [Schedule of Investments as of September 30, 2018](#)
2. [Statement of Assets and Liabilities as of September 30, 2018](#)
3. [Statement of Operations for the Year Ended September 30, 2018](#)
4. [Statements of Changes in Net Assets for each of the two years in the period ended September 30, 2018](#)
5. [Financial Highlights for each of the five years in the period ended September 30, 2018](#)
6. [Notes to Financial Statements for the year ended September 30, 2018](#)
7. [Report of RSM US LLP, Independent Registered Public Accounting Firm.](#)

Schedule of Investments (a)
September 30, 2018

Asset Backed Securities — 0.67%

<i>Name of Issuer</i>	<i>Principal</i>	<i>Value</i>
Airline Lease — 0.67%		
Aircraft Fin Trust, FRN 2.63844% (1 month LIBOR + 0.48%), 5/15/24	\$ 17,183,084	\$ 1,718,308
Total Asset Backed Securities — (cost—\$7,474,641)		\$ 1,718,308

Corporate Bonds & Notes — 81.85%

<i>Name of Issuer</i>	<i>Principal</i>	<i>Value</i>
Cable and Satellite — 4.25%		
CSC Holding LLC, 10.125%, 1/15/23 (b)	\$ 10,000,000	\$ 10,940,000
Coal — 0.32%		
Westmoreland Coal Co., 8.75%, 01/01/22 (b)	3,000,000	810,000
Consumer Finance — 8.02%		
Credit Acceptance Corp., 6.125%, 2/15/21	10,130,000	10,218,637
First Data Corp., 7%, 12/01/23 (b)	10,000,000	10,412,500
		20,631,137
Drug Stores — 0.70%		
Rite Aid Corp., 6.125%, 4/01/23 (b)	20,000,000	1,792,500
Electrical Components & Equipment — 1.30%		
Advanced Lighting Technologies PIK, FRN 19.3425% (3 month LIBOR + 17%), 9/30/23 (b) (c)	5,431,500	3,352,322
Energy/Natural Resources — 6.36%		
American Eagle Energy Corp., 11%, 9/01/19 (b) (d)	15,500,000	174,375
Chesapeake Energy Corp., 8%, 12/15/22 (b)	8,000,000	8,380,000
RAAM Global Energy Co., 12.5%, 10/01/15 (d) (e)	23,000,000	345,000
Talos Production LLC, 11%, 4/03/22 (b)	422,980	452,589
W & T Offshore, Inc., 8.5%, 6/15/19	7,000,000	7,000,000
		16,351,964
Hardware — 3.27%		
NCR Corp., 4.625%, 2/15/21	8,498,000	8,413,020
Homebuilders — 8.98%		
Brookfield Residential Properties, Inc., 6.125%, 7/01/22 (b)	7,211,000	7,211,000
Taylor Morrison Communities, Inc., 5.25%, 4/15/21 (b)	5,422,000	5,449,110
Tousa, Inc., 9%, 7/01/10 (d) (e)	14,111,000	141,110
Tousa, Inc., 8.25%, 4/1/11 (d) (e)	12,250,000	122,500
William Lyons Homes, Inc., 7%, 8/15/22	10,000,000	10,187,500
		23,111,220
Industrial Servicing / Manufacturing — 4.57%		
Clean Harbors, Inc., 5.125%, 6/01/21	4,010,000	4,020,025
XPO Logistics, Inc., 6.5%, 6/15/22 (b)	7,500,000	7,743,750
		11,763,775

Corporate Bonds & Notes—(continued)

