

**AMERICAN PENSION INVESTORS TRUST  
("API FUNDS")**

2303 Yorktown Avenue  
Lynchburg, Virginia 24501  
(434) 846-1361  
(800) 544-6060

**STATEMENT OF ADDITIONAL INFORMATION**

May 31, 2016

This Statement of Additional Information ("SAI") sets forth information regarding Class A, Class L and Institutional Class Shares only the following series of API Funds (the "Trust"):

API Growth Fund (formerly API Efficient Frontier Growth Fund), (the "Growth Fund"),  
API Capital Income Fund (formerly API Efficient Frontier Capital Income Fund), (the "Capital Income Fund"),  
API Short Term Bond Fund (formerly API Efficient Frontier Core Income Fund), (the "Short Term Bond Fund"),  
API Multi-Asset Income Fund (formerly API Efficient Frontier Income Fund), (the "Income Fund"),  
API Efficient Frontier Value Fund ("Value Fund"), and  
API Master Allocation Fund (the "Master Allocation Fund")

(each a "Fund" and collectively, the "Funds").

This SAI is not a prospectus. It should be read in conjunction with the current Class A, Class L and Institutional Class Shares prospectus of the Funds, dated May 31, 2016, as supplemented or revised from time to time. Yorktown Management & Research Company, Inc. (the "Adviser") is the investment adviser and administrator of each Fund and Unified Financial Securities, Inc. (the "Distributor") is the distributor of each Fund. This SAI and the prospectus to which it relates apply only to Class A, L and Institutional shares of the Funds. API Funds offer different Classes of Shares and additional Funds via additional Statements of additional information and prospectuses.

This SAI is incorporated by reference into the Funds' Class A, L and Institutional Class prospectus. In other words, this SAI is legally part of each of the Funds' Class A, L and Institutional Class prospectus. Although this SAI is not a prospectus, it contains information in addition to that set forth in the prospectus. It is intended to provide additional information regarding the activities and operations of the Funds.

You may obtain, without charge, the current prospectuses, SAI, annual report, and semi-annual report of the Funds by contacting the Trust at:

API Funds  
2303 Yorktown Avenue  
Lynchburg, VA 24501  
(800) 544-6060

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## GENERAL

The Trust was organized as a Massachusetts business trust in January 1985 under the name American Pension Investors Trust, and it is registered with the U.S. Securities and Exchange Commission (the “SEC”) under the Investment Company Act of 1940, as amended (the “1940 Act”) as an open-end management investment company.

Each Fund is a separate investment portfolio, or series, of the Trust. Each Fund currently offers four classes of shares. This SAI relates only to the Share Classes described below:

**Class A Shares** have a maximum front-end sales charge of 5.75%, and except for three Funds, no distribution (i.e., 12b-1) fee or deferred sales charge.

**Institutional Class Shares** have no sales charges, no deferred sales charges and no distribution (i.e., 12b-1) fees. However, Institutional Class shares are offered only through investment advisers and consultants, other select investment professionals, and directly through the Distributor. The minimum initial investment in Institutional Class shares is \$1 million. Subsequent investments must be at least \$100,000. The Distributor may grant exceptions to the minimums.

**Class L Shares** have no sales charges and no deferred sales charges, but do charge an ongoing distribution (i.e., 12b-1) fee at a maximum annual rate of 1%.

Each class of shares is substantially the same, as they all represent interests in the same portfolio of securities and differ only to the extent that they bear different sales charges and expenses.

The Trust is authorized to issue an unlimited number of shares of beneficial interest without par value of separate series and separate classes. Shares of each Fund, when issued, are fully paid, non-assessable, fully transferable, redeemable at the option of the shareholder and have equal dividend and liquidation rights and non-cumulative voting rights. Shareholders are entitled to one vote for each full share held, and a proportionate fractional vote for each fractional share held, and will vote in the aggregate, and not by series or class, except as otherwise expressly required by law or when the Board determines that the matter to be voted on affects the interest of shareholders of a particular series or class.

