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...and watch for our new logo

Over the next few months, you'll see a new look on your Natixis Funds statements, shareholder reports and our new website. This bold new logo symbolizes our connection to Natixis Global Asset Management, one of the world's 20 largest financial services firms¹ with \$714 billion in assets under management (as of 3/31/10).

¹ Source: Cerulli Associates, Global Markets 2009 – June 2009, based on total assets under management as of 12/31/08. Natixis ranked #19.

TOP REAL ESTATE TALENT

Institutional Investor magazine named AEW as **Real Estate Manager of the Year 2010**.^{*} AEW has focused exclusively on real estate investment management services since 1981 and manages one fund in the Natixis Funds family. For more manager awards, see page 2.

^{*} *Institutional Investor* 2010 U.S. Investment Management Awards winners were chosen by the editorial staff of *Institutional Investor* magazine based on subjective criteria. *Institutional Investor's* criteria included market intelligence, performance data, and additional information received from the industry following a public call for nominations. Manager winners were also selected by the editors of the magazine based on the results of a survey conducted of U.S. institutional investors.

Inflation – going up?

Inflation hasn't been a major worry for the last 25 years. But as the economy continues to recover and government spending remains brisk, we can expect inflation to return at some point in the future.

Inflation 101

Inflation is broadly defined as *a general increase in the price levels of an economy*. Deflation, or negative inflation, is the opposite – a general decrease in price levels. Inflation is a key component of the economic cycle and is often linked to the overall health of an economy.

Fear of inflation also has a major influence on economic policy decisions.

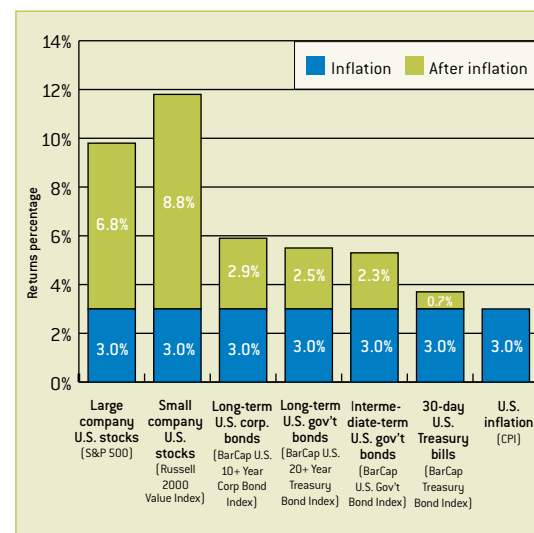
Since the 1920s U.S. inflation, measured by the Consumer Price Index (CPI), has ranged from a deflationary -10% to a high of +20%. This has resulted in an average annual inflation rate of about 3%. Historically, inflation has been more common than deflation, although it has been relatively tame – 6% annually or less – since 1991. The last period of significant inflation was in the early 1980s; the last deflationary period was more than 50 years ago.

At an annual inflation rate of 3%, prices double every 24 years. At a rate of 6%, they double in 12 years.

So in some ways, we are out of practice in dealing with inflation, because it hasn't been a meaningful factor for such a long time. Concern about inflation remains fairly constant, however, because of its potentially serious effects on the economy.

The chart above shows the long-term returns for common indexes since 1926, relative to inflation. Historically stocks – especially stocks of smaller companies – have provided the best returns after inflation, but inflation affects each asset class differently, particularly over shorter time periods.

Stocks have the best record of outpacing inflation (Average yearly returns 1926-2009)



Past performance is no guarantee of future results. You may not invest directly in an index. Source: Ibbotson Associates

The effects of inflation

In an inflationary environment, rising prices generally lead to an increase in consumption. Demand for goods and services increases, because consumers fear that prices will be even higher in the future. But while economic activity seems to rise, "real" (after inflation) economic activity may be stagnant or falling. Assets that aren't tied to overall price levels may lose real value when inflation is factored in. For investors, this can result in a loss of purchasing power if returns don't grow fast enough to keep up.