<i>Name of Issuer</i>	<i>Principal</i>	<i>Value</i>
Metals & Mining — 8.63%		
American Gilsonite Co., PIK 17%, 12/31/21 (b)	\$ 6,879,762	\$ 7,474,002
Freeport-McMoran, Inc., 3.1%, 3/15/20	10,000,000	9,887,500
International Wire Group, Inc., 10.75%, 8/01/21 (b)	4,880,000	4,836,568
		22,198,070
Miscellaneous Manufacturing — 9.43%		
Enpro Industries, Inc., 5.875%, 9/15/22	9,626,000	9,806,487
Gibraltar Industries, Inc., 6.25%, 2/01/21	14,401,000	14,437,003
		24,243,490
Oil & Gas Drilling — 7.63%		
Parker Drilling Co., 7.5%, 8/01/20	7,250,000	6,488,750
Tidewater, Inc., 8%, 8/01/22	12,500,000	13,125,000
		19,613,750
Paper/Forest Products — 3.80%		
Cenveo Corp., 8.5%, 9/15/22 (b)	25,000,000	250,000
Neenah, Inc., 5.25%, 5/15/21 (b)	9,474,000	9,537,002
		9,787,002
Pipeline — 4.06%		
Targa Resources Partners, 4.125%, 11/15/19	10,479,000	10,439,704
Telecom Equipment — 0.28%		
Nortel Networks LTD, 10.75%, 7/15/16 (d) (e)	23,850,000	715,500
Tobacco — 6.09%		
Pyxus International, Inc., 8.5%, 4/15/21 (b)	10,620,000	11,044,800
Vector Group LTD, 6.125%, 2/01/25 (b)	5,000,000	4,625,000
		15,669,800
Wireless Telecom Service — 4.16%		
Frontier Communications Corp., 8.125%, 10/01/18	10,700,000	10,700,000
Total Corporate Bonds & Notes — (cost—\$276,770,859)		\$ 210,533,254

GDP-Linked Bonds — 0.53%

<i>Name of issuer</i>	<i>Principal</i>	<i>Value</i>
Republic of Argentina GDP Linked Security, FRN (based on the performance of Argentina's GDP), 12/15/35 (d)	\$ 34,386,574	\$ 1,358,270
Total GDP-Linked Bonds — (cost—\$1,423,421)		\$ 1,358,270

Common and Preferred Stock — 17.03%

<i>Name of issuer</i>	<i>Number of Shares</i>	<i>Value</i>
Diversified Chemicals — 1.21%		
Ingevity Corp. (d)	602	\$ 61,332
NL Industries, Inc. (d)	510,200	3,061,200
		3,122,532
Electrical Components & Equipment — 0.00%		
Advanced Lighting Technologies PFD (c) (d)	104,947	0

Common and Preferred Stock—(continued)

<i>Name of issuer</i>	<i>Number of Shares</i>	<i>Value</i>
Electrical Utility — 0.69%		
Homer City Holdings, LLC (d) (f)	\$ 221,338	\$ 1,770,704
Energy / Natural Resources — 3.08%		
Energy XXI Gulf Coast, Inc. (d)	792,051	6,621,546
SilverBow Resources, Inc. (d)	5,058	134,897
Talos Energy, Inc. (d)	35,718	1,172,265
		<u>7,928,708</u>
Food Processing — 4.15%		
Viskase Cos., Inc. (d)	3,052,635	10,684,223
Metals & Mining — 6.55%		
American Gilsonite (d) (f)	15,980	8,789,000
American Zinc Recycling, LLC (d) (f)	14,659	8,062,450
Ormet Corp. (d)	372,638	633
		<u>16,852,083</u>
Oil & Gas Drilling — 0.03%		
Key Energy Services, Inc. (d)	6,453	73,822
Packaging & Container — 0.08%		
Westrock Co. (d)	3,626	193,773
Paper/Forest Products — 0.24%		
Cenveo Enterprises, Inc. (d) (f)	20,833	624,990
Retail Food Chain — 0.96%		
Romacorp, Inc. (c) (d) (f)	82,220	2,452,623
Transportation — 0.04%		
Getlink SA	7,349	93,920
Total Common and Preferred Stock — (cost—\$69,449,383)		<u>\$ 43,797,378</u>
Warrants — 0.03%		
<i>Name of issuer</i>	<i>Number of Shares</i>	<i>Value</i>
Advanced Lighting Technologies, DTD 10/4/17 @ \$123.27 expiration 10/4/27 (c) (d)	2,006	\$ 0
Energy XXI Gulf Coast, Inc., DTD 1/10/17 @ \$43.66 expiration 12/30/21 (d)	22,515	2
Jack Cooper Enterprises, Inc., DTD 12/30/17 @ \$0.01 expiration 12/30/27 (d)	16,500	82,500
Total Warrants — (cost—\$1,086,060)		<u>\$ 82,502</u>
Total Investments — 100.11% (cost—\$356,204,364)		<u>\$257,489,712</u>
Net Other Assets and Liabilities — (0.11%)		<u>\$ (283,167)</u>
Net Assets — 100%		<u>\$257,206,545</u>