The investment objective of a Fund may not be changed without the affirmative vote of a majority of the Fund’s “outstanding voting securities,” as defined in the 1940 Act. Certain other investment restrictions that apply to a Fund may not be changed without shareholder approval, as indicated below. All other investment policies and restrictions, unless otherwise indicated, may be changed by the Board without shareholder approval. The following information supplements the discussion of each Fund’s investment objective and policies found in the applicable prospectus.

Whenever an investment policy or restriction states a maximum percentage of a Fund’s assets that may be invested in any security or other asset or sets forth a policy regarding quality standards, that percentage shall be determined, or that standard shall be applied, immediately after the Fund’s acquisition of the security or other asset. Accordingly, any later increase or decrease resulting from a change in the market value of a security or in the Fund’s net or total assets will not cause the Fund to violate a percentage limitation, except for those relating to borrowing or illiquid securities. Similarly, any later change in quality, such as a rating downgrade or the delisting of a warrant, will not cause the Fund to violate a quality standard.

## FUNDAMENTAL INVESTMENT RESTRICTIONS

The following investment restrictions are fundamental and, like the Funds’ investment objectives, may not be changed with respect to a Fund without the affirmative vote of the lesser of (1) more than 50% of the outstanding

shares of a Fund or (2) 67% or more of the shares of a Fund present at a shareholders' meeting if more than 50% of the outstanding shares of a Fund are represented at the meeting in person or by proxy.

### **All Funds**

A Fund will not as a matter of fundamental policy:

1. Purchase any security if, as a result of such purchase, more than 5% of the value of the Fund's total assets would be invested in the securities of a single issuer or the Fund would own or hold more than 10% of the outstanding voting securities of that issuer, except that up to 25% of the value of the Fund's total assets (50% of the Value Fund's total assets) may be invested without regard to this limitation and provided that this limitation does not apply to securities issued or guaranteed by the U.S. government or its agencies or instrumentalities ("U.S. Government securities") or to securities issued by other open-end investment companies;
2. Purchase any security if, as a result of such purchase, 25% or more of the value of the Fund's total assets would be invested in the securities of issuers having their principal business activities in the same industry; provided, however, that (a) the Short Term Bond Fund will invest at least 25% of its total assets in securities issued by other open-end investment companies, and (b) this limitation does not apply to U.S. government securities;
3. Purchase or sell real estate (including, with respect to the Value Fund, real estate limited partnerships); except that the Growth Fund and the Capital Income Fund may invest in the securities of companies whose business involves the purchase or sale of real estate;
4. Purchase or sell commodities or commodity contracts including futures contracts, except that all Funds other than the Growth Fund and the Capital Income Fund may purchase or sell interest rate, stock index and foreign currency futures contracts and options thereon, may engage in transactions in foreign currencies and may purchase or sell options on foreign currencies for hedging purposes; or
5. Make loans, except when (a) purchasing a portion of an issue of debt securities; (b) engaging in repurchase agreements; or (c) engaging in securities loan transactions limited to one-third of the Fund's total assets (5% of the Fund's total assets with respect to the Growth Fund and the Capital Income Fund).

For purposes of Item 2, above, relating to industry concentration, the Funds do not treat investments in securities of other investment companies as subject to the industry concentration restrictions.

