

**FORT PITT CAPITAL TOTAL RETURN FUND  
(TICKER SYMBOL: FPCGX)**

**FORT PITT CAPITAL FUNDS  
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**STATEMENT OF ADDITIONAL INFORMATION  
Dated February 28, 2010**

This Statement of Additional Information (“SAI”) relates to the Fort Pitt Capital Total Return Fund (the “Fund”), which is a series of Fort Pitt Capital Funds, a registered open-end management investment company commonly known as a mutual fund. This SAI is not a Prospectus and should be read only in conjunction with the Prospectus for the Fund dated February 28, 2010. The Prospectus, which contains the basic information you should know before investing in the Fund, may be obtained by writing or calling the Fund at the address and phone number shown above.

The Fund’s most recent Annual Report to shareholders is a separate document supplied with this SAI. The financial statements, accompanying notes and report of the independent registered public accounting firm appearing in the Annual Report are incorporated into this SAI by reference.

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## **GENERAL INFORMATION**

The Fund is a series of Fort Pitt Capital Funds, a statutory trust organized in the state of Delaware on August 17, 2001 (the “Trust”). The Trust is an open-end management investment company registered under the Investment Company Act of 1940, as amended (the “1940 Act”), and is authorized to issue multiple series and classes of shares. Each series represents interests in a separate portfolio of investments. The Trust is authorized to issue an unlimited number of shares of beneficial interest, par value \$0.001. The Fund is currently the sole series of the Trust and is classified as a “diversified” series, as that term is defined in the 1940 Act.

## **ADDITIONAL INFORMATION ABOUT THE FUND’S INVESTMENTS**

The Fund’s investment goal is long-term capital appreciation and income. The Fund seeks to achieve its goal by investing primarily in a diversified portfolio of common stocks of domestic (U.S.) companies and fixed income investments. The Fund’s investment goal is not fundamental, and therefore may be changed in the future by action of the Board of Trustees (or “Board”) of the Trust. Shareholders would not be asked to vote on any change in the investment goal, but would receive ample advance written notice of any such change.

The Fund’s Prospectus outlines the principal investment strategies of the Fund. The following discussion of investment techniques and instruments supplements, and should be read in conjunction with, the investment information set forth in the Fund’s Prospectus, and includes some information about strategies that are not considered to be principal investment strategies. The investment practices described below, except for the discussion of the Fund’s fundamental investment restrictions, are not fundamental and may be changed by the Board of Trustees without the approval of the shareholders. In seeking to meet the investment goal of the Fund, the Fund’s investment advisor, Fort Pitt Capital Group, Inc. (the “Advisor”), may cause the Fund to invest in securities whose characteristics are consistent with the Fund’s investment goal. The securities in which the Fund may invest include those described below.

### **Common and Preferred Stock**

Equity securities, such as common stocks, represent shares of ownership of a corporation. Preferred stocks are equity securities that often pay dividends at a specific rate and have a preference over common stocks in dividend payments and liquidation of assets. Some preferred stocks may be convertible into common stock. Common stock is a principal investment of the Fund.

### **Convertible Securities**

Traditional convertible securities include corporate bonds, notes and preferred stocks that may be converted into or exchanged for common stock, and other securities that also provide an opportunity for equity participation. These securities are generally convertible either at a stated price or a stated rate (that is, for a specific number of shares of common stock or other security). As with other fixed-income securities, the price of a convertible security to some extent varies inversely with interest rates. While providing a fixed-income stream (generally higher in yield than the income derivable from a common stock, but lower than that afforded by a non-convertible debt security), a convertible security also affords the investor an opportunity, through its conversion feature, to participate in the capital appreciation of the common stock into which it is convertible. As the market price of the underlying common stock declines, convertible securities tend to trade increasingly on a yield basis and so may not experience market value declines to the same extent as the underlying common stock. When the market price of the underlying common stock increases, the price of a convertible security tends to rise as a reflection of the value of the underlying common stock. To obtain such a higher yield, the Fund may be required to pay for a convertible security an amount in excess of the value of the underlying common stock. Common stock acquired by the Fund upon conversion of a convertible security will generally be held for so long as the Advisor anticipates such stock will provide the Fund with opportunities that are consistent with the Fund’s investment goal and policies.

## **Debt Securities**

Debt securities purchased by the Fund will consist of obligations that are rated investment grade or better, having at least adequate capacity to pay interest and repay principal. Non-convertible debt obligations will be rated BBB or higher by Standard and Poor's<sup>®</sup> ("S&P<sup>®</sup>"), or Baa or higher by Moody's Investors Services<sup>®</sup>, Inc. ("Moody's") or determined to be of comparable quality by the Advisor if the security is unrated. Convertible debt obligations will be rated A or higher by S&P<sup>®</sup>, or A or higher by Moody's, or determined to be of comparable quality by the Advisor if the security is unrated. Bonds in the lowest investment grade category (BBB by S&P<sup>®</sup> or Baa by Moody's) have speculative characteristics, with changes in the economy or other circumstances more likely to lead to a weakened capacity of the bonds to make principal and interest payments than would occur with bonds rated in higher categories. Fixed income securities (primarily U.S. obligations) are principal investments of the Fund. See the Appendix to this SAI.

## **Warrants and Rights**

The Fund may invest in warrants; however, not more than 10% of the Fund's total assets (at the time of purchase) will be invested in warrants other than warrants acquired in units or attached to other securities. Warrants are pure speculation in that they have no voting rights, pay no dividends and have no rights with respect to the assets of the corporation issuing them. Warrants basically are options to purchase equity securities at a specific price valid for a specific period of time. They do not represent ownership of the securities, but only the right to buy them. Warrants differ from call options in that warrants are issued by the issuer of the security that may be purchased on their exercise, whereas call options may be written or issued by anyone. The prices of warrants do not necessarily move parallel to the prices of the underlying securities. Rights represent a preemptive right to purchase additional shares of stock at the time of new issuance, before stock is offered to the general public, so that the stockholder can retain the same ownership percentage after the offering.

## **Illiquid Securities**

The Fund may invest up to 15% of its net assets in illiquid securities. The term "illiquid securities" for this purpose means securities that cannot be disposed of within seven (7) days in the ordinary course of business at approximately the amount at which the Fund has valued the securities. Illiquid securities are considered to include generally, among other things, certain written over-the-counter options, securities or other liquid assets being used as cover for such options, repurchase agreements with maturities in excess of seven (7) days, certain loan participation interests and other securities whose disposition is restricted under the federal securities laws. The Fund's illiquid investments may include privately placed securities that are not registered for sale under the Securities Act of 1933, as amended (the "1933 Act"). Sales of privately placed securities are made in non-public, unregistered transactions shortly before a company expects to go public. The Fund may make such investments in order to participate in companies whose initial public offerings are expected to be "hot" issues. There is no public market for shares sold in these private placements and it is possible that initial public offerings will never be completed. Moreover, even after an initial public offering, there may be a limited trading market for the securities or the Fund may be subject to contractual limitations on its ability to sell the shares.

## **Rule 144A Securities**

The Fund may invest in securities that are restricted as to resale, but which are regularly traded among qualified institutional buyers because they are exempt under Rule 144A from the registration requirements of the 1933 Act. The Board of Trustees of the Trust has instructed the Advisor to consider the following factors in determining the liquidity of a security purchased under Rule 144A: (i) the frequency of trades and trading volume for the security; (ii) whether at least three (3) dealers are willing to purchase or sell the security and the number of potential purchasers; (iii) whether at least two (2) dealers are making a market in the security; and (iv) the nature of the security and the nature of the marketplace trades (*e.g.*, the time needed to dispose of the security, the method of soliciting offers, and the mechanics of transfer). Although having delegated the day-to-day functions, the Board of Trustees will continue to

monitor and periodically review the Advisor's selection of Rule 144A securities, as well as the Advisor's determinations as to their liquidity. Investing in securities under Rule 144A could affect the Fund's illiquidity to the extent that qualified institutional buyers become, for a time, uninterested in purchasing these securities. After the purchase of a security under Rule 144A, the Board of Trustees and the Advisor will continue to monitor the liquidity of that security to ensure that the Fund has no more than 15% of its net assets in illiquid securities.

### **When Issued, Delayed Delivery Securities and Forward Commitments**

The Fund may enter into forward commitments for the purchase or sale of securities, including on a "when issued" or "delayed delivery" basis in excess of customary settlement periods for the type of security involved. In some cases, a forward commitment may be conditioned upon the occurrence of a subsequent event, such as approval and consummation of a merger, corporate reorganization or debt restructuring, *i.e.*, a "when, as and if issued" security. When such transactions are negotiated, the price is fixed at the time of the commitment, with payment and delivery taking place in the future, generally a month or more after the date of the commitment. While the Fund will only enter into a forward commitment with the intention of actually acquiring the security, the Fund may sell the security before the settlement date if it is deemed advisable.

Securities purchased under a forward commitment are subject to market fluctuation, and no interest (or dividends) accrues to the Fund prior to the settlement date. The Fund will segregate with its custodian bank cash or liquid high-grade debt securities in an aggregate amount at least equal to the amount of its outstanding forward commitments.

### **American Depositary Receipts**

The Fund may make foreign investments through the purchase and sale of sponsored or unsponsored American Depositary Receipts ("ADRs"). ADRs are receipts typically issued by a U.S. bank or trust company which evidence ownership of underlying securities issued by a foreign corporation. The Fund may purchase ADRs whether they are "sponsored" or "unsponsored." "Sponsored" ADRs are issued jointly by the issuer of the underlying security and a depository, whereas "unsponsored" ADRs are issued without participation of the issuer of the deposited security. Holders of unsponsored ADRs generally bear all the costs of such facilities and the depository of an unsponsored facility frequently is under no obligation to distribute shareholder communications received from the issuer of the deposited security or to pass through voting rights to the holders of such receipts in respect of the deposited securities. Therefore, there may not be a correlation between information concerning the issuer of the security and the market value of an unsponsored ADR. ADRs may result in a withholding tax by the foreign country or source, which will have the effect of reducing the income distributable to shareholders.

### **U.S. Government Securities**

U.S. government securities are obligations of, or guaranteed by, the U.S. government, its agencies or instrumentalities. The U.S. government does not guarantee the net asset value of the Fund's shares. Some U.S. government securities, such as U.S. Treasury bills, notes and bonds, and securities guaranteed by the Government National Mortgage Association ("GNMA"), are supported by the full faith and credit of the United States; others, such as those of the Federal Home Loan Banks, are supported by the right of the issuer to borrow from the U.S. Treasury; others, such as those of the Federal National Mortgage Association ("FNMA"), are supported by the discretionary authority of the U.S. government to purchase the agency's obligations; and still others, such as those of the Student Loan Marketing Association, are supported only by the credit of the instrumentality. The Fund may also invest in other securities issued or guaranteed by the U.S. government, its agencies and instrumentalities; such as obligations of Federal Home Loan Banks, Federal Farm Credit Banks, Federal Land Banks, the Federal Housing Administration, Farmers Home Administration, Export-Import Bank of the United States, Small Business Administration, GNMA, FNMA, General Services Administration, Central Bank for Cooperatives, Federal Home Loan Mortgage Corporation, Federal Intermediate Credit Banks, Maritime Administration, and Resolution Trust

Corp. No assurance can be given that the U.S. government will provide financial support to U.S. government-sponsored agencies or instrumentalities if it is not obligated to do so by law.

U.S. government securities include securities that have no coupons, or have been stripped of their unmatured interest coupons, individual interest coupons from such securities that trade separately, and evidences of receipt of such securities. Such securities may pay no cash income, and are purchased at a deep discount from their value at maturity. The discount varies depending on the time remaining until maturity, as well as market interest rates, liquidity of the security, and the issuer's perceived credit quality. The discount, in the absence of financial difficulties of the issuer, typically decreases as the final maturity date approaches. If the issuer defaults, the Fund may not receive any return on its investment. Because zero-coupon securities bear no interest and compound semiannually at the rate fixed at the time of issuance, their value generally is more volatile than the value of other fixed-income securities. Since zero-coupon bondholders do not receive interest payments, when interest rates rise, zero-coupon securities fall more dramatically in value than bonds paying interest on a current basis. When interest rates fall, zero-coupon securities rise more rapidly in value because the bonds reflect a fixed rate of return. An investment in zero-coupon and delayed interest securities may cause the Fund to recognize income and make distributions to shareholders before it receives any cash payments on its investment. To generate cash to satisfy distribution requirements, the Fund may have to sell portfolio securities that it otherwise would have continued to hold or to use cash flows from other sources such as the sale of Fund shares. Because interest on zero-coupon securities is not distributed on a current basis but is, in effect, compounded, zero-coupon securities tend to be subject to greater market risk than interest-payment securities, such as CATs and TIGRs, which are not issued by the U.S. Treasury, and are therefore not U.S. government securities, although the underlying bond represented by such receipt is a debt obligation of the U.S. Treasury. Other zero coupon Treasury securities (STRIPs and CUBEs) are direct obligations of the U.S. government.