(a) Portions of the portfolio may be pledged to collateralize short term borrowings.

(b) Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers. At the period end, the value of these securities amounted to \$94,485,518 which represents 36.74% of total net assets. These securities are generally deemed liquid.

(c) Security is valued at fair value as determined in good faith under consistently applied procedures approved by the Board of Trustees. The aggregate market value of good faith securities as of September 30, 2018 was \$5,804,945 which represents 2.26% of total net assets.

- (d) Non-income producing security.
- (e) Security is in principal default.
- (f) All or a portion the security is restricted. The Trust may acquire restricted securities which are subject to legal or contractual restrictions on resale and may be illiquid. The aggregate market value of restricted securities as of September 30, 2018 was \$21,699,767 which represents 8.44% of total net assets. Additional information on each holding is as follows:

	<u>Security</u>	<u>Acquisition Date</u>	<u>Acquisition Cost</u>
American Gilsonite		1/13/2014	\$ 5,273,400
American Zinc Recycling, LLC		7/19/2012—9/30/2016	\$ 8,474,521
Cenveo Enterprises, Inc.		9/11/2018	\$ 607,500
Homer City Holdings, LLC		4/6/2017	\$ 588,216
Romacorp, Inc.		11/15/2006	\$ 4,118,756
PIK	Payment in Kind		
FRN	Floating Rate Note — rates reflected are as of September 30, 2018		
PFD	Preferred Security		

The accompanying notes are an integral part of the financial statements.

Statement of Assets and Liabilities

September 30, 2018

Assets	
Investments—at market value (cost \$356,204,364)	\$ 257,489,712
Receivable for interest	3,571,154
Receivable for shares sold	3,995
Cash	214,490
Escrow Receivable	95,057
Total Assets	261,374,408
Liabilities	
Line of credit	3,333,900
Payable for trustee fees	322,919
Accrued expenses	229,551
Payable for shares repurchased	281,493
Total Liabilities	4,167,863
Net Assets	\$ 257,206,545
Net Assets Consist of:	
Capital, at a \$1.00 par value	\$ 56,897,420
Paid in surplus	634,118,806
Undistributed net investment income	1,009,710
Accumulated net realized loss on investments	(336,104,739)
Net unrealized depreciation of investments	(98,714,652)
Net Assets	\$ 257,206,545
Net Asset Value , offering price and redemption price per share (\$257,206,545/56,897,420 shares)	\$4.53

The accompanying notes are an integral part of the financial statements.

Statement of Operations

Year Ended September 30, 2018

Investment Income	
Interest	\$ 15,702,369
Legal fee reimbursement	105,290
Other Income	36,070
Dividends	19,747
Total Income	15,863,476
Expenses	
Administrative expenses and salaries	\$ 1,578,722
Trustee fees	1,326,840
Interest expense	252,716
Computer and related expenses	191,625
Commitment fees	168,941
Auditing fees	128,717
Printing, postage and stationery fees	92,816
Custodian fees	66,875
Registration and filing fees	48,675
Insurance	43,800
Transfer Agent Fees	41,709
Telephone	11,515
Other expenses	80,550
Total Expenses	4,033,501
Net Investment Income	11,829,975
Realized and Unrealized Gain (Loss) on Investments:	
Net realized gain (loss) from investment transactions	(2,584,669)
Change in unrealized appreciation (depreciation) of investments	(11,175,424)
Net Increase (Decrease) in Net Assets Resulting from Operations	<u>(\$ 1,930,118)</u>

The accompanying notes are an integral part of the financial statements.