### **Growth Fund and Capital Income Fund**

The following additional fundamental investment restrictions apply only to the Growth Fund and the Capital Income Fund. Neither Fund may:

1. Purchase any security if, as a result of such purchase, more than 5% of the value of the Fund's total assets would be invested in the securities of issuers which at the time of purchase had been in operation for less than three years, except U.S. Government securities or securities issued by open-end investment companies and index securities (for this purpose, the period of operation of any issuer shall include the period of operation of any predecessor issuer or unconditional guarantor of such issuer);
2. Purchase participations or other direct interests in oil, gas or other mineral exploration or development programs;
3. Make short sales of securities or purchase securities on margin, except for such short-term credits as may be necessary for the clearance of purchases of portfolio securities;
4. Borrow money, except as a temporary measure for extraordinary or emergency purposes, and then only from banks in amounts not exceeding the lesser of 10% of the Fund's total assets (valued at cost) or 5% of its total assets (valued at market) and, in any event, only if immediately thereafter there is asset coverage of at least 300%;

5. Invest in puts, calls, straddles, spreads or any combinations thereof, except that a Fund may write covered call options as described below;
6. Mortgage, pledge or hypothecate securities, except in connection with the borrowings permitted under restriction (4) above and then only where the market value of the securities mortgaged, pledged or hypothecated does not exceed 15% of the Fund's assets (valued at cost), or 10% of its net assets (valued at market);
7. Underwrite securities issued by other persons;
8. Invest in issuers for the purpose of exercising management or control;
9. Purchase or retain the securities of any issuer if, to the knowledge of the Trust's management, the officers or Trustees of the Trust and the officers and directors of the Adviser who each own beneficially more than 0.50% of the outstanding securities of such issuer together own beneficially more than 5% of such securities;
10. Issue securities or other obligations senior to the Fund's shares of beneficial interest;
11. Purchase any securities that would cause more than 2% of the value of the Fund's total assets at the time of such purchase to be invested in warrants that are not listed on the New York Stock or American Stock Exchanges, or more than 5% of the value of its total assets to be invested in warrants whether or not so listed, such warrants in each case to be valued at the lesser of cost or market, but assigning no value to warrants acquired by the Fund in units with or attached to debt securities; or
12. Purchase any security if, as a result of such purchase, more than 10% of the value of the Fund's total assets would be invested in illiquid securities (including repurchase agreements and time deposits maturing in more than seven days) or foreign securities which are not publicly traded in the United States.

#### **Short Term Bond Fund and Income Fund**

The following additional fundamental investment restrictions apply only to the Short Term Bond Fund and the Income Fund. Neither Fund may:

1. Borrow money, (a) from a bank in an amount not in excess of one-third of the Fund's net assets or, (b) by engaging in reverse repurchase agreements;
2. Underwrite securities issued by other persons, except to the extent that, in connection with the disposition of portfolio securities, the Fund may be deemed an underwriter under federal securities laws; or
3. Issue senior securities, provided that the Fund's use of options, futures contracts and options thereon and currency-related contracts will not be deemed senior securities for this purpose, and further provided that the Fund will not be deemed to have issued senior securities under circumstances that are specifically exempted from such classification by the 1940 Act.

For purposes of item 1 above, the 1940 Act permits a fund to borrow money from any bank provided that immediately after any such borrowing there is an asset coverage of at least 300 percent for all borrowings, and provided further that in the event such asset coverage should fall below 300 percent, the fund will, within three days thereafter, reduce the amount of borrowings so that the asset coverage is at least 300 percent.

#### **Value Fund**

The following additional fundamental investment restrictions apply only to the Value Fund. The Value Fund may not:

1. Borrow money, except (a) from a bank in an amount not in excess of one-third of the Fund's net assets or, (b) by engaging in reverse repurchase agreements;
2. Underwrite securities issued by other persons, except to the extent that, in connection with the disposition of portfolio securities, the Fund may be deemed an underwriter under federal securities laws; or

3. Issue senior securities, except as permitted by the 1940 Act and provided that the Fund's use of options, futures contracts and options thereon and currency-related contracts will not be deemed senior securities for this purpose.