### **Bank Obligations**

Bank obligations include bankers' acceptances, negotiable certificates of deposit and non-negotiable time deposits, including U.S. dollar-denominated instruments issued or supported by the credit of U.S. or foreign banks or savings institutions. Although the Fund may invest in money market obligations of foreign banks or foreign branches of U.S. banks only where the Advisor determines the instrument to present minimal credit risks, such investments may nevertheless entail risks that are different from those of investments in domestic obligations of U.S. banks due to differences in political, regulatory and economic systems and conditions. All investments in bank obligations are limited to the obligations of financial institutions having more than \$1 billion in total assets at the time of purchase, and investments by the Fund in the obligations of foreign banks and foreign branches of U.S. banks will not exceed 10% of the Fund's total assets at the time of purchase. The Fund may also make interest-bearing savings deposits in commercial and savings banks in amounts not in excess of 10% of its net assets.

### **Foreign Securities**

The Fund may invest in securities of foreign companies. However, the Fund will not invest more than 10% of the value of its net assets, at the time of purchase, in foreign securities (other than securities of Canadian issuers registered under the Securities Exchange Act of 1934 or ADRs, on which there are no such limits). Although the Fund may invest up to 10% of its net assets in foreign securities, the Advisor typically invests only a small portion of the Fund's portfolio in such securities, if at all.

There has been in the past, and there may be again in the future, an interest equalization tax levied by the United States in connection with the purchase of foreign securities such as those purchased by the Fund. Payment of such interest equalization tax, if imposed, would reduce the Fund's rate of return on its investment. Dividends paid by foreign issuers may be subject to withholding and other foreign taxes which may decrease the net return on such investments as compared to dividends paid to the Fund by U.S. corporations.

Investors should recognize that investing in foreign corporations involves certain considerations, including those set forth below, which are not typically associated with investing in U.S. corporations.

Foreign corporations are not generally subject to uniform accounting, auditing and financial standards and requirements comparable to those applicable to U.S. corporations. There may also be less supervision and regulation of foreign stock exchanges, brokers, and listed corporations than exist in the United States. The Funds may be affected either unfavorably or favorably by fluctuations in the relative rates of exchange as between the currencies of different nations and control regulations. Furthermore, there may be the possibility of expropriation or confiscatory taxation, political, economic or social instability, or diplomatic developments that could affect assets of the Fund held in foreign countries.

### **Loans of Portfolio Securities**

The Fund may lend its investment securities to approved borrowers who need to borrow securities in order to complete certain transactions, such as covering short sales, avoiding failures to deliver securities or completing arbitrage operations. By lending its investment securities, the Fund attempts to increase its income through the receipt of interest on the loan. Any gain or loss in the market price of the securities loaned that might occur during the term of the loan would be for the account of the Fund. The Fund may lend its investment securities to qualified brokers, dealers, domestic and foreign banks or other financial institutions, so long as the terms, the structure and the aggregate amount of such loans are not inconsistent with the 1940 Act or the rules and regulations or interpretations of the U.S. Securities and Exchange Commission (the "SEC") thereunder, which currently require that: (a) the borrower pledge and maintain with the Fund collateral consisting of cash, an irrevocable letter of credit issued by a bank or securities issued or guaranteed by the U.S. government having a value at all times not less than 100% of the value of the securities loaned; (b) the borrower add to such collateral whenever the price of the securities loaned rises (*i.e.*, the borrower "marks to the market" on a daily basis); (c) the loan be made subject to termination by the Fund at any time; and (d) the Fund receives reasonable interest on the loan (which may include the Fund investing any cash collateral in interest bearing short-term investments). All relevant facts and circumstances, including the creditworthiness of the broker, dealer or institution, will be considered in making decisions with respect to the lending of securities, and will be subject to review by the Board of Trustees. The Fund will not lend portfolio securities with a value in excess of 33 1/3% of the value of its total assets.

At the present time, the staff of the SEC does not object if an investment company pays reasonable negotiated fees in connection with loaned securities so long as such fees are set forth in a written contract and approved by the investment company's Board of Trustees. In addition, voting rights may pass with the loaned securities, but if a material event occurs affecting an investment on a loan, the loan must be called and the securities voted.

### **Borrowing**

The Fund may borrow money for temporary or other emergency purposes. The Fund may also borrow as a temporary measure to facilitate redemptions subject to the fundamental investment restriction described below under the heading "Investment Restrictions." The Fund will not borrow money in excess of 33 1/3% of the value of its total assets. The Fund has no intention of (i) leveraging any of its assets or (ii) increasing its net income through borrowing. Any borrowings will have the required asset coverage of at least 300%. In the event that such asset coverage shall at any time fall below 300%, the Fund shall, within three (3) days thereafter (not including Sundays or holidays), or such longer period as the SEC may prescribe by rules and regulations, reduce the amount of its borrowings to such an extent that the asset coverage of such borrowings shall be at least 300%.

### **Futures**

The Fund may enter into contracts for the purchase or sale for future delivery of securities. A purchase of a futures contract means the acquisition of a contractual right to obtain delivery to the Fund of the securities or foreign currency called for by the contract at a specified price and future date. When the Fund enters into a futures transaction, it must deliver to the futures commission merchant selected by the Fund an amount referred to as "initial margin." This amount is maintained by the futures commission merchant in a segregated account at the custodian bank. Thereafter, a "variation margin" may be paid by

the Fund to, or drawn by the Fund from, such account in accordance with controls set for such accounts, depending upon changes in the price of the underlying securities subject to the futures contract.

The Fund may enter into futures contracts and engage in options on futures to the extent that no more than 5% of the Fund's assets are required as futures contract margin deposits and premiums on options, and may engage in such transactions to the extent that obligations relating to such futures and related options on futures transactions represent not more than 25% of the Fund's assets.

The Fund will enter into futures transactions on domestic exchanges and, to the extent such transactions have been approved by the Commodity Futures Trading Commission for sale to customers in the United States, on foreign exchanges. In addition, the Fund may sell stock index futures in anticipation of or during a market decline to attempt to offset the decrease in market value of their common stocks that might otherwise result; and they may purchase such contracts in order to offset increases in the cost of common stocks that they intend to purchase. Unlike other futures contracts, a stock index futures contract specifies that no delivery of the actual stocks making up the index will take place. Instead, settlement in cash must occur upon the termination of the contract. Although futures contracts provide for the delivery of securities, deliveries usually do not occur. Contracts are generally terminated by entering into offsetting transactions.

The Fund may enter into futures contracts to protect against the adverse effects of fluctuations in security prices, interest or foreign exchange rates without actually buying or selling the securities or foreign currency. For example, if interest rates are expected to increase, the Fund might enter into futures contracts for the sale of debt securities. Such a sale would have much the same effect as selling an equivalent value of the debt securities owned by the Fund. If interest rates did increase, the value of the debt securities in the portfolio would decline, but the value of the futures contracts to the Fund would increase at approximately the same rate, thereby keeping the net asset value of the Fund from declining as much as it otherwise would have. Similarly, when it is expected that interest rates will decline, futures contracts may be purchased to hedge in anticipation of subsequent purchases of securities at higher prices. Since the fluctuations in the value of futures contracts should be similar to those of debt securities, the Fund could take advantage of the anticipated rise in value of debt securities without actually buying them until the market had stabilized. At that time, the futures contracts could be liquidated and the Fund could then buy debt securities on the cash market.

To the extent that market prices move in an unexpected direction, the Fund may not achieve the anticipated benefits of futures contracts or may realize a loss. For example, if the Fund is hedged against the possibility of an increase in interest rates which would adversely affect the price of securities held in its portfolio and interest rates decrease instead, the Fund would lose part or all of the benefit of the increased value because it would have offsetting losses in its futures position. In addition, in such situations, if the Fund had insufficient cash, it may be required to sell securities from its portfolio to meet daily variation margin requirements. Such sales of securities may, but will not necessarily, be at increased prices that reflect the rising market. The Fund may be required to sell securities at a time when it may be disadvantageous to do so.

Transactions using derivative securities, other than purchased options, expose the Fund to an obligation to another party. The Fund will not enter into any such transactions unless it owns either: (1) an offsetting ("covered") position in securities or other options or futures contracts; or (2) cash and liquid assets with a value, marked-to-market daily, sufficient to cover its potential obligations to the extent not covered. The Fund will comply with SEC guidelines regarding cover for these instruments and will, if the guidelines so require, set aside cash or liquid assets in an account with its custodian, in the prescribed amount as determined daily.

Assets used as cover or held in an account cannot be sold while the position in the corresponding financial instrument is open, unless they are replaced with other appropriate assets. As a result, the commitment of a large portion of the Fund's assets as cover or held in accounts could impede portfolio management or the Fund's ability to meet redemption requests or other current obligations.

## Options

The Fund may invest in options that are listed on U.S. exchanges or traded over-the-counter. Certain over-the-counter options may be illiquid. Thus, it may not be possible to close options positions and this may have an adverse impact on the Fund's ability to effectively hedge its securities. The Fund considers over-the-counter options to be illiquid. Accordingly, the Fund will only invest in such options to the extent consistent with its 15% limit on investments in illiquid securities. The Fund may purchase and write call or put options on securities but will only engage in option strategies for non-speculative purposes. In addition, the Fund will only engage in option transactions (other than index options) to the extent that no more than 25% of its total assets are subject to obligations relating to such options.

**Purchasing Call Options** – The Fund may purchase call options on securities. When the Fund purchases a call option, in return for a premium paid by the Fund to the writer of the option, the Fund obtains the right to buy the security underlying the option at a specified exercise price at any time during the term of the option. The writer of the call option has the obligation to deliver the underlying security against payment of the exercise price. The advantage of purchasing call options is that the Fund may alter portfolio characteristics and modify portfolio maturities without incurring the cost associated with transactions.

The Fund may, following the purchase of a call option, liquidate its position by effecting a closing sale transaction. This is accomplished by selling an option of the same series as the option previously purchased. The Fund will realize a profit from a closing sale transaction if the price received on the transaction is more than the premium paid to purchase the original call option; the Fund will realize a loss from a closing sale transaction if the price received on the transaction is less than the premium paid to purchase the original call option.

Although the Fund will generally purchase only those call options for which there appears to be an active secondary market, there is no assurance that a liquid secondary market on an exchange will exist for any particular option, or at any particular time, and for some options no secondary market on an exchange may exist. In such event, it may not be possible to effect closing transactions in particular options, with the result that the Fund would have to exercise its options in order to realize any profit and would incur brokerage commissions upon the exercise of such options and upon the subsequent disposition of the underlying securities acquired through the exercise of such options. Further, unless the price of the underlying security changes sufficiently, a call option purchased by the Fund may expire without any value to the Fund, in which event it would realize a capital loss that will be short-term unless the option was held for more than one year.

**Covered Call Writing** – The Fund may write covered call options from time to time on such portions of its portfolio, without limit, as the Advisor determines is appropriate in seeking to achieve the Fund's investment goal. The advantage to the Fund of writing covered calls is that it receives a premium that is additional income. However, if the security rises in value, the Fund may not fully participate in the market appreciation.

During the option period for a covered call option, the writer may be assigned an exercise notice by the broker-dealer through whom such call option was sold, requiring the writer to deliver the underlying security against payment of the exercise price. This obligation is terminated upon the expiration of the option or upon entering a closing purchase transaction. A closing purchase transaction, in which the Fund, as writer of an option, terminates its obligation by purchasing an option of the same fund as the option previously written, cannot be effected with respect to an option once the option writer has received an exercise notice for such option.

Closing purchase transactions will ordinarily be effected to realize a profit on an outstanding call option, to prevent an underlying security from being called, to permit the sale of the underlying security or to enable the Fund to write another call option on the underlying security with either a different exercise price or expiration date or both. The Fund may realize a net gain or loss from a closing purchase transaction depending upon whether the net amount of the original premium received on the call option is

more or less than the cost of effecting the closing purchase transaction. Any loss incurred in a closing purchase transaction may be partially or entirely offset by the premium received from a sale of a different call option on the same underlying security. Such a loss may also be wholly or partially offset by unrealized appreciation in the market value of the underlying security. Conversely, a gain resulting from a closing purchase transaction could be offset in whole or in part by a decline in the market value of the underlying security.

If a call option expires unexercised, the Fund will realize a short-term capital gain in the amount of the premium on the option less the commission paid. Such a gain, however, may be offset by depreciation in the market value of the underlying security during the option period. If a call option is exercised, the Fund will realize a gain or loss from the sale of the underlying security equal to the difference between the cost of the underlying security and the proceeds of the sale of the security plus the amount of the premium on the option less the commission paid.

The Fund will write call options only on a covered basis, which means that the Fund will own the underlying security subject to a call option at all times during the option period. Unless a closing purchase transaction is effected, the Fund would be required to continue to hold a security which it might otherwise wish to sell or deliver a security it would want to hold. The exercise price of a call option may be below, equal to or above the current market value of the underlying security at the time the option is written.

**Purchasing Put Options** – The Fund may purchase put options. The Fund will, at all times during which it holds a put option, own the security covered by such option.