Statements of Changes in Net Assets

	<i>Year Ended</i> <i>September 30, 2018</i>	<i>Year Ended</i> <i>September 30, 2017</i>
Increase (Decrease) in Net Assets		
From Operations:		
Net investment income	\$ 11,829,975	\$ 19,428,660
Net realized gain (loss) from investment transactions	(2,584,669)	(83,935,306)
Change in unrealized appreciation (depreciation) of investments	(11,175,424)	100,870,185
Net Increase (Decrease) in Net Assets Resulting from Operations	<u>(1,930,118)</u>	<u>36,363,539</u>
Distributions to Shareholders from Net Investment Income	(15,076,212)	(20,046,944)
From Net Trust Share Transactions—(See Note D)	(29,702,212)	(36,193,479)
Total Increase (Decrease) in Net Assets	<u>(46,708,542)</u>	<u>(19,876,884)</u>
Net Assets:		
Beginning of Period	303,915,087	323,791,971
End of Period	<u>\$ 257,206,545</u>	<u>\$ 303,915,087</u>
Undistributed Net Investment Income	\$ 1,009,710	\$ 1,621,688

The accompanying notes are an integral part of the financial statements.

Financial Highlights

Per Share Data	Year Ended September 30,				
	2018	2017	2016	2015	2014
Net Asset Value:					
Beginning of Period	\$ 4.82	\$ 4.58	\$ 4.86	\$ 6.48	\$ 6.44
Income From Investment Operations:					
Net investment income [^]	0.20	0.28	0.33	0.37	0.46
Net realized and unrealized gain (loss) on investment	-0.23	0.26	-0.29	-1.56	0.05
Total from investment operations	-0.03	0.54	0.04	-1.19	0.51
Less Distributions:					
Net investment income	-0.26	-0.30	-0.32	-0.43	-0.47
Net Asset Value:					
End of Period	\$ 4.53	\$ 4.82	\$ 4.58	\$ 4.86	\$ 6.48
Total Return[#]	-0.39%	11.78%	1.30%	-19.12%	8.06%
Ratios & Supplemental Data					
Net assets end of period (in thousands)	\$257,207	\$303,915	\$323,792	\$335,875	\$543,361
Ratio of operating expenses to average net assets*	1.48%	1.52%	1.60%	1.27%	0.98%
Ratio of interest expense to average net assets	0.15%	0.13%	0.29%	0.18%	0.10%
Ratio of net investment income to average net assets	4.35%	5.98%	7.66%	6.50%	6.94%
Portfolio turnover rate	42.69%	61.33%	3.52%	7.72%	29.34%

* Includes Interest Expense when applicable

[^] Calculated using the Average Share Method

[#] Total Return reflects the rate that an investor would have earned on an investment in the Trust during each period, assuming reinvestment of all distributions.

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

Note A—Organization

Northeast Investors Trust (the “Trust”), a diversified open-end management investment company (a Massachusetts Trust), is registered with the United States Securities and Exchange Commission (“SEC”) under the Investment Company Act of 1940, as amended. The primary objective of the Trust is the production of income. The Trust follows the investment company accounting and reporting guidance of the Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 946 Financial Services — Investment Companies.

Note B—Significant Accounting Policies

Valuation of Investments: The value of equity securities or equity-like securities such as warrants for which market quotations are readily available, shall be determined on the basis of the last quoted sale prices taken from the primary market or exchange on which they are traded. A bid price may be used instead of last quoted sale price if it more closely reflects the fair value of the security as of the close of regular trading on the New York Stock Exchange. Fixed income securities, including securities convertible into equity, shall be valued on the basis of evaluated prices furnished by independent pricing services or from quotations received from dealers who make markets in such securities. The evaluations provided by the pricing services are based on analysis of market data and other factors such as last sale, dealer bids, yields, quality ratings, coupon rate, maturity, type of issue, trading characteristics and other relevant bond market data.