### **Master Allocation Fund**

The following fundamental investment restrictions apply to the Master Allocation Fund

The Fund may not:

1. Purchase any securities which would cause 25% or more of the total net assets of the Fund to be invested in the securities of one or more issuers conducting their principal business activities in the same industry, provided that this limitation does not apply to investments in obligations issued or guaranteed by the U.S. government, its agencies or instrumentalities and repurchase agreements involving such securities. Further, securities issued by investment companies shall not be deemed as an industry. For purposes of this limitation, (i) utility companies will be classified according to their services, for example, gas distribution, gas transmission, electric and telephone will each be considered a separate industry; and (ii) financial service companies will be classified according to the end users of their services, for example, automobile finance, bank finance and diversified finance will each be considered a separate industry.
2. Concentrate investments in a particular industry or group of industries, as concentration is defined under the 1940 Act (currently 25% of assets), the rules and regulations thereunder or any exemption therefrom, as such statute, rules or regulations may be amended or interpreted from time to time, provided, however, that securities issued by investment companies shall not be deemed an industry.
3. Borrow money in an amount exceeding 33 1/3% of the value of its total net assets, provided that, for purposes of this limitation, investment strategies that either obligate the Fund to purchase securities or require the Fund to segregate assets are not considered to be borrowing. Asset coverage of at least 300% is required for all borrowing, except where the Fund has borrowed money for temporary purposes in an amount not exceeding 5% of its total net assets.
4. Make loans if, as a result, more than 33 1/3% of its total net assets would be lent to other parties, except that the Fund may (i) purchase or hold debt instruments in accordance with its investment objective and policies; (ii) enter into repurchase agreements; and (iii) lend its securities.
5. Purchase or sell real estate, real estate limited partnership interests, physical commodities or commodities contracts except that the Fund may purchase (i) marketable securities issued by companies which own or invest in real estate (including real estate investment trusts), commodities or commodities contracts; and (ii) commodities contracts relating to financial instruments, such as financial futures contracts and options on such contracts.
6. Underwrite securities issued by other persons, except to the extent that, in connection with the disposition of portfolio securities, the Fund may be deemed an underwriter under federal securities laws .
7. Issue senior securities, except as permitted by the 1940 Act and provided that the Fund's use of options, futures contracts and options thereon and currency-related contracts will not be deemed senior securities for this purpose.

### **NON-FUNDAMENTAL INVESTMENT RESTRICTIONS**

The following investment limitations may be changed for any Fund by the vote of the Board and without shareholder approval.

#### **All Funds**

No Fund may purchase or otherwise acquire the securities of any investment company (except in connection with a merger, consolidation or acquisition of substantially all of the assets or reorganization of another investment

company) if, as a result, the Fund and all of its affiliates would own more than 3% of the total outstanding stock of that company, except as provided under “Investments in Other Investment Companies” in the prospectus.

In addition, the open-end and closed-end investment companies and, for all Funds except the Short Term Bond Fund, unit investment trusts, in which a Fund invests (the “underlying funds”) may, but need not, have the same investment objective, policies or limitations as the Fund. Although the Funds may, from time to time, invest in shares of the same underlying fund, the percentage of each Fund’s assets so invested may vary, and the Adviser will determine whether such investments are consistent with the investment objective and policies of each particular Fund.

### **Short Term Bond Fund and Income Fund**

The Short Term Bond Fund and the Income Fund may not:

1. Invest more than 15% of its net assets in illiquid securities, a term that means securities that cannot be disposed of within seven days in the ordinary course of business at approximately the amount at which the Fund has valued the securities and includes, among other things, repurchase agreements maturing in more than seven days;
2. Make short sales of securities or purchase securities on margin, except (a) for such short-term credits as may be necessary for the clearance of the purchases of portfolio securities and (b) in connection with the Fund’s use of options, futures contracts and options on future contracts; or
3. Borrow money, except from banks for temporary purposes and for reverse repurchase agreements, and then in an aggregate amount not in excess of 10% of the Fund’s total assets, provided the Fund may not purchase securities while borrowings in excess of 5% of the Fund’s total assets are outstanding.