A put option purchased by the Fund gives it the right to sell one of its securities for an agreed price up to an agreed date. The Fund intends to purchase put options in order to protect against a decline in the market value of the underlying security below the exercise price less the premium paid for the option (“protective puts”). The ability to purchase put options will allow the Fund to protect unrealized gains in an appreciated security in their portfolios without actually selling the security. If the security does not drop in value, the Fund will lose the value of the premium paid. The Fund may sell a put option which it has previously purchased prior to the sale of the securities underlying such option. Such sale will result in a net gain or loss depending on whether the amount received on the sale is more or less than the premium and other transaction costs paid on the put option which is sold.

The Fund may sell a put option purchased on individual portfolio securities. Additionally, the Fund may enter into closing sale transactions. A closing sale transaction is one in which the Fund, when it is the holder of an outstanding option, liquidates its position by selling an option of the same series as the option previously purchased.

**Writing Put Options** – The Fund may also write put options on a secured basis which means that the Fund will maintain in a segregated account with its custodian segregated assets in an amount not less than the exercise price of the option at all times during the option period. The amount of segregated assets held in the segregated account will be adjusted on a daily basis to reflect changes in the market value of the securities covered by the put option written by the Fund. Secured put options will generally be written in circumstances where the Advisor wishes to purchase the underlying security for the Fund’s portfolio at a price lower than the current market price of the security. In such event, the Fund would write a secured put option at an exercise price which, reduced by the premium received on the option, reflects the lower price it is willing to pay.

Following the writing of a put option, the Fund may wish to terminate the obligation to buy the security underlying the option by effecting a closing purchase transaction. This is accomplished by buying an option of the same series as the option previously written. The Fund may not, however, effect such a closing transaction after it has been notified of the exercise of the option.

**Straddles** - The Fund may write covered straddles consisting of a combination of a call and a put written on the same underlying security. A straddle will be covered when sufficient assets are deposited to meet the Fund’s immediate obligations. The Fund may use the same liquid assets to cover both the call and

put options where the exercise price of the call and put are the same, or the exercise price of the call is higher than that of the put. In such cases, the Fund will also segregate liquid assets equivalent to the amount, if any, by which the put is “in the money.”

**Cover** - Transactions using derivative securities, other than purchased options, expose the Fund to an obligation to another party. The Fund will not enter into any such transactions unless it owns either (1) an offsetting (“covered”) position in securities or other options or futures contracts or (2) cash and liquid assets with a value, marked-to-market daily, sufficient to cover its potential obligations to the extent not covered. The Fund will comply with SEC guidelines regarding cover for these instruments and will, if the guidelines so require, set aside cash or liquid assets in an account with its custodian, in the prescribed amount as determined daily.

Assets used as cover or held in an account cannot be sold while the position in the corresponding financial instrument is open, unless they are replaced with other appropriate assets. As a result, the commitment of a large portion of the Fund’s assets as cover or held in accounts could impede portfolio management or the Fund’s ability to meet redemption requests or other current obligations.

### **Index Options**

The Fund may purchase exchange-listed put and call options on stock indices and sell such options in closing sale transactions for hedging purposes. The Fund may purchase call options on broad market indices to temporarily achieve market exposure when the Fund is not fully invested. The Fund may also purchase exchange-listed call options on particular market segment indices to achieve temporary exposure to a specific industry. The Fund may purchase put options on broad market indices in order to protect its fully invested portfolio from a general market decline. Put options on market segments may be bought to protect the Fund from a decline in value of heavily weighted industries in the Fund’s portfolio. Put options on stock indices may be used to protect the Fund’s investments in the case of a major redemption. While the option is open, the Fund will maintain a segregated account with its custodian in an amount equal to the market value of the option.

Options on indices are similar to regular options except that an option on an index gives the holder the right, upon exercise, to receive an amount of cash if the closing level of the index upon which the option is based is greater than (in the case of a call) or lesser than (in the case of a put) the exercise price of the option. This amount of cash is equal to the difference between the closing price of the index and the exercise price of the option expressed in dollars times a specified multiple (the “multiplier”).

### **Risks of Options**

The purchase and writing of options involves certain risks. During the option period, the covered call writer has, in return for the premium on the option, given up the opportunity to profit from a price increase in the underlying securities above the exercise price, but, as long as its obligation as a writer continues, has retained the risk of loss should the price of the underlying security decline. The writer of an option has no control over the time when it may be required to fulfill its obligation as a writer of the option. Once an option writer has received an exercise notice, it cannot effect a closing purchase transaction in order to terminate its obligation under the option and must deliver the underlying securities at the exercise price. If a put or call option purchased by the Fund is not sold when it has remaining value, and if the market price of the underlying security, in the case of a put, remains equal to or greater than the exercise price or, in the case of a call, remains less than or equal to the exercise price, the Fund will lose its entire investment in the option. Also, where a put or call option on a particular security is purchased to hedge against price movements in a related security, the price of the put or call option may move more or less than the price of the related security. There can be no assurance that a liquid market will exist when a Fund seeks to close out an option position. Furthermore, if trading restrictions or suspensions are imposed on the options markets, the Fund may be unable to close out a position.

The Fund’s purchases of options on indices will subject them to the following risks described below. First, because the value of an index option depends upon movements in the level of the index rather

than the price of a particular security, whether the Fund will realize gain or loss on the purchase of an option on an index depends upon movements in the level of prices in the market generally or in an industry or market segment rather than movements in the price of a particular security. Accordingly, successful use by the Fund of options on indices is subject to the Advisor's ability to predict correctly the direction of movements in the market generally or in a particular industry. This requires different skills and techniques than predicting changes in the prices of individual securities.

Second, index prices may be distorted if trading of a substantial number of securities included in the index is interrupted causing the trading of options on that index to be halted. If a trading halt occurred, the Fund would not be able to close put options which it had purchased and the Fund may incur losses if the underlying index moved adversely before trading resumed. If a trading halt occurred and restrictions prohibiting the exercise of options were imposed through the close of trading on the last day before expiration, exercises on that day would be settled on the basis of a closing index value that may not reflect current price information for securities representing a substantial portion of the value of the index.

Third, if the Fund holds an index option and exercises it before final determination of the closing index value for that day, it runs the risk that the level of the underlying index may change before closing. If such a change causes the exercised option to fall "out-of-the-money," the Fund will be required to pay the difference between the closing index value and the exercise price of the option (times the applicable multiplier) to the assigned writer. Although the Fund may be able to minimize this risk by withholding exercise instructions until just before the daily cutoff time or by selling rather than exercising the option when the index level is close to the exercise price, it may not be possible to eliminate this risk entirely because the cutoff times for index options may be earlier than those fixed for other types of options and may occur before definitive closing index values are announced.

### **Temporary Investments**

Under normal market conditions, the Fund may have money received from the purchase of Fund shares, or money received on the sale of its portfolio securities for which suitable investments consistent with the Fund's investment goals are not immediately available. Under these circumstances, the Fund may have such monies invested in cash or cash equivalents in order to earn income on this portion of its assets. Cash equivalents include investments such as U.S. government obligations, repurchase agreements, bank obligations, commercial paper and corporate bonds with remaining maturities of thirteen months or less. The Fund also may have a portion of its assets invested in cash equivalents in order to meet anticipated redemption requests or if other suitable securities are unavailable. In addition, the Fund may reduce its holdings in equity and other securities and may invest in cash and cash equivalents for temporary defensive purposes, during periods in which the Advisor believes changes in economic, financial or political conditions make it advisable.

Investments by the Fund in commercial paper will consist of issues rated at the time of investment as A-1 and/or P-1 by S&P<sup>®</sup>, Moody's or similar rating by another nationally recognized rating agency. In addition, the Fund may acquire unrated commercial paper and corporate bonds that are determined by the Advisor at the time of purchase to be of comparable quality to rated instruments that may be acquired by the Fund as previously described.

### **Repurchase Agreements**

When the Fund enters into a repurchase agreement, it purchases securities from a bank or broker-dealer which simultaneously agrees to repurchase the securities at a mutually agreed upon time and price, thereby determining the yield during the term of the agreement. As a result, a repurchase agreement provides a fixed rate of return insulated from market fluctuations during the term of the agreement. The term of a repurchase agreement generally is short, possibly overnight or for a few days, although it may extend over a number of months (up to one year) from the date of delivery. Repurchase agreements will be fully collateralized and the collateral will be marked-to-market daily. The Fund may not enter into a repurchase agreement having more than seven (7) days remaining to maturity if, as a result, such

agreement, together with any other illiquid securities held by the Fund, would exceed 15% of the value of the net assets of the Fund.

In the event of bankruptcy or other default by the seller of the security under a repurchase agreement, the Fund may suffer time delays and incur costs or possible losses in connection with the disposition of the collateral. In such event, instead of the contractual fixed rate of return, the rate of return to the Fund would be dependent upon intervening fluctuations of the market value of the underlying security and the accrued interest on the security. Although the Fund would have rights against the seller for breach of contract with respect to any losses arising from market fluctuations following the failure of the seller to perform, the ability of the Fund to recover damages from a seller in bankruptcy or otherwise in default would be reduced.

### **Reverse Repurchase Agreements**

Reverse repurchase agreements involve sales of portfolio securities of the Fund to member banks of the Federal Reserve System or securities dealers believed creditworthy, concurrently with an agreement by the Fund to repurchase the same securities at a later date at a fixed price which is generally equal to the original sales price plus interest. The Fund retains record ownership and the right to receive interest and principal payments on the portfolio securities involved. In connection with each reverse repurchase transaction, the Fund will segregate cash, U.S. government securities, equity securities and/or investment and non-investment grade debt securities in an amount equal to the repurchase price. Any assets held in any segregated securities, options, futures, forward contracts or other derivative transactions shall be liquid, unencumbered and marked-to-market daily.

A reverse repurchase agreement involves the risk that the market value of the securities retained by the Fund may decline below the price of the securities the Fund has sold but is obligated to repurchase under the agreement. In the event the buyer of securities under a reverse repurchase agreement files for bankruptcy or becomes insolvent, the Fund's use of the proceeds of the agreement may be restricted pending a determination by the other party, or its trustee or receiver, whether to enforce the Fund's obligation to repurchase the securities. Reverse repurchase agreements are considered borrowings and as such, are subject to the same investment limitations.

### **Other Investments**

The Board of Trustees may, in the future, authorize the Fund to invest in securities other than those listed in this SAI and in the prospectus, provided such investments would be consistent with the Fund's investment goal and that it would not violate any fundamental investment policies or restrictions.

## **INVESTMENT RESTRICTIONS**

### **Fundamental Investment Policies and Restrictions:**

The Fund has adopted the following fundamental investment restrictions which cannot be changed without the approval of a "majority of the outstanding voting securities" of the Fund. Under the 1940 Act, a "majority of the outstanding voting securities" of a fund means the vote of: (i) more than 50% of the outstanding voting securities of the fund; or (ii) 67% or more of the voting securities of the fund present at a meeting, if the holders of more than 50% of the outstanding voting securities are present or represented by proxy, whichever is less.

**Concentration:** The Fund may not concentrate (invest 25% or more of its total assets) in securities of issuers in a particular industry (other than securities issued or guaranteed by the U.S. government or any of its agencies or instrumentalities). With respect to the Fund's fundamental investment policies and restrictions adopted by the Trust, "concentration" involves the Fund investing 25% or more of its total assets in securities of issuers in a particular industry.

**Borrowing:** The Fund may not borrow money, except as the 1940 Act, any rule or order thereunder, or SEC staff interpretation thereof, may permit. The 1940 Act allows a Fund to borrow from banks if they maintain 300% asset coverage for all such borrowings. The Fund can also borrow for temporary or emergency purposes in an amount not exceeding 5% of the value of the total assets of the fund at the time the loan is made. This loan may but need not be from a bank and the aggregate of all loans may not exceed 33 1/3% of the Fund's assets.

**Senior Securities:** The Fund will not issue securities senior to the Fund's presently authorized shares of beneficial interest, except that this restriction shall not be deemed to prohibit the Fund from (i) making any permitted borrowings, loans, mortgages, or pledges; (ii) entering into options, futures contracts, forward contracts, repurchase transactions or reverse repurchase transactions; or (iii) making short sales of securities to the extent permitted by the 1940 Act and any rule or order thereunder, or SEC staff interpretation thereof.

**Underwriting:** The Fund may not underwrite the securities of other issuers, except that the Fund may engage in transactions involving the acquisition, disposition or resale of its portfolio securities, under circumstances where it may be considered to be an underwriter under the 1933 Act.

**Real Estate:** The Fund may not purchase or sell real estate, unless acquired as a result of ownership of securities or other instruments and provided that this restriction does not prevent the Fund from investing in issuers which invest, deal or otherwise engage in transactions in real estate or interests therein (including real estate investment trusts), or investing in securities that are secured by real estate or interests therein.

**Commodities:** The Fund may not purchase or sell physical commodities, unless acquired as a result of ownership of securities or other instruments and provided that this restriction does not prevent the Fund from engaging in transactions involving financial instruments, such as financial futures contracts and options thereon or investing in securities that are secured by physical commodities.