A deflationary environment may create the opposite scenario. Falling prices tend to slow consumption, because individuals and businesses delay purchases knowing they will be cheaper in the future. Sales figures slump, and companies are not able to grow. That is why inflation expectations are one of the key drivers of interest rates – the short-term and long-term price of money.

Fund Spotlight: Investing when interest rates may rise

Economists and financial professionals may not agree on inflation expectations, but most experts agree that over the next few years interest rates can really go in only one direction – up. Today’s rock bottom rates can’t move below zero, so it’s likely that interest rates will rise eventually.

For bond investors, this represents a fundamental shift. Interest rates have generally been falling for the past 30 years, as the chart shows. (The 10-year U.S. Treasury bond is a common measure of fixed-income yields.) This “tailwind” – where the prevailing direction in rates was down – has had a generally positive effect for fixed-income investors because bond prices rise when rates fall.

No free lunch

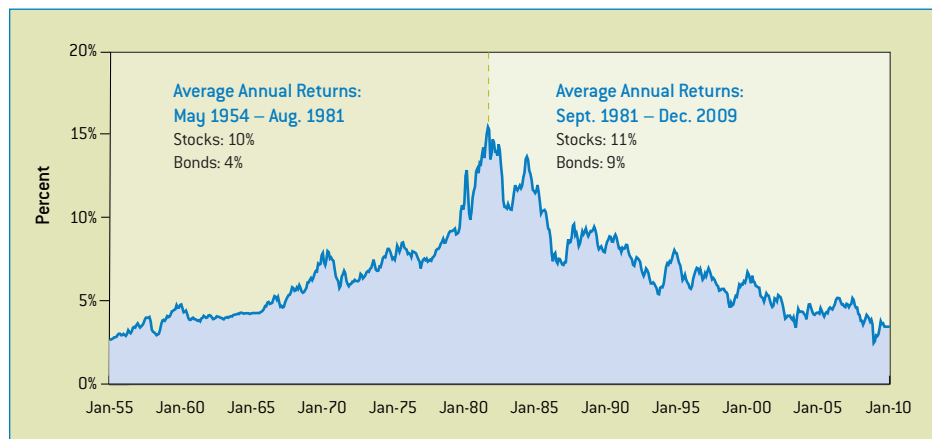
But there has also been a downside. As rates declined, so did the interest rates, known as coupons, that bonds paid their owners. This presented investors with “reinvestment rate risk” – the risk that when a bond matures it will be replaced with a bond that pays less. At Loomis Sayles, the Multisector Bond Team has been managing its funds to address that risk, but is now adjusting its strategy to the changing environment.

Multisector bond strategy

The Multisector Team, which manages **Loomis Sayles Investment Grade Bond Fund** and **Loomis Sayles Strategic Income Fund**,¹ believes that rising rates may be good news, because bond investors can look forward to earning potentially better yields. They see the challenge as being able to reach that higher level of yield while preserving or even increasing principal.

With the flexibility to invest in all types of fixed-income securities anywhere in the world, the Multisector Team has built its current strategy around four key themes:

Rates have trended downward since 1981 – 10-Year Treasury Yield (%)



For illustrative purposes only. Past performance is no guarantee of future results. Returns reflect reinvestment of capital gains and dividends, if any. Indices are unmanaged and do not incur fees. It is not possible to invest in an index. Stocks are represented by the S&P 500 Index. Bonds are represented by the Ibbotson Associates U.S. Long Term Government Index. Source: St. Louis Federal Reserve Bank, Morningstar

- 1 **Maintain a yield advantage.** Strive to build portfolios with a significant yield advantage to offset the headwinds of rising rates.
- 2 **It's a bond picker's market.** Evaluate each investment idea based on its potential to produce a positive return.
- 3 **Minimize market risk.** Use defensive strategies when necessary to reduce interest rate risk.
- 4 **Go global.** Invest outside the U.S. to gain exposure to non-U.S.-dollar-denominated bonds and other global opportunities.