### **Value Fund**

The Value Fund may not:

1. Invest more than 15% of its net assets in illiquid securities, a term which means securities that cannot be disposed of within seven days in the ordinary course of business at approximately the amount at which the Fund has valued the securities and includes, among other things, repurchase agreements maturing in more than seven days; or 2. Make short sales of securities or purchase securities on margin, except (a) for such short-term credits as may be necessary for the clearance of the purchases of portfolio securities, (b) in connection with the Fund’s use of options, futures contracts and options on future contracts and (c) the Fund may sell short “against the box.”

### **Master Allocation Fund**

The following non-fundamental investment restrictions apply to the Master Allocation Fund

The Fund may not:

- 1 Hold illiquid securities in an amount exceeding, in the aggregate, 15% of the Fund’s net assets.

Except with respect to Fund policies concerning borrowing and illiquid securities, if a percentage restriction is adhered to at the time of an investment, a later increase or decrease in percentage resulting from changes in values or assets will not constitute a violation of such restriction. With respect to the limitation on illiquid securities, in the event that a subsequent change in net assets or other circumstances cause the Fund to exceed its limitation, the Fund will take steps to bring the aggregate amount of illiquid instruments back within the limitations as soon as reasonably practicable. With respect to the limitation on borrowing, in the event that a subsequent change in net assets or other circumstances cause the Fund to exceed its limitation, the Fund will take steps to bring the aggregate amount of borrowing back within the limitations as soon as reasonably practicable.

## INVESTMENT POLICIES AND RISKS

The following supplements the information contained in the prospectuses concerning the Funds' investment policies and risks.

### Short Term Bond Fund, Income Fund and Value Fund

**Reverse Repurchase Agreements.** The Short Term Bond Fund, Income Fund and Value Fund may each enter into reverse repurchase agreements with banks and broker-dealers up to an aggregate value of not more than 10% of its total assets. Such agreements involve the sale of securities held by a Fund subject to the Fund's agreement to repurchase the securities at an agreed-upon date and price reflecting a market rate of interest. Such agreements are considered to be borrowings and may be entered into only for temporary or emergency purposes. While a reverse repurchase agreement is outstanding, a Fund will maintain with its custodian in a segregated account cash, U.S. Government securities or other liquid securities, marked to market daily, in an amount at least equal to the Fund's obligations under the reverse repurchase agreement.

### Value Fund and Master Allocation Fund

**Non-Diversified Status.** The Value Fund and the Master Allocation Fund are each considered to be "non-diversified," as that term is defined in the 1940 Act, but each intends to continue to qualify as a regulated investment company for federal income tax purposes (a "RIC"). This means, in general, that more than 5% of the value of a Fund's total assets may be invested in securities of any one issuer, but only if, at the close of each fiscal quarter of a Fund's taxable year, the aggregate amount of such holdings does not exceed 50% of the value of the Fund's total assets and no more than 25% of the value of its total assets is invested in the securities of a single issuer. A Fund's portfolio normally will include the securities of a smaller number of issuers than if it were "diversified" (as defined in the 1940 Act). Accordingly, a Fund will be subject to greater risk with respect to its portfolio securities than an investment company that invests in a broader range and number of securities, in that changes in the financial condition or market assessment of a single issuer may cause greater fluctuation in the Fund's total return and the price of the Fund's shares.

### Master Allocation Fund

**Reverse Repurchase Agreements.** The Fund may enter into reverse repurchase agreements with banks and broker-dealers up to an aggregate value of not more than 10% of its total assets. Such agreements involve the sale of securities held by the Fund subject to the Fund's agreement to repurchase the securities at an agreed-upon date and price reflecting a market rate of interest. Such agreements are considered to be borrowings and may be entered into only for temporary or emergency purposes. While a reverse repurchase agreement is outstanding, the Fund will maintain with its custodian in a segregated account cash, U.S. Government securities or other liquid securities, marked to market daily, in an amount at least equal to the Fund's obligations under the reverse repurchase agreement.