**Lending:** The Fund may not make loans if, as a result, the amount of the Fund's assets loaned would exceed the amount permitted under the 1940 Act or any applicable rule or regulation thereof, or any exemption therefrom, except that the Fund may (i) purchase or hold debt instruments, loan participations and/or engage in direct corporate loans in accordance with its investment goal and policies; (ii) enter into repurchase agreements; and (iii) lend its portfolio securities to broker/dealers or institutional investors. The fund may also make loans to other investment companies to the extent permitted by the 1940 Act or any exemptions therefrom which may be granted by the SEC.

**Diversification:** The Fund may not purchase the securities of any one issuer (other than the U.S. government or any of its agencies or instrumentalities or securities of other investment companies) if immediately after such investment (a) more than 5% of the value of the Fund's total assets would be invested in such issuer; or (b) more than 10% of the outstanding voting securities of such issuer would be owned by the Fund, except that up to 25% of the value of the Fund's total assets may be invested without regard to such 5% and 10% limitations.

**Other Investment Companies:** The Fund will not invest in the securities of other investment companies, except as permitted under the 1940 Act, as amended.

## **ADDITIONAL INFORMATION ABOUT PURCHASES AND SALES**

### **Purchasing Shares**

You may purchase shares of the Fund without any sales charge directly from the Fund, and through certain investment advisors, financial planners, brokers, dealers or other investment professionals or through fund supermarkets or retirement plans. Shares of the Fund are offered on a continuous basis by

Quasar Distributors, LLC, the Fund’s distributor (“Distributor”). Other persons may receive compensation for their marketing and shareholder servicing activities.

The Fund reserves the right to reject any purchase order and to suspend the offering of shares of the Fund. The minimum initial investment is \$2,500 and additional investments must total at least \$100. The minimum initial investment for qualified retirement accounts (“IRAs”) is \$2,500 (\$2,000 for Coverdell Education Savings Accounts) and there is no minimum for subsequent investments. The Fund may also change or waive its policies concerning minimum investment amounts at any time.

The Fund does not intend to issue certificates representing shares purchased. You will have the same rights of ownership with respect to such shares as if certificates had been issued.

You may buy shares at the Fund’s net asset value (“NAV”) per share, which is calculated as of the close of the New York Stock Exchange (“NYSE”) (usually 4:00 P.M. Eastern time) every day the exchange is open. As of the date of this SAI, the Fund is informed that the NYSE observes the following holidays: New Year’s Day, Martin Luther King Jr. Day, Presidents’ Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day.

The NAV is determined by dividing the value of the Fund’s securities, cash and other assets, minus all expenses and liabilities, by the number of shares outstanding. The Fund’s securities are valued each day at their market value, which usually means the last quoted sale price on the security’s principal exchange on that day. Expenses and fees of the Fund, including management, distribution and shareholder servicing fees, are accrued daily and taken into account for the purpose of determining the NAV.

An example of how the Fund calculated its total offering price per share as of October 31, 2009 is as follows:

$$\begin{array}{r}
 \text{Net Assets} \\
 \hline
 \text{Shares Outstanding}
 \end{array}
 =
 \text{Net Asset Value Per Share}$$
  

$$\begin{array}{r}
 \$30,319,941 \\
 \hline
 2,664,721
 \end{array}
 =
 \$11.38$$

Cash and receivables are valued at their realizable amounts. Interest is recorded as accrued and dividends are recorded on the ex-dividend date.

Generally, the Fund’s investments are valued at market value or, in the absence of a market value, at fair value as determined in good faith by the Advisor and the Trust’s Valuation Committee pursuant to procedures approved by or under the direction of the Board. Securities that are traded on more than one exchange are valued on the exchange determined by the Advisor to be the primary market. Portfolio securities listed on the NASDAQ Global Market<sup>®</sup> system for which market quotations are readily available shall be valued using the NASDAQ<sup>®</sup> Official Closing Price (“NOCP”). If the NOCP is not available, such securities are valued at the last quoted sale price of the day or, if there is no such reported sale, within the range of the most recent quoted bid and ask prices. Over-the-counter (“OTC”) securities that are not traded in the NASDAQ Global Market<sup>®</sup> system shall be valued at the most recent trade price.

The current market value of any option held by the Fund is its last sale price on the relevant exchange before the time when assets are valued. Lacking any sales that day or if the last sale price is outside the bid and ask prices, options are valued within the range of the current closing bid and ask prices if the valuation is believed to reflect the contract’s market value.

Short-term debt obligations with remaining maturities in excess of sixty (60) days are valued at current market prices, as discussed above. Short-term securities with sixty (60) days or less remaining to maturity are, unless conditions indicate otherwise, amortized to maturity based on their cost to the Fund if

acquired within sixty (60) days of maturity or, if already held by the Fund on the sixtieth (60<sup>th</sup>) day, based on the value determined on day sixty-one (61).

Corporate debt securities are valued on the basis of valuations provided by dealers in those instruments, by an independent pricing service, approved by the Board, or at fair value as determined in good faith by procedures approved by the Board. Any such pricing service, in determining value, will use information with respect to transactions in the securities being valued, quotations from dealers, market transactions in comparable securities, analyses and evaluations of various relationships between securities and yield to maturity information.

All other assets of the Fund are valued in such manner as the Board in good faith deems appropriate to reflect their fair value.

The value of a foreign security is determined as of the close of trading on the foreign exchange on which it is traded or as of the scheduled close of trading on the NYSE, if that is earlier. Generally, trading in corporate bonds, U.S. government securities and money market instruments is substantially completed each day at various times before the scheduled close of the NYSE. The value of these securities used in computing the NAV of each class is determined as of such time.

When you buy shares, if you submit a check or a draft that is returned unpaid to the Fund, the Fund may impose a \$25.00 charge against your account for each returned item. All checks, drafts, wires and other payment mediums used to buy or sell shares of the Fund must be denominated in U.S. dollars.

### **Selling Shares**

Shares of the Fund may be redeemed on any business day that the Fund calculates its NAV. The sale price will be the next NAV calculated after your order is received by the Fund's transfer agent, or by certain third parties who are authorized to receive redemption requests on the Fund's behalf. No fees are imposed by the Fund when shares are sold, except that Fund shares sold after being held for 180 days or less are subject to a redemption fee (payable directly to the Fund) of 2.00% of the sale proceeds. There is a \$15.00 fee that the Fund's transfer agent may assess if you choose to redeem shares by a bank wire transfer. This fee is subject to change. You may receive your sale proceeds by check, wire transfer, or electronic funds transfer ("EFT").

You may sell your shares by giving instructions to the Fund's transfer agent by mail or by telephone. The Fund will use reasonable procedures to confirm that instructions communicated by telephone are genuine and, if the procedures are followed, will not be liable for any losses due to unauthorized or fraudulent telephone transactions. During times of drastic economic or market changes, the telephone redemption privilege may be difficult to implement and the Fund reserves the right to suspend this privilege. The Fund may suspend a shareholder's right to sell shares if the NYSE restricts trading, the SEC declares an emergency or for other reasons as permitted by law.

Certain written requests to sell shares require a signature guarantee. For example, a signature guarantee may be required if your address of record on the account application has been changed within the last fifteen (15) days or if you ask that the proceeds be sent to a different person or address. In addition, all redemptions of \$50,000 or more from any shareholder account require a signature guarantee. A signature guarantee is used to help protect you and the Fund from fraud. You can obtain a signature guarantee from most banks and securities dealers, but not from a notary public. Signature guarantees must appear together with the signature(s) of the registered owner(s), on: (1) a written request for redemption; or (2) a separate instrument of assignment, which should specify the total number of shares to be redeemed (this "stock power" may be obtained from the Fund or from most banks or stock brokers).

If you sell shares through a securities dealer or investment professional, it is such person's responsibility to transmit the order to the Fund in a timely fashion. Any loss to you resulting from failure to do so must be settled between you and such person.

Delivery of the proceeds of a redemption of shares purchased and paid for by check shortly before the receipt of the request may be delayed until the Fund determines that the custodian bank has completed collection of the purchase check. The Board of Trustees may suspend the right of redemption or postpone the date of payment during any period when (a) trading on the NYSE is restricted as determined by the SEC, or such exchange is closed for other than weekends and holidays; (b) the SEC has by order permitted such suspension; or (c) an emergency, as defined by rules of the SEC, exists during which time the sale of Fund shares or valuation of securities held by the Fund is not reasonably practicable.

Redeeming shares through a systematic withdrawal plan may reduce or exhaust the shares in your account if payments exceed distributions received from the Fund. This is especially likely to occur if there is a market decline. If a withdrawal amount exceeds the value of your account, your account will be closed and the remaining balance in your account will be sent to you. Because the amount withdrawn under the plan may be more than your actual yield or income, part of the payment may be a return of your investment.

If dividend checks are returned to the Fund marked “unable to forward” by the postal service, the Fund will consider this a request by you to change your dividend option to reinvest all distributions. The proceeds will be reinvested in additional shares at the Fund’s then current NAV until the Fund receives new instructions.

If mail is returned as undeliverable or the Fund is unable to locate you or verify your current mailing address, the costs of any efforts to find you may be deducted from your account. These costs may include a percentage of the account when a search company charges a percentage fee in exchange for its location services.

Distribution or redemption checks sent to you do not earn interest or any other income during the time the checks remain uncashed. Neither the Fund nor its affiliates will be liable for any loss caused by your failure to cash such checks.

The Fund also reserves the right to make a “redemption in-kind” if the amount you are redeeming is large enough to affect Fund operations or if the redemption would otherwise disrupt the Fund. For example, the Fund may redeem shares in-kind if the amount represents more than 1% of the Fund’s assets. When the Fund makes a “redemption-in-kind” it pays the redeeming shareholder in portfolio securities rather than cash. A redemption in-kind is a taxable transaction to the redeeming shareholder. If shares are redeemed in kind, the redeeming shareholder may incur brokerage costs and other charges in converting the assets to cash. The method of valuing securities used to make redemptions-in-kind will be the same as the method of valuing portfolio securities is described above. Such valuation will be made as of the same time the redemption price is determined.

If the value of your account falls below \$1,000 due to redemptions and not market action, the Fund may mail you a notice requesting that you increase your balance. If your account value is still below \$1,000 sixty (60) days after receipt of such request, the Fund may automatically close your account and send you the proceeds. You will not be charged a redemption fee if your account is closed for this reason.

## **PORTFOLIO HOLDINGS INFORMATION**

The Advisor and the Fund are subject to portfolio holdings disclosure policies. These policies govern the timing and circumstances of disclosure to shareholders and third parties about the portfolio investments which the Fund holds. These portfolio holdings disclosure policies have been approved by the Trust’s Board of Trustees.

Disclosure of the Fund’s complete holdings is required to be made quarterly within sixty (60) days of the end of each fiscal quarter in the Annual Report and Semi-Annual Report to Fund shareholders and in the quarterly holdings report on Form N-Q. These reports are available, free of charge, on the EDGAR database on the SEC’s website at [www.sec.gov](http://www.sec.gov).

Pursuant to the Fund's portfolio holdings disclosure policies, information about the Fund's portfolio holdings is not distributed to any person unless:

- The disclosure is required pursuant to a regulatory request, court order or is legally required in the context of other legal proceedings;
- The disclosure is made to a mutual fund rating and/or ranking organization, or person performing similar functions, who is subject to a duty of confidentiality, including a duty not to trade on any non-public information;
- The disclosure is made pursuant to U.S. Bancorp Fund Services, LLC's ("USBFS") disclosure policies and procedures, which currently provide for the delivery of information regarding Fund portfolio holdings to rating and/or ranking organizations including, without limitation, Lipper, Morningstar<sup>®</sup>, Inc., Standard & Poor's<sup>®</sup>, and Bloomberg<sup>™</sup>, L.P. which delivery currently occurs between the fifth and the tenth business day of the month following the end of a calendar quarter;
- The disclosure is made to internal parties involved in the investment process, administration, operation or custody of the Fund, including, but not limited to USBFS and the Trust's Board of Trustees, attorneys or accountants;
- The disclosure is made: (a) in connection with a quarterly, semi-annual or annual report that is available to the public; or (b) relates to information that is otherwise available to the public; or
- The disclosure is made with the prior written approval of either the Trust's President or its Chief Compliance Officer.

Certain of the persons listed above receive information about the Fund's portfolio holdings on an ongoing basis. These persons include:

- A mutual fund rating and/or ranking organization, or person performing similar functions, who is subject to a duty of confidentiality, including a duty not to trade on any non-public information;
- Rating and/or ranking organizations, specifically: Lipper; Morningstar<sup>®</sup>, Inc.; Standard & Poors<sup>®</sup>; Bloomberg<sup>™</sup>, L.P.; Vickers-Stock Research Corporation; Wilshire & Associates, Inc.; Thomson Financial<sup>™</sup> Services; CapitalBridge; and Interactive Data Corporation, all of which currently receive such information between the fifth and tenth business day of the month following the end of a calendar quarter; or
- Internal parties involved in the investment process, administration, operation or custody of the Fund, specifically: USBFS; the Trust's Board of Trustees; and the Trust's attorneys, counsel for the independent trustees, and accountants (currently, Metz Lewis LLC, Stradley, Ronon, Stevens & Young, LLP and Tait, Weller & Baker LLP, respectively), all of which typically receive such information after it is generated.