Securities for which market quotations are not readily available (including certain restricted securities and private placements, if any) are valued at their fair value as determined in good faith under consistently applied procedures approved by the Board of Trustees. Methodologies and factors used to fair value securities may include, but are not limited to, the analysis of current debt to cash flow, information of any recent sales, quotations or evaluated prices from broker-dealers, information obtained from the issuer or analysts and the nature of the existing market for securities with characteristics similar to such obligations. Valuations may also be derived following a review of pertinent data (EBITDA, Revenue, etc.) from company financial statements, relevant market valuation multiples for comparable companies in comparable industries, recent transactions, and management assumptions.

The Trust may use fair value pricing for securities if a material event occurs that may effect the price of a security after the close of the market or exchange on which the security trades but before the Trust calculates its NAV. Fair value pricing may also be used for securities acquired as a result of corporate restructurings or reorganizations as reliable market quotations for such issues may not be readily available. The value of a good faith security may differ from published or quoted prices for the same investment. The valuations for these good faith securities are monitored and reviewed by the Trust’s Pricing Committee on an ongoing basis as new information becomes available. The good faith security valuations and methodologies are reviewed and approved by the Trust’s Board of Trustees on a quarterly basis. There can be no assurance that the Trust can realize the fair value assigned to an investment upon its divestiture. The market value of securities valued in good faith on September 30, 2018 was \$5,804,945, which represents 2.26% of net assets.

Federal Income Taxes: It is the Trust’s policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute each year substantially all of its investment company taxable income and capital gains to its shareholders. Accordingly, no federal tax provisions are required. Income distributions, if any, are declared and paid quarterly for the Trust. Capital gains distributions, if any, are declared and paid annually.

Notes to Financial Statements (continued)

The Trust has reviewed the tax positions for the open tax years as of September 30, 2018 and has determined that no provision for income tax is required in the Trust's financial statements. The Trust's federal tax returns for the prior three fiscal years remain subject to examination by the Internal Revenue Service. The Trust recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense on the Statement of Operations.

The characterization of distributions to shareholders for financial reporting purposes is determined in accordance with income tax rules. Therefore, the source of the Trust's distributions may be shown in the accompanying financial statements as either from net investment income or net realized gain on investment transactions, or from paid in capital, depending on the type of book/ tax differences that may exist.

State Income Taxes: Because the Trust has been organized by an Agreement and Declaration of Trust executed under the laws of the Commonwealth of Massachusetts, it is not subject to state income or excise taxes.

Net Asset Value: In determining the net asset value per share, rounding adjustments are made for fractions of a cent to the next higher cent.

Distributions and Income: Income and capital gain distributions are determined in accordance with income tax regulations which may differ from generally accepted accounting principles in the United States of America. These differences are primarily due to differing treatments for capital loss carryforwards and losses deferred due to wash sales. Permanent book and tax differences relating to shareholder distributions will result in reclassifications to paid in surplus. The Trust's distributions and dividend income are recorded on the ex-dividend date. Interest income, which includes accretion of market discount and amortization of premium, is accrued as earned. Certain securities held by the Trust pay interest in the form of cash or additional securities (known as Payment-in-kind or PIK); interest on such securities is recorded on the accrual basis.

Security Transactions: Security transactions are accounted for as of trade date. Realized gains and losses on securities sold are determined on the basis of identified cost.

Use of Estimates and Basis of Accounting: The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Credit Risk: Investments in high-yield securities involve greater degrees of credit and market risks than investments in higher-rated securities. Bonds which are rated as less than investment grade tend to be more susceptible to real or perceived adverse economic conditions.

New Accounting Pronouncements: In March 2017, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU), ASU 2017-08, which amends the amortization period for certain callable debt securities that are held at a premium. The amendment requires the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount. The ASU is effective for annual periods beginning after December 15, 2018.