### All Funds

**Repurchase Agreements.** Each Fund may invest in repurchase agreements with U.S. banks and dealers secured by U.S. Government securities. A repurchase agreement is a transaction in which a Fund purchases a security from a bank or recognized securities dealer and simultaneously commits to resell that security to the bank or dealer at an agreed-upon date and price reflecting a market rate of interest unrelated to the coupon rate or maturity of the purchased security. The Fund maintains custody of the underlying security prior to its repurchase; thus, the obligation of the bank or securities dealer to pay the repurchase price on the date agreed to is, in effect, secured by such security. If the value of such security is less than the repurchase price, the other party to the agreement shall provide additional collateral so that at all times the collateral is at least equal to the repurchase price.



Although repurchase agreements carry certain risks not associated with direct investments in securities, the Short Term Bond Fund and Income Fund intend to enter into repurchase agreements only with banks and dealers believed by the Adviser to present minimum credit risks in accordance with guidelines established by the Board. The Adviser will review and monitor the creditworthiness of such institutions under the Board's general supervision. To the extent that the proceeds from any sale of collateral upon a default in the obligation to repurchase were less than the repurchase price, the Fund would suffer a loss. If the other party to the repurchase agreement petitions for bankruptcy or otherwise becomes subject to bankruptcy or other liquidation proceedings, there might be restrictions on the Fund's ability to sell the collateral and the Fund could suffer a loss.

**Bank Obligations.** Each Fund may invest in instruments (including certificates of deposit and bankers' acceptances) of U.S. banks and savings associations that are insured by the Federal Deposit Insurance Corporation. A certificate of deposit is an interest-bearing negotiable certificate issued by a bank against funds deposited in the bank. A bankers' acceptance is a short-term draft drawn on a commercial bank by a borrower, usually in connection with an international commercial transaction. Although the borrower is liable for payment of the draft, the bank unconditionally guarantees to pay the draft at its face value on the maturity date. To the extent a Fund invests more than \$100,000 in a single bank or savings and loan association, the investment is not protected by federal insurance. The underlying funds may invest in similar instruments.

**Commercial Paper.** Each Fund may invest in commercial paper. Commercial paper represents short-term unsecured promissory notes issued in bearer form by bank holding companies, corporations and finance companies. The commercial paper purchased by the Funds consists of direct obligations of domestic issuers that, at the time of investment, are (i) rated "Prime-1" by Moody's Investors Service, Inc. ("Moody's") or "A-1" by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P"), (ii) issued or guaranteed as to principal and interest by issuers or guarantors having an existing debt security rating of "Aa" or better by Moody's or "AA" or better by S&P or (iii) securities that, if not rated, are, in the opinion of the Adviser, of an investment quality comparable to rated commercial paper in which the Funds may invest. See Appendix B to this SAI for more information on ratings assigned to commercial paper. The underlying funds may invest in similar instruments.

**Illiquid Securities.** Each Fund may invest in illiquid securities either directly or indirectly through underlying funds. A Fund or an underlying open-end fund may invest in securities for which no readily available market exists ("illiquid securities") or securities the disposition of which would be subject to legal restrictions (so-called "restricted securities") and repurchase agreements maturing in more than seven days. An underlying closed-end fund may invest without limit in such securities. A considerable period may elapse between a decision to sell such securities and the time when such securities can be sold. If, during such a period, adverse market conditions were to develop, a Fund or an underlying fund might obtain a less favorable price than prevailed when it decided to sell.

**Short Sales.** Each Fund may invest in underlying funds that sell securities short. In a short sale, the underlying fund sells securities that it does not own, making delivery with securities "borrowed" from a broker. The underlying fund is then obligated to replace the borrowed securities by purchasing them at the market price at the time of replacement. This price may or may not be less than the price at which the securities were sold by the underlying fund. Until the securities are replaced, the underlying fund is required to pay to the lender any dividends or interest that accrue during the period of the loan. In order to borrow the securities, the underlying fund may also have to pay a premium that would increase the cost of the securities sold. The proceeds of the short sale will be retained by the broker, to the extent necessary to meet margin requirements, until the short position is closed out.