Any disclosures to additional parties not described above is made with the prior written approval of either the Trust's President or its Chief Compliance Officer, pursuant to the Fund's Policy and Procedures Regarding Disclosure of Portfolio Holdings.

No compensation or other consideration (as contemplated by SEC rules and regulations) is received by the Fund, its investment advisor, or any other party in connection with the ongoing arrangements described above.

## MANAGEMENT OF THE TRUST

### Trustees and Officers

The Trust is governed by a Board of Trustees which is responsible for protecting the interests of shareholders. The Trustees are responsible for the overall management of the Fund, including general supervision and review of the Fund's investment activities. The Trustees appoint the officers of the Fund who are responsible for administering the Fund's day-to-day operations. The Trustees are experienced businesspersons who meet throughout the year to oversee the Trust's activities, review contractual arrangements with companies that provide services to the Fund, and review the Fund's performance. The Board consists of five individuals, four of whom are not "interested persons" of the Trust as that term is defined in the 1940 Act (the "Independent Trustees"). The names and business addresses of the Trustees and officers of the Trust, together with information as to their principal occupations during the past five years, are listed below.

| Name, Address and Age  | Position(s)<br>Held with the<br>Trust | Term of<br>Office and<br>Length of<br>Time<br>Served | Principal Occupations During<br>Past Five Years   | # of<br>Portfolios in<br>Fund<br>Complex<br>Overseen<br>by Trustee | Other Directorships<br>Held by Trustee |
|--|---------------------------------------|--|---|--|--|
| <b>Independent Trustees</b>  |                                       |  |   |  |  |
| Robert J. Dickson<br>c/o Fort Pitt Capital<br>Group, Inc.<br>680 Andersen Drive<br>Foster Plaza Ten<br>Pittsburgh, PA 15220<br>Age: 60             | Trustee                               | Indefinite<br>Term; Since<br>December<br>2001        | Private Investor. Managing<br>Director of Dickson Consulting,<br>Chief Financial Officer and<br>Senior Vice President of Cardiac<br>Assist, Inc. (medical device<br>company).   | 1  | None                                   |
| Ronald V. Pellegrini,<br>M.D.<br>c/o Fort Pitt Capital<br>Group, Inc.<br>680 Andersen Drive<br>Foster Plaza Ten<br>Pittsburgh, PA 15220<br>Age: 73 | Trustee                               | Indefinite<br>Term; Since<br>December<br>2001        | Chief of Adult Cardiothoracic<br>Surgery, UPMC – Passavant<br>Hospital.   | 1  | None                                   |
| Bradley J. Franc<br>c/o Fort Pitt Capital<br>Group, Inc.<br>680 Andersen Drive<br>Foster Plaza Ten<br>Pittsburgh, PA 15220<br>Age: 51              | Trustee                               | Indefinite<br>Term; Since<br>August 2008             | President and Director, Houston<br>Harbaugh, P.C. (law firm).   | 1  | None                                   |
| Donald F. Smith, Jr.<br>c/o Fort Pitt Capital<br>Group, Inc.<br>680 Andersen Drive<br>Foster Plaza Ten<br>Pittsburgh, PA 15220<br>Age: 45          | Trustee                               | Indefinite<br>Term; Since<br>August 2008             | President of the Regional<br>Industrial Development Corp.<br>(regional economic development<br>not-for-profit organization<br>specializing in real estate) (2009-<br>Present); Founder and Director of<br>the University Partnership of<br>Pittsburgh (2002-2009)<br>(economic development joint<br>venture). | 1  | None                                   |

| <b>Name, Address and Age</b>  | <b>Position(s)<br/>Held with the<br/>Trust</b> | <b>Term of<br/>Office and<br/>Length of<br/>Time<br/>Served</b> | <b>Principal Occupations During<br/>Past Five Years</b>      | <b># of<br/>Portfolios in<br/>Fund<br/>Complex<br/>Overseen<br/>by Trustee</b> | <b>Other Directorships<br/>Held by Trustee</b> |
|---|--|---|--|--|--|
| <b>Interested Trustees and Officers</b>   |  |   |  |  |  |
| Douglas W. Kreps, CFA <sup>(1)</sup><br>Fort Pitt Capital<br>Group, Inc.<br>680 Andersen Drive<br>Foster Plaza Ten<br>Pittsburgh, PA 15220<br>Age: 41 | Trustee  | Indefinite<br>Term; Since<br>December<br>2001                   | Managing Director of Fort Pitt<br>Capital Group, Inc.        | 1  | None   |
|   | Chairman &<br>President                        | Indefinite<br>Term; Since<br>February<br>2006                   |  |  |  |
| Charles A. Smith<br>Fort Pitt Capital<br>Group, Inc.<br>680 Andersen Drive<br>Foster Plaza Ten<br>Pittsburgh, PA 15220<br>Age: 49                     | Treasurer                                      | Indefinite<br>Term; Since<br>December<br>2001                   | Chief Investment Officer of Fort<br>Pitt Capital Group, Inc. | N/A  | N/A  |
| Robin M. Miller<br>Fort Pitt Capital<br>Group, Inc.<br>680 Andersen Drive<br>Foster Plaza Ten<br>Pittsburgh, PA 15220<br>Age: 44                      | Chief<br>Compliance<br>Officer                 | Indefinite<br>Term; Since<br>September<br>2004                  | Chief Compliance Officer of Fort<br>Pitt Capital Group, Inc. | N/A  | N/A  |
|   | Secretary                                      | Indefinite<br>Term; Since<br>February<br>2006                   |  |  |  |

<sup>(1)</sup> This Trustee is deemed to be an “interested person” of the Trust as defined by the 1940 Act because of his relationship to the Fund’s investment advisor.

### **Board Committees**

The Board of Trustees has a standing Nominating Committee consisting of Robert J. Dickson, Bradley J. Franc, Ronald V. Pellegrini, M.D. and Donald F. Smith, Jr., all of whom are Independent Trustees. The Nominating Committee is responsible for the selection and nomination for appointment of candidates to serve as Trustees of the Trust. The Nominating Committee will review shareholders’ nominations to fill vacancies on the Board if these nominations are submitted in writing and addressed to the Nominating Committee at the Trust’s offices. However, the Nominating Committee anticipates that it will be able to identify a list of qualified candidates from its own resources. The Nominating Committee did not meet during the last fiscal year ended October 31, 2009.

The Board of Trustees has a standing Audit Committee consisting of Robert J. Dickson, Bradley J. Franc, Ronald V. Pellegrini, M.D. and Donald F. Smith, Jr., all of whom are Independent Trustees. The Audit Committee reviews the maintenance of the Trust’s records and the safekeeping arrangements of the Trust’s custodian, reviews the audit and non-audit work of the Trust’s independent auditors, and submits a recommendation to the full Board as to the selection of the independent auditors. The Audit Committee met twice during the last fiscal year ended October 31, 2009. The Audit Committee also serves as the Qualified Legal Compliance Committee.

The Valuation Committee is responsible for (1) monitoring the valuation of Fund securities and other investments; and (2) as required, when the full Board is not in session, determining the fair value of illiquid and other holdings after consideration of all relevant factors, which determinations are reported to the full Board. The Valuation Committee meets as necessary when a price is not readily available. The Valuation Committee did not meet during the fiscal year ended October 31, 2009. Mr. Dickson and Mr. Kreps comprise the Valuation Committee; Mr. Kreps is an Interested Trustee.

### Trustee Ownership of Fund Shares

Listed below for each of the officers and Trustees of the Trust is a dollar range of securities beneficially owned in the Fund as of December 31, 2009:

| <u>Amount Invested Key</u> |
|----------------------------|
| A. NONE                    |
| B. \$1-\$10,000            |
| C. \$10,001-\$50,000       |
| D. \$50,001-\$100,000      |
| E. over \$100,000          |

| <u>Name</u>                 | <u>Dollar Range of Fund Shares Owned</u>   |   |
|-----------------------------|--|---|
|                             | <u>Fort Pitt Capital Total Return Fund</u> | <u>Aggregate Dollar Range of Equity Securities in all Registered Investment Companies Overseen by Trustee in Family of Investment Companies</u> |
| <b>Independent Trustees</b> |  |   |
| Robert J. Dickson           | A  | A   |
| Bradley J. Franc            | A  | A   |
| Ronald V. Pellegrini, M.D.  | E  | E   |
| Donald F. Smith, Jr.        | A  | A   |
| <b>Interested Trustee</b>   |  |   |
| Douglas W. Kreps            | E  | E   |

### Compensation

For their service as Trustees of the Trust, the Independent Trustees receive \$1,000 per quarterly meeting and \$2,000 per annual meeting, as well as reimbursement for expenses incurred in connection with attendance at such meetings. The “interested persons” who serve as Trustees of the Trust receive no compensation for their service as Trustees. These compensation amounts will remain in place until changed by the Board of Trustees with specific approval by the majority of Independent Trustees. Neither the Trust nor the Fund maintains any deferred compensation, pension or retirement plans, and no pension or retirement benefits are accrued as Trust or Fund expenses. The Board of Trustees held four meetings during the fiscal year ended October 31, 2009. The members of the Trust’s Board of Trustees received the following compensation for the past fiscal year ended October 31, 2009:

| Name of Person/Position                    | Aggregate Compensation From the Fund <sup>(1)</sup> | Pension or Retirement Benefits Accrued as Part of Fund Expenses | Estimated Annual Benefits Upon Retirement | Total Compensation from Fund and Fund Complex <sup>(2)</sup> Paid to Trustees |
|--|---|---|---|---|
| <b>Interested Trustee</b>                  |   |   |   |   |
| Douglas W. Kreps<br>Chairman and President | None  | None  | None                                      | None  |
| <b>Independent Trustees</b>                |   |   |   |   |
| Robert J. Dickson                          | \$5,000   | None  | None                                      | \$5,000   |
| Bradley J. Franc                           | \$5,000   | None  | None                                      | \$5,000   |
| Ronald V. Pellegrini, M.D.                 | \$5,000   | None  | None                                      | \$5,000   |
| Donald F. Smith, Jr.                       | \$5,000   | None  | None                                      | \$5,000   |

<sup>(1)</sup> These figures represent payments from the Fund for the fiscal year ended October 31, 2009.

<sup>(2)</sup> The "Fund Complex" includes only the Fund.

### Control Persons and Principal Holders of Securities

A principal shareholder is any person who owns of record or beneficially 5% or more of the outstanding shares of the Fund. A control person is one who owns beneficially or through controlled companies more than 25% of the voting securities of a company or acknowledges the existence of control. Shareholders with a controlling interest could affect the outcome of proxy voting or the direction of management of the Fund. As of January 31, 2010, the following shareholder owned of record or beneficially more than 5% of the Fund's outstanding shares.

| Name and Address  | % Ownership | Type of Ownership |
|---|-------------|-------------------|
| Charles Schwab & Co., Inc.<br>For the benefit of its customers<br>101 Montgomery Street<br>San Francisco, CA 94104-4151 | 73.11%      | Record            |

### Management Ownership

As of January 31, 2010, the Officers and Trustees of the Trust, as a group, owned of record or beneficially 4.47% of the outstanding shares of the Fund.

### Independent Trustee Interest in the Investment Advisor, Principal Underwriter or Affiliates

As of December 31, 2009, neither the Independent Trustees nor members of their immediate families owned securities beneficially or of record in the Fund's investment advisor, principal underwriter or any affiliate of the investment advisor or principal underwriter. Accordingly, neither the Independent Trustees nor members of their immediate families have any direct or indirect interest, the value of which exceeds \$120,000, in the Fund's investment advisor, principal underwriter or any of their affiliates. Furthermore, during the two (2) most recently completed calendar years, neither the Independent Trustees nor members of their immediate families have conducted any transactions (or series of transactions) in which the amount involved exceeds \$120,000 and to which the Fund's investment advisor, principal underwriter or any affiliate thereof were a party.

## INVESTMENT ADVISOR AND ADVISORY AGREEMENT

The Advisor’s principal offices are located at 680 Andersen Drive, Foster Plaza Ten, Pittsburgh, PA 15220. The Advisor is registered as an investment advisor under the Investment Advisers Act of 1940, as amended. The Advisor is an independent, privately-owned firm, of which Douglas W. Kreps and Charles A. Smith, each a portfolio manager of the Fund, own an interest. None of the shareholders of the Advisor own a “controlling” interest in the firm, as that term is defined in the 1940 Act.

The Advisor serves as investment advisor to the Fund pursuant to an Investment Advisory Agreement with the Trust dated as of May 17, 2004 (the “Advisory Agreement”), and was re-approved at a Board of Trustees meeting of the Trust on December 3, 2009. The Advisor, subject to the supervision of the Trustees, provides a continuous investment program for the Fund, including investment research and management with respect to securities, investments and cash equivalents, in accordance with the Fund’s investment goal, policies and restrictions as set forth in its prospectus, this SAI and the resolutions of the Trustees. The Advisor is responsible for effecting all security transactions on behalf of the Fund, including the allocation of principal business and portfolio brokerage and the negotiation of commissions. The Advisor also maintains books and records with respect to the securities transactions of the Fund and furnishes to the Trustees such periodic or other reports as the Trustees may request. To protect the Fund, the Advisor and its officers, directors and employees are covered by fidelity insurance. The Advisor pays all expenses incurred by it in connection with its activities except the cost of securities (including brokerage commissions, if any) purchased for the Fund. The services furnished by the Advisor are not exclusive, and the Advisor is free to perform similar services for others.

