Northeast Investors Trust

March 31, 2018

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Letter to Shareholders

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 ever-higher 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
Chairman of the Trustees