Making the most of rising rates

The Loomis Sayles Multisector Team continues to employ a process that analyzes each individual investment on its own merits. The managers invest opportunistically, with a focus on long-term performance, canvassing many markets to find appropriate ideas for the portfolios. In this bond picker's market, research and experience are more vital than ever. The Team believes they have the tools, expertise and historical perspective to continue to provide long-term value to fund shareholders.

Before investing, consider the fund's investment objectives, risks, charges and expenses. Visit funds.natixis.com or call 1-800-225-5478 for a prospectus or a summary prospectus containing this and other information. Read it carefully.



LIPPER
FUND AWARDS 2010
UNITED STATES

Loomis, Sayles & Co. was recognized as **Fixed-Income Fund Family of the Year 2010**² by Lipper. The award applies to all six Loomis Sayles bond funds in the Natixis Funds family. In 2009, during one of the toughest bond markets in decades, the fixed-income management team at Loomis Sayles was able to uncover investment opportunities that other managers may have missed. They continued to demonstrate that experience – with the flexibility to invest across all sectors of the credit spectrum – could help investors achieve their long-term goals.

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INVESTMENT *principles*

Absolute return

If the recent financial crisis has made only one thing clear, it's that there are no guarantees in investing. But just as the broad downturn across the financial markets prompted new interest in defensive strategies and capital preservation, it also drew new attention to "absolute return."



Absolute return can be defined in many ways, but it usually refers to a strategy that seeks to provide an attractive level of return while seeking to limit potential loss. In some cases, the strategy may be run independently of a benchmark. In other cases the strategy seeks to capture a large proportion of the positive performance of an index or other benchmark, but minimize negative returns.

So what's the difference?

While that might sound like what any good investment should do, there is a difference. Most mutual funds and other professionally run investments are managed to create relative returns. Relative return measures the performance of the fund relative to an unmanaged index or benchmark, such as the S&P 500. Consider these scenarios:

- 1 A portfolio manager runs a U.S. stock fund that returns 20% in one year. Is this good performance or not?
 - Under an absolute return framework, most people would consider this good performance.
 - But if the S&P 500 returned 30% during the same period, 20% may be considered lackluster by comparison.
- 2 A portfolio manager runs a U.S. stock fund that loses 10% in one year.
 - Under an absolute return framework, most people would consider this poor performance.
 - But if the S&P 500 returned -20% during the same period, -10% looks pretty good by comparison.

The trouble with absolute returns is that it's human nature to want to have your cake and eat it, too. When the market is down, we prefer the protection afforded by absolute returns – no one wants to lose money. But when markets go up, we get greedy. We really prefer the upside participation associated with relative returns.

Diversify with absolute return strategies

So what about absolute returns in the context of diversification? That may be where they are most useful. Because they may be more likely to retain their value in down markets, but may underperform when markets rise, absolute return strategies can provide effective diversification for many portfolios. In fact, because they don't necessarily move in tandem with a benchmark, they may be a good source of non-correlated returns which may help increase overall diversification.

How can you spot an absolute return strategy?

There are several characteristics that absolute return strategies have in common, including:

- Historically low correlation to standard market benchmarks
- Greater investment flexibility
- An emphasis on downside protection
- A willingness to accept underperformance in bullish markets

For more information about absolute return strategies available in the Natixis Funds, contact your financial advisor or visit www.funds.natixis.com.