Under the Advisory Agreement, the Advisor is entitled to receive a monthly investment advisory fee from the Fund. The Advisor’s fee schedule provides that the Fund will pay the Advisor 1.00% on assets of up to \$100 million, 0.90% on assets between \$100 million and \$1 billion, and 0.80% on assets over \$1 billion. The fee is computed at the close of business on the last business day of each month in accordance with the Advisory Agreement. The Advisor has contractually agreed to waive its advisory fee or assume as its own expense certain expenses otherwise payable by the Fund (“Expense Waiver and Assumption Agreement”) to the extent necessary to ensure that net operating expenses of the Fund (excluding acquired fund fees and expenses) do not exceed 1.24% of the Fund’s average daily net assets. To the extent that the Advisor waives fees or makes payments to limit Fund expenses, the Advisor may seek to recoup such waived fees or expense payments after this practice is discontinued. The Expense Waiver and Assumption Agreement’s current one-year term expires on May 17, 2011 and will automatically renew for another year (through May 17, 2012) unless the Trust or Advisor gives the other at least thirty days prior notice. The advisory fees accrued for the Fund for the three most recent three fiscal years ended October 31 are shown below.

|                               | <u>2009</u>      | <u>2008</u>      | <u>2007</u>      |
|-------------------------------|------------------|------------------|------------------|
| Total Advisory Fees Accrued   | \$279,610        | \$412,231        | \$475,007        |
| Fees Waived/Expenses Absorbed | <u>\$273,165</u> | <u>\$266,244</u> | <u>\$149,386</u> |
| Net Fees paid to Advisor      | <u>\$6,445</u>   | <u>\$145,987</u> | <u>\$325,621</u> |

Under the terms of the Expense Waiver and Assumption Agreement, the Advisor may recapture a portion of the advisory fees waived/expenses absorbed no later than the dates shown below:

| October 31, |             |             |
|-------------|-------------|-------------|
| <u>2010</u> | <u>2011</u> | <u>2012</u> |
| \$149,386   | \$266,244   | \$273,165   |

Unless sooner terminated in accordance with its terms, the Advisory Agreement is initially effective for a period of two years and may be continued from year to year, provided that such continuance is approved at least annually by a vote of the holders of a “majority” (as defined in the 1940 Act) of the outstanding voting securities of the Fund, or by the Trustees, and in either event by vote of a majority of the Independent Trustees, cast in person at a meeting called for the purpose of voting on such approval.

## PORTFOLIO MANAGERS

The Advisor serves as investment advisor to the Fund. Charles A. Smith and Douglas W. Kreps serve as lead portfolio manager and portfolio manager of the Fund, respectively. The portfolio managers are responsible for the day-to-day management of the Fund and accounts other than the Fund. Information regarding the other accounts managed by Messrs. Smith and Kreps, including the number of accounts, the total assets in those accounts, and the categorization of the accounts as of October 31, 2009, is set forth below.

| Portfolio Manager<br>Other Accounts | Total Accounts |                         | Accounts with Performance Based Fees |        |
|-------------------------------------|----------------|-------------------------|--------------------------------------|--------|
|                                     | Number         | Assets<br>(in millions) | Number                               | Assets |
| Charles A. Smith                    |                |                         |                                      |        |
| Registered Investment Companies     | 1              | \$32                    | 0                                    | \$0    |
| Other Pooled Investment Vehicles    | 0              | \$0                     | 0                                    | \$0    |
| Other Accounts                      | 1,304          | \$380                   | 0                                    | \$0    |
| Douglas W. Kreps                    |                |                         |                                      |        |
| Registered Investment Companies     | 1              | \$32                    | 0                                    | \$0    |
| Other Pooled Investment Vehicles    | 0              | \$0                     | 0                                    | \$0    |
| Other Accounts                      | 881            | \$529.8                 | 0                                    | \$0    |

The Advisor has not identified any material conflicts between the Fund and other accounts managed by the firm. However, actual or apparent conflicts may arise in connection with the day-to-day management of the Fund and other accounts. The management of the Fund and other accounts may result in unequal time and attention being devoted to the Fund and other accounts. The Advisor's management fees for the services it provides to other accounts may be higher or lower than the advisory fees it receives from the Fund. Also, the management of other accounts may require the Advisor to buy more stock than is available on the market. This may reduce the amount of shares allocated to the Fund. The firm uses a modified random allocation procedure to reduce the possibility that the Fund or another account may receive favorable treatment. Last, the Fund and the other accounts may have different objectives, which could result in the purchase of a security in one account concurrent with a sale in another account.

As of October 31, 2009, each portfolio manager receives a base salary to manage both the Fund and other separate accounts. The base salary is fixed on an annual basis by the Board of Directors of the Advisor, and is in line with current industry averages. If the Advisor is profitable at year end, then the directors of the Advisor may choose to make a profit sharing contribution as additional compensation. Due to their significant ownership stakes in the Advisor, the remainder of the portfolio managers' compensation consists of Subchapter S dividends paid out by the Advisor. It is the Advisor's belief that this arrangement encourages each portfolio manager to focus on consistent, long-term results for the Fund. The portfolio managers' compensation is not based on the performance of the Fund or any other separate account they manage, nor is such compensation based on the value of assets in the Fund or any other separate account they manage.

Messrs. Smith and Kreps may participate in a standard 401(k) retirement plan that is available to all other employees of the Advisor after completion of six months of service. The Advisor's retirement plan is run under the ERISA safe harbor provisions, whereby the Advisor contributes 3% of salary for all employees. The Advisor may make additional matching and profit sharing contributions based on the profitability of the firm.

Set forth below are the dollar ranges of Fund shares beneficially owned by each portfolio manager as of October 31, 2009, using the following ranges: None, \$1-\$10,000, \$10,001- \$50,000, \$50,001-\$100,000, \$100,001-\$500,000, \$500,001-\$1,000,000, or Over \$1,000,000:

| <b><u>Portfolio Manager</u></b> | <b><u>Dollar Range of Shares of the Fund</u></b> |
|---------------------------------|--|
| Charles A. Smith                | Over \$1,000,000                                 |
| Douglas W. Kreps                | \$100,001 - \$500,000                            |

## **CODE OF ETHICS**

The Fund, the Advisor and the Fund's principal underwriter have each adopted a Code of Ethics under Rule 17j-1 of the 1940 Act that governs the conduct of employees of the Fund, the Advisor, and the Fund's principal underwriter who may have access to information about the Fund's securities transactions. The Code of Ethics recognizes that such persons owe a fiduciary duty to the Fund's shareholders and must place the interests of shareholders ahead of their own interests. Under the Code of Ethics, persons who are designated as access persons may engage in personal securities transactions, including transactions involving securities that may be purchased or sold by a Fund, subject to certain general restrictions. Among other things, the Code of Ethics requires the pre-clearance of personal securities transactions; certain blackout periods for personal trading of securities which may be considered for purchase or sale by the Fund or other clients of the Advisor; and contains prohibitions against personal trading in initial public offerings. Violations of the Code of Ethics are subject to review by the Trustees and could result in severe penalties.

In order to comply with applicable securities laws, the Advisor and the Fund maintain a list of restricted securities. This list will include those stocks which the Advisor is in the process of buying or selling for the Fund. Persons subject to the Code of Ethics will not trade in securities on the restricted list. The Advisor and Fund also maintain a list of "watch list" securities. This list includes core portfolio holdings as well as securities which are actively being researched for purchase.

## **PROXY VOTING POLICIES**

The Board has adopted proxy voting policies and procedures ("Policies") on behalf of the Fund that delegate the responsibility for voting proxies to the Advisor, subject to the Board's continuing oversight. The Policies require that the Advisor vote proxies received in a manner consistent with the best interests of the Fund and its shareholders. The Advisor has adopted proxy voting policies and procedures and understands its obligations to ensure that the proxies are voted in the best interests of its clients. The Policies also require the Advisor to present to the Board, at least annually, its proxy voting guidelines used pursuant to the Policies, including a report on the resolution of all proxies identified by the Advisor as involving a conflict of interest and any material deviations from the guidelines. It is the policy of the Advisor to consider the guidelines when voting Fund proxies, though all proxy issues are considered on their own merits and voting decisions may take into account particular circumstances of the issuer. Matters not covered by the Advisor's guidelines are referred to the Fund's Board of Trustees for consideration. The Advisor has also established a Proxy Committee responsible for maintaining the Policies, including the Advisor's proxy voting guidelines.

Certain of the Advisor's proxy voting guidelines are summarized below:

- In the area of individual securities management, mergers, acquisitions, divestitures and the like, the Advisor will judge each proposal on its merits keeping in mind the best interest of Fund shareholders, however, the Advisor generally votes for proposals that enhance shareholder rights and against proposals that tend to limit shareholder rights;
- With respect to corporate takeover defenses and related actions, the Advisor generally votes in favor of proposals that enhance the shareholders' bargaining position;

- With respect to changes in compensation plans, because the Advisor recognizes that companies need to provide competitive compensation, it will generally vote for proposals that provide incentive-based compensation and against proposals that do not;
- Regarding changes in corporate structure and capitalization, the Advisor generally supports actions that enable companies to gain better access to capital markets, but will generally vote against proposals that appear to entrench management and that do not provide economic value to shareholders.

Although many proxy proposals can be voted in accordance with the guidelines established by the Proxy Committee, some proposals will require special consideration, and the Advisor will make a decision on a case-by-case basis in these situations.

### **Conflicts of Interest**

In the event that a proposal raises a material conflict of interest between the Advisor and the Fund, the Advisor will consult the Board of Trustees of the Fund and will abide by their recommendation with respect to the proposal, which may include, among other things; following the Board's voting recommendation, abstaining, or following the recommendation of an independent third party.

### **More Information**

The actual voting records relating to portfolio securities held by the Fund during the most recent 12-month period ended June 30 will be available without charge, upon request by calling toll-free, 866-688-8775 or by accessing the SEC's website at [www.sec.gov](http://www.sec.gov). In addition, a copy of the Fund's proxy voting policies and procedures are also available by at 866-688-8775 and will be sent within three (3) business days of receipt of a request.

### **ANTI-MONEY LAUNDERING PROGRAM**

The Fund has established an Anti-Money Laundering Compliance Program (the "Program") as required by the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("USA PATRIOT Act"). To ensure compliance with this law, the Fund's Program provides for the development of internal practices, procedures and controls, designation of anti-money laundering compliance officers, an ongoing training program and an independent audit function to determine the effectiveness of the Program.

Procedures to implement the Program include, but are not limited to, determining that the Fund's Distributor and transfer agent have established proper anti-money laundering procedures, reporting suspicious and/or fraudulent activity and a complete and thorough review of all new opening account applications. The Fund will not transact business with any person or entity whose identity cannot be adequately verified under the provisions of the USA PATRIOT Act.

### **SERVICE AGREEMENTS**

As more fully described below, the Trust has entered into a number of agreements with U.S. Bancorp Fund Services, LLC ("USBFS") a Wisconsin limited liability company, pursuant to which management-related and other services are performed for the Fund. USBFS serves as the Administrator, Transfer and Dividend Disbursing Agent, and Fund Accountant. U.S. Bank, N.A. serves as the Fund's Custodian. The principal office of USBFS is located at 615 East Michigan Street, Milwaukee, Wisconsin 53202 and the principal office of U.S. Bank, N.A. is located at 1555 N. River Center Drive, Suite 302, Milwaukee, WI 53212. USBFS, U.S. Bank, N.A., and Quasar Distributors, LLC are affiliated entities.

The Fund is also subject to certain financial intermediary service agreements. Each such agreement permits the intermediary to perform certain administrative services for which the Trust pays the

intermediary a fee out of Fund assets. However, to the degree an intermediary's services are deemed to be related to distribution of Fund shares, the Fund's Advisor pays for such services pursuant to a fee allocation which the Trust's Board of Trustees approves.

### **Administrator**

Pursuant to a Fund Administration Servicing Agreement with the Trust (the "Administration Agreement"), USBFS serves as Administrator of the Fund and subject to the direction and control of the Trustees, supervises all aspects of the operation of the Fund except those performed by the Fund's Advisor. Under the Administration Agreement, USBFS provides certain administrative services and facilities for the Fund. These services include preparing and maintaining books, records, tax and financial reports, and monitoring compliance with state and federal regulatory requirements. The Fund paid USBFS the following fees for administrative services received during the three most recent fiscal years ended October 31:

|                          | 2009     | 2008     | 2007     |
|--------------------------|----------|----------|----------|
| Administration Fees Paid | \$46,498 | \$46,433 | \$41,997 |

### **Fund Accounting**

Pursuant to an Accounting Agreement with the Trust (the "Accounting Agreement"), USBFS is responsible for accounting relating to the Fund and its investment transactions; maintaining certain books and records of the Fund; determining daily the net asset values per share of the Fund and calculating yield, dividends and capital gain distributions; and preparing security position, transaction and cash position reports.