In August 2018, the FASB issued ASU 2018-13, which changes certain fair value measurement disclosure requirements. The new ASU, in addition to other modifications and additions, removes the requirement to disclose the amount and reasons for transfers between

Notes to Financial Statements (continued)

Level 1 and Level 2 of the fair value hierarchy, and the policy for the timing of transfers between levels. The ASU is effective for annual periods beginning after December 15, 2019.

In September 2018, the Securities and Exchange Commission released Final Rule 33-10532 captioned “Disclosure Update and Simplification” which is intended to amend certain disclosure requirements that have become redundant, duplicative, overlapping, outdated or superseded, in light of other Commission disclosure requirements, GAAP, or changes in the information environment. These changes will be effective November 5, 2018.

Management is currently evaluating the potential impact of these changes to the financial statements.

Note C—Trustees’ Compensation

Trustees’ compensation has been computed at the rate of 1/8 of 1% of the net assets (before deduction of accrued Trustees’ compensation) at the close of each quarter, from which the Trustees have paid certain expenses specified in the Declaration of Trust. For the year ended September 30, 2018 the current Independent Trustees were aggregately paid \$120,000 from the Trustee fees.

The total number of shares owned beneficially by the Trustees, officers and members of their immediate families on September 30, 2018 was 6,047,994 shares (10.63%).

Administrative Expenses & Salaries: Northeast Investors Trust incurs salary and administrative expenses which includes such expenses for personnel performing transfer agent and dividend disbursement related functions and other administrative functions of the Trust.

Note D—Shares of Beneficial Interest

At September 30, 2018, there were unlimited shares of beneficial interest authorized with a par value of \$1. Transactions in shares of beneficial interest were as follows:

	Year Ended September 30, 2018		Year Ended September 30, 2017	
Shares Sold	5,463,809	\$ 25,206,799	24,050,689	\$ 113,401,031
Shares issued to shareholders in reinvestment of distributions from net investment income	2,238,339	10,306,601	3,011,318	14,142,492
	<u>7,702,148</u>	<u>\$ 35,513,400</u>	<u>27,062,007</u>	<u>\$ 127,543,523</u>
Shares redeemed	(13,960,213)	(65,215,612)	(34,671,586)	(163,737,002)
Net Increase (Decrease)	<u>(6,258,065)</u>	<u>\$ (29,702,212)</u>	<u>(7,609,579)</u>	<u>\$ (36,193,479)</u>

Note E—Purchases and Sales of Investments

The cost of purchases and the proceeds from sales and maturities of securities, other than short-term and government securities, aggregated \$118,727,866 and \$148,769,632 respectively, for the year ended September 30, 2018.

Note F—Line of Credit

The Trust’s line of credit, which does not require maintenance of compensating balances, is generally on a demand basis and is at a rate equal to the applicable margin (1.25%) plus the higher of (a) the Federal Funds Rate or (b) the one-month LIBOR Rate during the period in which

Notes to Financial Statements (continued)

such loan is outstanding. At September 30, 2018 the Trust has an unused line of credit amounting to \$71,666,100. The Trust pays a commitment fee of 0.20% on the unused portion of the line of credit when the loan balance is equal to or greater than \$45,000,000 and otherwise pays 0.25%. The line of credit may be terminated at the bank's option at its annual renewal date, on January 11, 2019.

The following information relates to aggregate short-term borrowings during the year ended September 30, 2018:

Average amount outstanding (total of daily outstanding principal balances divided by the number of days with debt outstanding during the period)	\$ 9,412,884
Weighted average interest rate	2.99%

Note G—Repurchase Agreement

The Trust invests its cash balances into repurchase agreements secured by U.S. Government obligations. Securities pledged as collateral for repurchase agreements are held by the Trust's custodian bank until maturity of the repurchase agreement. Provisions of the agreement ensure that the market value of the collateral is sufficient in the event of default. However, in the event of default or bankruptcy by the other party to the agreement, realization and/ or retention of the collateral may be subject to legal proceedings. There was no repurchase agreement on September 30, 2018.

Note H—Additional Tax Information

The amount of distributions paid during the years ended September 30, 2018 and 2017 were \$15,076,212 and \$20,046,944, and were classified as ordinary income.