An underlying fund also must deposit in a segregated account an amount of cash or U.S. government securities equal to the difference between (a) the market value of the securities sold short at the time they were sold short and (b) the value of the collateral deposited with the broker in connection with the sale (not including the proceeds from the short sale). Each day the short position is open, the underlying fund must maintain the

segregated account at such a level that the amount deposited in it plus the amount deposited with the broker as collateral (1) equals the current market value of the securities sold short and (2) is not less than the market value of the securities at the time they were sold short. Depending upon market conditions, up to 80% of the value of an underlying fund's net assets may be deposited as collateral for the obligation to replace securities borrowed to effect short sales and allocated to a segregated account in connection with short sales.

An underlying fund will incur a loss as a result of a short sale if the price of the security increases between the date of the short sale and the date on which the fund replaces the borrowed security. A short sale of a security involves the risk of a theoretically unlimited increase in the market price of the security, which could result in an underlying fund's inability to cover the short position or a theoretically unlimited loss for the underlying fund. The underlying fund will realize a gain if the security declines in price between those dates. The amount of any gain will be decreased and the amount of any loss increased by the amount of any premium, dividends or interest the fund may be required to pay in connection with the short sale.

In addition, the Value Fund and certain underlying funds may engage in short sales "against the box." A short sale is "against the box" if at all times when the short position is open the Fund or underlying fund owns an equal amount of the securities or securities convertible into, or exchangeable without further consideration for, securities of the same issue as the securities sold short. The Value Fund will not engage in short sales involving securities it does not own or have the right to acquire.

**Lending of Portfolio Securities.** Each Fund may lend a portion of its portfolio securities constituting up to 5% (25% in the case of the Value Fund) of its net assets to brokers, dealers, banks or other institutional investors, provided that (1) the loan is secured by cash or equivalent collateral equal to at least 100% of the current market value of the loaned securities and maintained with the Fund's custodian while portfolio securities are on loan and (2) the borrower pays the Fund an amount equivalent to any dividends or interest received on such securities. The Fund may pay reasonable administrative and custodial fees in connection with a loan and may pay a negotiated portion of the interest earned on the cash or equivalent collateral to the borrower or placing broker. Although a Fund does not have the right to vote securities on loan, the Fund could terminate the loan and regain the right to vote if the vote was considered important. Any underlying fund also may lend its portfolio securities pursuant to similar conditions in an amount not in excess of one-third of its total assets. Loans of securities involve a risk that the borrower may fail to return the securities or may fail to provide additional collateral. In order to minimize these risks, each Fund will make loans of securities only to firms deemed creditworthy by the Adviser and only when, in the judgment of the Adviser, the consideration that the Fund will receive from the borrower justifies the risk.

**Foreign Securities.** Each Fund may invest directly or indirectly through an investment in an underlying fund in foreign securities including common stocks, preferred stock and common stock equivalents issued by foreign companies. Investments in foreign securities involve risks relating to political and economic developments abroad as well as those that may result from the differences between the regulation to which U.S. issuers are subject and that applicable to foreign issuers. These risks may include expropriation, confiscatory taxation, withholding taxes on dividends and interest, limitations on the use or transfer of an underlying fund's assets and political or social instability or diplomatic developments. These risks often are heightened to the extent an underlying fund invests in issuers located in emerging markets or a limited number of countries.