Under the Accounting Agreement, USBFS maintains portfolio trading records and records of brokerage activity in order to provide monthly brokerage reports that identify brokers and set forth commission amounts. USBFS also monitors periodic distributions of gains or losses on portfolio sales and maintains a daily listing of portfolio holdings. USBFS is responsible for expenses accrued and payment reporting services. USBFS provides tax accounting services and tax-related financial information to the Trust. USBFS also monitors compliance with the regulatory requirements relating to maintaining accounting records.

### **Transfer Agent**

Pursuant to a Transfer Agency Agreement with the Trust, USBFS also acts as the Trust's transfer, dividend disbursing and redemption agent. USBFS provides certain shareholder and other services to the Trust, including: furnishing account and transaction information; providing mailing labels for the distribution to the Fund's shareholders of financial reports, prospectuses, proxy statements and other such materials; providing compliance reporting; calculating distribution plan and marketing expenses; and maintaining shareholder account records.

USBFS is responsible for processing orders for Fund shares and ensuring appropriate participation with the National Securities Clearing Corporation for transactions with Fund shares. If so requested by the Trust, USBFS will produce shareholder lists and reports for proxy solicitations. USBFS receives and processes redemption requests and administers distribution of redemption proceeds. USBFS also handles shareholder inquiries and provides routine account information. In addition, USBFS prepares and files appropriate tax related information concerning dividends and distributions to shareholders.

Additionally, the Trust has certain financial intermediary service agreements, under which the intermediary performs administrative sub-transfer agency services related to Fund shares which the intermediary sells.

## **Custodian**

Pursuant to a Custodian Servicing Agreement with the Trust, U.S. Bank, N.A. (the “Custodian”) acts as the custodian of the Trust’s securities and cash. Portfolio securities purchased in the U.S. are maintained in the custody of the Custodian and may be entered into the Federal Reserve Book Entry System of the security depository system of the Depository Trust Corporation. The Custodian maintains a separate account in the name of the Fund. The Custodian is responsible for holding and making payments of all cash received for the account of the Fund.

From the account, the Custodian may make payments for the purchase of securities, payment of interest, taxes, fees and other operating expenses. The Custodian is authorized to endorse and collect checks, drafts or other orders for payment. The Custodian is also responsible for the release or delivery of portfolio securities. Additionally, the Custodian monitors compliance with the regulatory requirements of the Treasury Department, Internal Revenue Service and the laws of the states. The Custodian is compensated on the basis of an annual fee based on market value of assets of the Fund and on fees for certain transactions.

## **Distributor**

Quasar Distributors, LLC (the “Distributor”), located at 615 East Michigan Street, Milwaukee, Wisconsin, 53202, serves as the principal underwriter and national distributor for the shares of the Fund pursuant to a distribution agreement with the Trust (the “Distribution Agreement”). The Distributor is registered as a broker-dealer under the Securities Exchange Act of 1934 and each state’s securities laws and is a member of the Financial Industry Regulatory Authority (“FINRA”). The offering of the Fund’s shares is continuous.

The Distribution Agreement provides that the Distributor, as agent in connection with the distribution of Fund shares, will use appropriate efforts to solicit orders for the sale of Fund shares and undertake such advertising and promotion as it deems reasonable, including, but not limited to, advertising, compensation to underwriters, dealers and sales personnel, printing and mailing prospectuses to persons other than current Fund shareholders, and printing and mailing sales literature.

Quasar is also the distributor for the First American Funds. Quasar is entitled to receive a fee from the First American Funds for distribution services at the annual rate of 0.25% of the average daily net assets value of the shares in connection with these exchanges.

## **Distribution Plan**

The Board of Trustees has adopted (but has not yet implemented), and the Fund’s shareholders have approved, a distribution plan pursuant to Rule 12b-1 under the 1940 Act (the “Distribution Plan”). If the Distribution Plan is implemented, the Fund will be authorized to use the assets of the Fund to reimburse the Advisor, the Distributor or others for expenses incurred by such parties in the promotion and distribution of the shares of the Fund. If implemented, the Distribution Plan will authorize the use of distribution fees to pay expenses including, but not limited to, printing prospectuses and reports used for sales purposes, preparing advertising and sales literature, and other distribution-related expenses. The maximum amount payable under the Distribution Plan is 0.25% of the Fund’s average daily net assets on an annual basis. Because these fees would be paid out of the Fund’s assets on an ongoing basis, over time these fees would increase the cost of your investment.

FINRA’s maximum sales charge rule relating to mutual fund shares establishes limits on all types of sales charges, whether front-end, deferred or asset-based. This rule limits the aggregate distribution fees to which shareholders might be subject under the terms of the Distribution Plan.

The Distribution Plan was re-approved with an expiration date of December 31, 2010, by a majority of the Board of Trustees at a meeting which took place on December 3, 2009, and may be extended annually thereafter by the approval of a majority of the Fund’s Board of Trustees, including a

majority of the Independent Trustees. As adopted, the Fund does not intend to implement the Distribution Plan or authorize any payments under the Distribution Plan until the Fund has sufficient operating history to warrant such implementation or authorization.

Neither a distribution plan nor any related agreements can take effect until approved by a majority vote of both all the Trustees and the Independent Trustees who have no direct or indirect financial interest in the operation of the plan or in any agreements related to the plan, cast in person at a meeting called for the purpose of voting on the distribution plan and the related agreements.

The Distribution Plan requires that any person authorized to direct the disposition of monies paid or payable by the Fund pursuant to the Distribution Plan or any related agreement prepare and furnish to the Trustees for their review, at least quarterly, written reports complying with the requirements of Rule 12b-1 under the 1940 Act and setting out the amounts expended under the Distribution Plan and the purposes for which those expenditures were made. The Distribution Plan provides that so long as it is in effect the selection and nomination of the Independent Trustees will be committed to the discretion of the Independent Trustees then in office.

Once implemented, the Distribution Plan will continue in effect only so long as its continuance is specifically approved at least annually by the Trustees in the manner described above for Trustee approval of the Distribution Plan. The Distribution Plan may be terminated at any time by a majority vote of the Independent Trustees who have no direct or indirect financial interest in the operations of the Distribution Plan or in any agreement related to the Distribution Plan or by vote of a majority of the outstanding voting securities of the Fund.

The Distribution Plan may not be amended so as to materially increase the amount of the distribution fees for the Fund unless the amendment is approved by a vote of at least a majority of the outstanding voting securities of the Fund. In addition, no material amendment may be made unless approved by the Trustees in the manner described above for Trustee approval of the Distribution Plan.

#### **Independent Registered Public Accounting Firm**

Tait, Weller & Baker LLP, audits the Trust's annual financial statements included in the Fund's Annual Report to Shareholders and reviews the Trust's tax returns and registration statement filed with the SEC. Tait, Weller & Baker LLP, is located at 1818 Market Street, Suite 2400, Philadelphia, PA 19103.

#### **PORTFOLIO TRANSACTIONS AND TURNOVER**

The Fund's portfolio securities transactions are placed by the Advisor. The goal of the Fund is to obtain the best available prices in its portfolio transactions, taking into account the costs, promptness of executions and other qualitative considerations. There is no pre-existing commitment to place orders with any broker, dealer or member of an exchange. The Advisor evaluates a wide range of criteria in seeking the most favorable price and market for the execution of transactions, including the broker's commission rate, execution capability, positioning and distribution capabilities, information in regard to the availability of securities, trading patterns, statistical or factual information, opinions pertaining to trading strategy, back office efficiency, ability to handle difficult trades, financial stability, and prior performance in servicing the Advisor and its clients. In transactions on equity securities and U.S. government securities executed in the over-the-counter market, purchases and sales are transacted directly with principal market-makers except in those circumstances where, in the opinion of the Advisor, better prices and executions are available elsewhere.

The Advisor, when effecting purchases and sales of portfolio securities for the account of the Fund, will seek execution of trades either (i) at the most favorable and competitive rate of commission charged by any broker, dealer or member of an exchange; or (ii) at a higher rate of commission charges, if reasonable, in relation to brokerage and research services provided to the Fund or the Advisor by such member, broker, or dealer. Such services may include, but are not limited to, any one or more of the

following: information as to the availability of securities for purchase or sale, statistical or factual information, or opinions pertaining to investments. The Advisor may use research and services provided by brokers and dealers in servicing all its clients, including the Fund, and not all such services will be used by the Advisor in connection with the Fund. In accordance with the provisions of Section 28(e) of the Securities Exchange Act of 1934, the Advisor may from time to time receive services and products which serve both research and non-research functions. In such event, the Advisor makes a good faith determination of the anticipated research and non-research use of the product or service and allocates brokerage only with respect to the research component. The execution of a transaction for any portfolio by a broker or dealer is permitted only if the selection of that broker or dealer is not influenced by considerations about the sale of Fund shares. The Fund paid the following in brokerage commissions for the three prior fiscal years ended October 31:

|                     |             |             |             |
|---------------------|-------------|-------------|-------------|
|                     | <u>2009</u> | <u>2008</u> | <u>2007</u> |
| Brokerage Fees Paid | \$1,662     | \$9,350     | \$4,930     |

The Advisor provides investment advisory services to individuals and other institutional clients, including corporate pension plans, profit-sharing and other employee benefit trusts, and other investment pools. There may be occasions on which other investment advisory clients advised by the Advisor may also invest in the same securities as the Fund. When these clients buy or sell the same securities at substantially the same time, the Advisor may average the transactions as to price and allocate the amount of available investments in a manner which is believed to be equitable to each client, including the Fund. On the other hand, to the extent permitted by law, the Advisor may aggregate the securities to be sold or purchased for the Fund with those to be sold or purchased for other clients managed by it in order to obtain lower brokerage commissions, if any.

The SEC requires the Fund to provide certain information regarding securities held of its regular brokers or dealers (or their parents) during the Fund's most recent fiscal year. The following table identifies those brokers or dealers, the type of security and the value of the Fund's aggregate holdings of the securities of each such issuer as of the fiscal year ended October 31, 2009:

| <u>Broker-Dealer</u> | <u>Aggregate Value</u> |
|----------------------|------------------------|
| Charles Schwab Corp. | \$693,600              |

For the fiscal years ended October 31, 2009, 2008 and 2007, the Fund paid an affiliate of the Distributor brokerage commissions of \$1,377, \$8,185 and \$4,574, respectively, on transactions involving the payment of commissions having a total market value of \$6,510,043, \$72,136,332 and \$48,082,501, respectively. Of the brokerage commissions paid by the Fund for the fiscal years ended October 31, 2009, 2008 and 2007, 82.85%, 87.54% and 92.78%, respectively, were paid to an affiliate of the Distributor in connection with transactions involving securities having a market value equal to 55.35%, 86.60% and 78.28%, respectively, of the total market value of securities on which the Fund paid commissions.

The Fund does not engage in frequent trading and turnover tactics for short-term gains, however, the Advisor will effect portfolio transactions without regard to holding period if, in its judgment, such transactions are advisable in light of a change in circumstances of a particular company or within a particular industry or in general market, economic or financial conditions. While the Fund anticipates that its annual portfolio turnover rate should not exceed 30% under normal conditions, it is impossible to predict portfolio turnover rates. The portfolio turnover rate is calculated by dividing the lesser of the Fund's annual sales or purchases of portfolio securities (exclusive of purchases or sales of securities whose maturities at the time of acquisition were one year or less) by the monthly average value of the securities in the portfolio during the year. The portfolio turnover rates for the two past fiscal years ended October 31 were as follows:

|                         |             |             |
|-------------------------|-------------|-------------|
|                         | <u>2009</u> | <u>2008</u> |
| Portfolio Turnover Rate | 8%          | 14%         |

## **SHARES OF BENEFICIAL INTEREST**

The Trust is a series statutory trust that currently offers one series of shares. The beneficial interest of the Trust is divided into an unlimited number of shares, with a par value of \$0.001 each. Each share has equal dividend, voting, liquidation and redemption rights. There are no conversion or preemptive rights. Shares, when issued, will be fully paid and nonassessable. Fractional shares have proportional voting rights. Shares of the Fund do not have cumulative voting rights, which means that the holders of more than 50% of the shares voting for the election of trustees can elect all of the Trustees if they choose to do so and, in such event, the holders of the remaining shares will not be able to elect any person to the Board of Trustees. Shares will be maintained in open accounts on the books of the transfer agent, and certificates for shares will generally not be issued. The Fund does not intend to hold annual shareholder meetings. The Fund, however, may hold special meetings for matters requiring shareholder approval.