The Regulated Investment Company Modernization Act of 2010 (the "RIC Mod Act") was enacted to update some of the federal income and excise tax rules related to regulated investment companies. The RIC Mod Act allows new capital losses to be carried forward indefinitely rather than for a maximum of eight years. The capital losses also now retain the character of the original loss rather than be carried forward as short-term losses as under previous law. The provisions of the RIC Mod Act are effective for taxable years beginning after December 22, 2010. Losses incurred during these years (Post-RIC Mod Act) will be required to be utilized prior to the losses incurred in the pre-enactment taxable years. As a result the Pre-RIC Mod Act capital loss carryforwards may expire unused. The Trust's expired unused 2018 Pre-RIC Mod Act capital loss carryforward of \$15,862,511 is reflected in paid in surplus. Capital accounts within the financial statements are adjusted for permanent book-tax differences. These adjustments have no impact on net assets or the results of operations. Temporary book-tax differences will reverse in future periods.

As of September 30, 2018 the components of accumulated earnings (losses) on a tax basis were as follows:

Undistributed Net Investment Income	\$ 1,009,710
Total 2019 Capital Loss Carryforward Pre-RIC Mod Act:	(159,796,299)
Capital Loss Carryforward Post-RIC Mod Act:	(175,855,036)
Unrealized gains (losses)—net	(99,168,056)
Total distributable earnings (losses)—net	<u>\$ (433,809,681)</u>

Notes to Financial Statements (continued)

At September 30, 2018 the Trust's aggregate security unrealized gains and losses based on cost for U.S. federal income tax purposes was as follows:

Tax cost	\$ 356,657,768
Gross unrealized gain	34,564,273
Gross unrealized loss	<u>(133,732,329)</u>
Net unrealized security gain (loss)	<u>\$ (99,168,056)</u>

The difference between book and tax basis cost of investments and net unrealized gains (losses) is primarily attributable to accretion and amortization differences.

Note I—Fair Value Measurements

Accounting Standards Codification ASC 820, Fair Value Measurements and Disclosures (ASC 820) defines fair value as the price that would be received to sell an investment in an orderly transaction between two market participants at the measurement date. ASC 820 establishes a fair value hierarchy that distinguishes between market data obtained from independent sources (observable inputs) and the Trust's own market assumptions (unobservable inputs). The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing in those securities and the determination of the significance of certain inputs to the fair value measurement requires judgments and considers factors that may be specific to each security. The various inputs that may be used to determine the value of the Trust's investments are summarized in the following fair value hierarchy:

Level 1 — Unadjusted quoted prices in active markets for identical securities.

Level 2 — Other significant observable inputs based on data obtained from various pricing sources (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)

Level 3 — Significant unobservable inputs including the Trust's own assumptions used to determine the fair value of investments.

Factors considered in making such determinations may include, but are not limited to, information obtained directly from the company or analysts and the analysis of the company's financial statements or other documents.

The following table summarized the Trust's investment as of September 30, 2018 based on the inputs used to value them.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total as of 9/30/2018</u>
Corporate Bonds & Notes	\$ —	\$ 207,180,932	\$ 3,352,322	\$ 210,533,254
Common and Preferred Stock	22,003,691	19,341,064	2,452,623	43,797,378
Foreign Bonds	—	1,358,270	—	1,358,270
Asset Backed Security	—	1,718,308	—	1,718,308
Warrants	2	82,500	—	82,502
	<u>\$ 22,003,693</u>	<u>\$ 229,681,074</u>	<u>\$ 5,804,945</u>	<u>\$ 257,489,712</u>

Transfers between hierarchy levels may occur due to market fluctuation, changes in valuation techniques and/or changes in the availability of market data used in the determination of an investment's valuation. The Trust recognizes transfers between the levels at the end of each period. For the year ended September 30, 2018, there was one transfer from Level 3 to Level 2 due to an increase of observable inputs. There was also one transfer from Level 2 to Level 1 due to observable trading activities for \$10,684,223.