Risks: (Continued from page 2)

1 Because the Loomis Sayles Investment Grade Bond Fund and Loomis Sayles Strategic Income Fund can invest a significant percentage of assets in foreign securities, the value of the fund shares can be adversely affected by changes in currency exchange rates, political, and economic developments. In emerging markets these risks can be significant. The funds are subject to currency risk, which is the risk that fluctuations in exchange rates between the U.S. dollar and foreign currencies may cause the value of a fund's investments to decline. Funds that invest in securities denominated in, or receive revenues in, foreign currency are subject to currency risk. Accordingly, the purchase of fund shares should be viewed as a long-term investment. Because the funds can invest a significant percentage of assets in debt securities that are rated below investment grade, the value of fund shares can be adversely affected by changes in economic conditions or other circumstances. These events could reduce or eliminate the capacity of issuers of these securities to make principal and interest payments. Lower-rated debt securities have speculative characteristics because of the credit risk of their issuers and may be subject to greater price volatility than higher-rated investments. In addition, the secondary market for these securities may lack liquidity which, in turn, may adversely affect the value of these securities and that of the funds. Accordingly, the purchase of fund shares should be viewed as a long-term investment.

2 Criteria: Loomis Sayles ranked #1 out of 41 eligible companies. Large complexes are defined as fund families with more than \$34.5 billion in total net assets. Eligible asset class group awards are given to fund groups with at least five equity, five bond, or three mixed-asset portfolios in the respective asset classes. The lowest average decile rank of the three-year Consistent Return measure of the eligible funds per asset class and group will determine the asset class group award winner over the three-year period. In cases of identical results the lower average percentile rank will determine the winner. Asset class group awards will be given to the best large and small groups separately. Small groups will need to have at least three distinct portfolios in one of the asset classes – equity, bond, or mixed-asset. Source: Lipper, Inc. Lipper is a leading global provider of mutual fund information. The Lipper Fund Awards is part of an annual, global program of events held in 18 countries to reward funds that have delivered consistently strong risk-adjusted performance relative to their peers. The winners were selected using the Lipper Leader rating for Consistent Return for the period ending December 31, 2009.

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Inflation – going up?

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Inflation and interest rates

The low interest rate/low inflation scenario presents a challenge for investors. While today's ultralow interest rates can only stay the same or go up, deflation could bring the inflation rate into negative territory, and most assets perform poorly in a deflationary environment.

A broader definition of diversification

Looking ahead, there are many types of Natixis Funds that can help you prepare for a return of inflation, including:

- U.S. and international stock funds
- Global and multisector bond funds
- Alternative and absolute return funds

While inflation has been negligible for close to a generation, it will always be a risk factor for investors. For more information, contact your financial advisor, or visit www.funds.natixis.com.

Managing your account

Moved recently?

Remember to change your address with Natixis Funds so your statements and reports will continue to arrive without delays.

- **Online** – At www.funds.natixis.com – click on Access Your Account and follow the prompts.
- **By mail** – Simply mail a letter requesting your address change to Natixis Funds, P.O. Box 219579, Kansas City, MO 64121-9579. Make sure the request is signed by all registered account owners.
- **By phone** – Call **800-225-5478** between 8 a.m. and 6 p.m. Eastern time any business day.

To change your account registration

We have two forms that will help if you need to change the registration of your

account. You can download these forms by going to www.funds.natixis.com and clicking on the Literature link.

- **Name Change Form** – Use this form if you need to change the name of a currently registered account owner due to a marriage, divorce or other life event.
- **Change of Registration Form** – Complete this form if you need to change the ownership on your account, to add someone to an account or to change an individual account to a Corporate, Trust or other account type. In the past this required several different forms.

If you have any questions about these forms, or would like a copy sent to you by mail, please speak with an Investor Services Representative at **800-225-5478**.

Before investing, consider the fund's investment objectives, risk, charges, and expenses. Visit funds.natixis.com or call 1-800-225-5478 for a prospectus or a summary prospectus containing this and other information. Read it carefully.

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Natixis Distributors, L.P. and Natixis Asset Management Advisors, L.P. are located at 399 Boylston Street, Boston, MA 02116. • 800-225-5478 • www.funds.natixis.com.