If they deem it advisable and in the best interests of shareholders, the Trustees may create additional series of shares, each of which represents interests in a separate portfolio of investments and is subject to separate liabilities, and may create multiple classes of shares of such series, which may differ from each other as to expenses and dividends. If additional series or classes of shares are created, shares of each series or class are entitled to vote as a series or class only to the extent required by the 1940 Act or as permitted by the Trustees. Upon the Trust's liquidation, all shareholders of a series would share pro-rata in the net assets of such series available for distribution to shareholders of the series, but, as shareholders of such series, would not be entitled to share in the distribution of assets belonging to any other series.

## **DIVIDENDS**

A shareholder will automatically receive all income dividends and capital gain distributions in additional full and fractional shares of the Fund at their net asset value as of the date of payment unless the shareholder elects to receive such dividends or distributions in cash. Shareholders will receive a confirmation of each new transaction in their account. The Trust will confirm all account activity, including the payment of dividend and capital gain distributions and transactions made as a result of a Systematic Withdrawal Plan or an Automatic Investment Plan. Shareholders may rely on these statements in lieu of stock certificates. Stock certificates representing shares of the Fund will not be issued.

## **ADDITIONAL INFORMATION ON DISTRIBUTIONS AND TAXES**

*Distributions of Net Investment Income.* The Fund receives income generally in the form of dividends and interest on its investments. This income, less expenses incurred in the operation of the Fund, constitute its net investment income from which dividends may be paid to you. If you are a taxable investor, any distributions by the Fund from such income will be taxable to you as ordinary income, whether you take them in cash or in additional shares.

*Distributions of Capital Gains.* The Fund may derive capital gains and losses in connection with sales or other dispositions of its portfolio securities. Distributions derived from the excess of net short-term capital gain over net long-term capital loss will be taxable to you as ordinary income. Distributions paid from long-term capital gains realized by the Fund will be taxable to you as long-term capital gain, regardless of how long you have held your shares in the Fund. Any net short-term or long-term capital gains realized by the Fund (net of any capital loss carryovers) generally will be distributed once each year, and may be distributed more frequently, if necessary, in order to reduce or eliminate federal excise or income taxes on the Fund.

*Effect of Foreign Withholding Taxes.* The Fund may be subject to foreign withholding taxes on income from certain foreign securities. This, in turn, could reduce the Fund's income dividends paid to you. If more than 50% of the Fund's total assets at the end of a fiscal year is invested in foreign securities, the Fund may elect to pass through to you your pro rata share of foreign taxes paid by the Fund. If this

election is made, the Fund may report more taxable income to you than it actually distributes. You will then be entitled either to deduct your share of these taxes in computing your taxable income, or to claim a foreign tax credit for these taxes against your U.S. federal income tax (subject to limitations for certain shareholders). The Fund will provide you with the information necessary to complete your personal income tax return if it makes this election.

*Effect of Foreign Investments on Distributions.* Most foreign exchange gains realized on the sale of debt securities are treated as ordinary income by the Fund. Similarly, foreign exchange losses realized by the Fund on the sale of debt securities are generally treated as ordinary losses by the Fund. These gains when distributed will be taxable to you as ordinary dividends, and any losses will reduce the Fund's ordinary income otherwise available for distribution to you. This treatment could increase or reduce the Fund's ordinary income distributions to you, and may cause some or all of the Fund's previously distributed income to be classified as a return of capital. A return of capital generally is not taxable to you upon distribution; however, it is taxable as a capital gain upon redemption of your Fund shares.

*PFIC securities.* The Fund may invest in securities of foreign entities that could be deemed for tax purposes to be passive foreign investment companies ("PFICs"). When investing in PFIC securities, the Fund intends to mark-to-market these securities and recognize any gains at the end of its fiscal and excise (described below) tax years. Deductions for losses are allowable only to the extent of any current or previously recognized gains. These gains (reduced by allowable losses) are treated as ordinary income that the Fund is required to distribute, even though it has not sold the securities.

*Information on the Tax Character of Distributions.* The Fund will inform you of the amount and character of your distributions at the time they are paid, and will advise you of the tax status for federal income tax purposes of such distributions shortly after the close of each calendar year. If you have not held Fund shares for a full year, the Fund may designate and distribute to you as ordinary income or capital gain a percentage of income that is not equal to the actual amount of such income earned during the period of your investment in the Fund.

*Election to be Taxed as a Regulated Investment Company ("RIC").* The Fund intends to be treated as a RIC under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"), and intends to so qualify during the current fiscal year. As a RIC, the Fund generally pays no federal income tax on the income and gains it distributes to you. The Board reserves the right not to maintain the qualification of the Fund as a RIC if it determines such course of action to be beneficial to you. In such a case, the Fund will be subject to federal, and possibly state, corporate taxes on its taxable income and gains, and distributions to you will be taxed as ordinary dividend income to the extent of the Fund's earnings and profits.

*Excise Tax Distribution Requirements.* The Code requires the Fund to distribute at least 98% of its taxable ordinary income earned during the calendar year and 98% of its capital gain net income earned during the twelve month period ending October 31 (in addition to 100% of undistributed amounts from the prior year) to you by December 31 of each year in order to avoid federal excise taxes. The Fund intends to declare and pay sufficient dividends in December (or in January in which case you must treat them as received in December) but does not guarantee and can give no assurances that its distributions will be sufficient to eliminate all such taxes.

*Redemption of Fund Shares.* Redemptions including redemptions in-kind and exchanges of Fund shares are taxable transactions for federal and state income tax purposes that could cause you to recognize a taxable gain or loss. If you redeem your fund shares or exchange them for shares of the First American Prime Obligations Fund, you are required to report any gain or loss. If you hold your shares as a capital asset, any gain or loss that you realize will be capital gain or loss and will be short-term or long-term, generally depending on how long you have owned your shares. Any loss incurred on the redemption or exchange of shares held for six (6) months or less will be treated as a long-term capital loss to the extent of any long-term capital gains distributed to you by the Fund on those shares. All or a portion of any loss that you realize upon the redemption of your Fund shares will be disallowed to the extent that you purchase other shares in the Fund (through reinvestment of dividends or otherwise) within thirty (30) days before or

after your redemption or exchange. Any loss disallowed under these rules will be added to your tax basis in the new shares you purchase.

*U.S. Government Obligations.* Most states grant tax-free status to dividends paid to you from interest earned on direct obligations of the U.S. government, subject in some states to minimum investment or reporting requirements that must be met by the fund. Investments in GNMA or FNMA securities, bankers' acceptances, commercial paper and repurchase agreements collateralized by U.S. government securities do not generally qualify for tax-free treatment. The rules on exclusion of this income are different for corporations.

*Dividends-Received Deduction for Corporations.* Dividends paid by the Fund will generally qualify for the 70% dividends-received deduction for corporations, but the portion of the dividends so qualifies depends on the aggregate taxable qualifying dividend income received by such Fund from domestic (U.S.) sources. The dividends received deduction will be available only with respect to dividends designated by the Fund as eligible for such treatment. Additionally, if requested, the Fund will send to any such corporate shareholders a statement each year advising them of the amount designated by the Fund as eligible for such treatment. All dividends (including the deducted portion) must be included in your alternative minimum taxable income calculation.

*Qualified Dividend Income Distribution for Individual Shareholders.* As a result of recent federal tax legislation, a portion of the dividends paid by the Fund may be taxable to non-corporate shareholders at long-term capital gain rates, which are significantly lower than the highest rate that applies to ordinary income. If the qualifying dividend income received by the Fund is equal to 95% (or a greater percentage) of the Fund's gross income (exclusive of net capital gain) in any taxable year, all of the ordinary income dividends paid by a Fund will be qualifying dividend income. The Fund will advise you of the tax status of distributions shortly after the close of each calendar year.

*Investment in Complex Securities.* The Fund may invest in complex securities that could require it to adjust the amount, timing and/or tax character (ordinary or capital) of gains and losses it recognizes on these investments. This, in turn, could affect the amount, timing and/or tax character of income distributed to you by the Fund. For example, if the Fund is permitted to invest in options or futures contracts, it could be required to mark-to-market these contracts at its fiscal year end. Under these rules, gains or losses on these contracts would be treated as 60% long-term and 40% short-term capital gains or losses.

*Capital loss carryforwards.* As of October 31, 2009, the Fund had capital losses which may be carried forward to offset future capital gains as shown below:

|                             |             |
|-----------------------------|-------------|
| Capital Losses Expiring in: |             |
| 2016                        | \$ 185,355  |
| 2017                        | \$2,279,269 |

## FINANCIAL STATEMENTS

The audited financial statements of the Fund for the fiscal year ended October 31, 2009 and the report of the Fund's Independent Registered Public Accounting Firm in connection therewith, are included in the Fund's 2009 Annual Report to Shareholders, as filed with the SEC on January 6, 2010, which are incorporated by reference into this SAI. A copy of the Annual Report to Shareholders may be obtained from the Fund upon request and without charge.

## APPENDIX

### Standard & Poor's® (“S&P®”) Corporate Bond Rating Definitions

**AAA**-Debt rated “AAA” has the highest rating assigned by S&P®. Capacity to pay interest and repay principal is extremely strong.

**AA**-Debt rated “AA” has a very strong capacity to pay interest and repay principal and differs from the higher-rated issues only in small degree.

**A**-Debt rated “A” has a strong capacity to pay interest and repay principal, although it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher-rated categories.

**BBB**-Debt rated “BBB” is regarded as having an adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than in higher-rated categories.

**BB, B, CCC, CC**-Debt rated “BB”, “B”, “CCC”, and “CC” is regarded, on balance, as predominantly speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation. “BB” indicates the lowest degree of speculation and “CC” the highest degree of speculation. While such debt will likely have some quality and protective characteristics, these are outweighed by large uncertainties of major risk exposures to adverse conditions.

**CI**-The rating “CI” is reversed for income bonds on which no interest is being paid.

**D**-Debt rated “D” is in default, and payment of interest and/or repayment of principal is in arrears.

### Moody's Investors Services®, Inc. Corporate Bond Rating Definitions

**Aaa**-Bonds which are rated “Aaa” are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as “gilt edged.” Interest payments are protected by a large or an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

**Aa**-Bonds which are rated “Aa” are judged to be of high quality by all standards. Together with the Aaa group, they comprise what are generally known as high-grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present that make the long-term risks appear somewhat larger than in Aaa securities.

**A**-Bonds which are rated “A” possess many favorable investment attributes and are to be considered as upper medium-grade obligations. Factors giving security to principal and interest are considered adequate but elements may be present which suggest a susceptibility to impairment sometime in the near future.

**Baa**-Bonds which are rated “Baa” are considered as medium-grade obligations (*i.e.*, they are neither highly protected nor poorly secured). Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and, in fact, have speculative characteristics as well.

**Ba**-Bonds which are “Ba” are judged to have speculative elements; their future cannot be considered well assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

**B**-Bonds which are rated “B” generally lack characteristics of a desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

**Caa**-Bonds which are rated “Caa” are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

**Ca**-Bonds which are “Ca” represent obligations which are speculative in a high degree. Such issues are often in default or have other marked shortcomings.

**C**-Bonds which are rated “C” are the lowest rated class of bonds, and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

#### **Fitch Investors Service, Inc. Bond Rating Definitions**

**AAA**-Bonds considered to be investment grade and of the highest credit quality. The obligor has an exceptionally strong ability to pay interest and repay principal, which is unlikely to be affected by reasonably foreseeable events.

**AA**-Bonds considered to be investment grade and of very high credit quality. The obligor’s ability to pay interest and repay principal is very strong, although not quite as strong as bonds rated “AAA.” Because bonds rated in the “AAA” and “AA” categories are not significantly vulnerable to foreseeable future developments, short-term debt of these issuers is generally rated “F-1+.”

**A**-Bonds considered to be investment grade and of high credit quality. The obligor’s ability to pay interest and repay principal is considered strong, but may be more vulnerable to adverse changes in economic conditions and circumstances than bonds with higher ratings.

**BBB**-Bonds considered to be investment grade and of satisfactory credit quality. The obligor’s ability to pay interest and repay principal is considered to be adequate. Adverse changes in economic conditions and circumstances, however, are more likely to have adverse impact on these bonds, and therefore impair timely payment. The likelihood that the ratings of these bonds will fall below investment grade is higher than for bonds with higher ratings.

**BB**-Bonds are considered speculative. The obligor’s ability to pay interest and repay principal may be affected over time by adverse economic changes. However, business and financial alternatives can be identified which could assist the obligor in satisfying its debt service requirements.

**B**-Bonds are considered highly speculative. While bonds in this class are currently meeting debt service requirements, the probability of continued timely payment of principal and interest reflects the obligor’s limited margin of safety and the need for reasonable business and economic activity throughout the life of the issue.

**CCC**-Bonds have certain identifiable characteristics which, if not remedied, may lead to default. The ability to meet obligations requires an advantageous business and economic environment.

**CC**-Bonds are minimally protected. Default in payment of interest and/or principal seems probable over time.

**C**-Bonds are in imminent default in payment of interest or principal.

**DDD, DD, and D**-Bonds are in default on interest and/or principal payments. Such bonds are extremely speculative and should be valued on the basis of their ultimate recovery value in liquidation or reorganization of the obligor. “DDD” represents the highest potential for recovery on these bonds, and “D” represents the lowest potential for recovery.