Notes to Financial Statements (continued)

At September 30, 2018, the reconciliation of assets in which significant unobservable inputs (Level 3) were used in determining fair value, is as follows:

	Corporate Bonds & Notes	Common and PFD Stock	Warrants	Totals as of 9/30/2018
Beginning Balance @ 9/30/17	\$ 4,658,786	\$ 2,055,500	\$ 285,688	\$ 6,999,974
Purchases	979,170	—	—	979,170
Sales	(317,959)	—	—	(317,959)
Realized Gain(Loss)	317,959	—	—	317,959
Net Change in Unrealized Appreciation/(Depreciation)	(2,285,634)	397,123	(203,188)	(2,091,699)
Transfers into Level 3 from Level 2	—	—	—	—
Transfers out of Level 3 to Level 2	—	—	(82,500)	(82,500)
Ending Balance @ 09/30/2018	<u>\$ 3,352,322</u>	<u>\$ 2,452,623</u>	<u>\$ —</u>	<u>\$ 5,804,945</u>

	Change in Unrealized Gain / (Loss) for Positions Still Held at September 30, 2018
Corporate Bonds & Notes	\$ (2,099,889)
Common Stock	397,123
Totals	<u>\$ (1,702,766)</u>

The Financial Accounting Standard Board (FASB) issued guidance that a reporting entity should disclose quantitative information about the unobservable inputs used in the fair value determinations that are categorized in the Level 3 hierarchy. The guidance also required additional disclosure regarding the valuation process used and the sensitivity of the fair value measurements to changes in unobservable inputs and the interrelationships between those unobservable inputs within Level 3.

The following table presents a summary of valuation techniques, inputs and quantitative information used in determining the fair value of the Trust's Level 3 securities as of September 30, 2018:

Investment Type	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range	Increase to Valuation from an Increase in Input⁽¹⁾
Corporate Bonds & Notes					
Electrical Components & Equipment	\$ 3,352,322	Market Comparable ⁽²⁾	EBITDA Multiple;	10.9x - 14.7x	Increase
			Private Company Discount	20%	Decrease
Common Stock					
Retail Food Chains	\$ 2,452,623	Market Comparable ⁽²⁾	Revenue Multiple	0.60x - 1.01x	Increase
			Private Company Discount	25%	Decrease
	<u>\$5,804,945</u>				

⁽¹⁾ This column represents the direction change in the fair value of the Level 3 securities that would result from an increase to the corresponding unobservable input. A decrease to the unobservable inputs would have the opposite effect. Significant increases and decreases of these inputs could result in significantly higher or lower fair value determinations.

⁽²⁾ Earnings multiples are based on comparable companies and transactions of comparable companies.

Notes to Financial Statements (continued)

Note J—Subsequent Events

Management has evaluated whether any other events or transactions occurred subsequent to September 30, 2018 and through the date of issuance of the Trust's financial statements and determined that there were no material events or transactions that would require recognition or disclosure in the Trust's financial statements.

Note K—Other

In the normal course of business, the Trust enters into contracts with service providers that contain general indemnification clauses. The Trust's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Trust that have not yet occurred. However, based on experience, the Trust expects the risk of loss to be minimal.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Shareholders of Northeast Investors Trust

Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of Northeast Investors Trust (the Trust) as of September 30, 2018, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, including the related notes and the financial highlights for each of the three years in the period then ended (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Trust as of September 30, 2018, the results of its operations for the year then ended, the changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the three years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

The financial highlights for the years ended September 30, 2015 and September 30, 2014 for the Trust were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements and financial highlights in their report dated November 24, 2015.

Basis for Opinion

These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on the Trust's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Trust in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Trust is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our procedures included confirmation of securities owned as of September 30, 2018, by correspondence with the custodian, counterparties, or by other appropriate audit procedures, where replies were not received. We believe that our audits provide a reasonable basis for our opinion.

/s/ RSM US LLP

Boston, Massachusetts
November 27, 2018

We have served as the auditor of Northeast Investors Trust since 2016.