Individual foreign economies may differ favorably or unfavorably from the U.S. economy in such respects as growth of gross national product, rate of inflation, capital reinvestment, resource self-sufficiency and balance of payments position. Securities of many foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. Moreover, the underlying funds generally calculate their net asset values and complete orders to purchase, exchange or redeem shares only on days when the New York Stock Exchange ("NYSE") is open. However, foreign securities in which the underlying funds may invest may be listed primarily on foreign stock exchanges that may trade on other days (such as U.S. holidays and weekends). As a result, the net asset value of an underlying fund's portfolio may be significantly affected by such trading on days when the Adviser does not have access to the underlying funds and shareholders do not have access to the Funds.

Additionally, because foreign securities ordinarily are denominated in currencies other than the U.S. dollar, changes in foreign currency exchange rates will affect an underlying fund's net asset value, the value of dividends and interest earned, gains and losses realized on the sale of securities and net investment income and capital gain, if any, to be distributed to shareholders by the underlying fund. If the value of a foreign currency rises against the U.S. dollar, the value of the underlying fund's assets denominated in that currency will increase; correspondingly, if the value of a foreign currency declines against the U.S. dollar, the value of the underlying fund's assets denominated in that currency will decrease. The exchange rates between the U.S. dollar and other currencies are determined by supply and demand in the currency exchange markets, international balances of payments, government intervention, speculation and other economic and political conditions. The costs attributable to foreign investing that an underlying fund must bear frequently are higher than those attributable to domestic investing. For example, the costs of maintaining custody of foreign securities exceed custodian costs related to domestic securities.

Investment income and gains realized on foreign securities in which the funds may invest may be subject to foreign withholding or other taxes that could reduce the return on these securities. Tax treaties between the United States and foreign countries, however, may reduce or eliminate the amount of foreign taxes to which the funds would be subject.

**Depository Receipts.** Each Fund may invest in foreign equity or debt securities directly or through the use of American Depositary Receipts ("ADRs"), European Depositary Receipts ("EDRs") and other similar securities convertible into securities of foreign companies. ADRs are securities, typically issued by a U.S. financial institution, that evidence ownership interests in a security or a pool of securities issued by a foreign issuer and deposited with the depository. ADRs may be sponsored or unsponsored. A sponsored ADR is issued by a depository that has an exclusive relationship with the issuer of the underlying security. An unsponsored ADR may be issued by any number of U.S. depositaries. Holders of unsponsored ADRs generally bear all the costs associated with establishing the unsponsored ADR. The depository of an unsponsored ADR is under no obligation to distribute shareholder communications received from the underlying issuer or to pass through to the holders of the unsponsored ADR voting rights with respect to the deposited securities or pool of securities. A Fund may invest in either type of ADR. EDRs are receipts typically issued by a European bank evidencing ownership of the underlying foreign securities. To the extent an ADR or EDR is issued by a bank unaffiliated with the foreign company issuer of the underlying security, the bank has no obligation to disclose material information about the foreign company issuer. Foreign fixed income securities include corporate debt obligations issued by foreign companies and debt obligations of foreign governments or international organizations. This category may include floating rate obligations, variable rate obligations and Yankee dollar obligations (U.S. dollar denominated obligations issued by foreign companies and traded on foreign markets).

**Investments in Other Investment Companies.** Each Fund may invest in shares of the same Underlying Fund. However, the Funds collectively and their affiliates together are generally restricted as to the percentage of an Underlying Fund's total outstanding voting shares they may own, unless the Underlying Fund has received an exemption from the U.S. Securities and Exchange Commission (the "SEC") permitting, under certain conditions, investment companies such as the Funds and their affiliates to acquire an Underlying Fund's voting shares in excess of such restrictions. The Trust has received an exemptive order from the SEC allowing each of its Funds to invest in Underlying Funds in excess of these limitations, subject to certain conditions and restrictions. Accordingly, to the extent that a Fund invests in Underlying Funds in excess of those limitations, the investment risk to the Fund of such investments will increase.

The underlying funds in which the Funds may invest include new funds and funds with limited operating history. Underlying funds may, but need not, have the same investment objectives, policies and limitations as the Funds. For example, although a Fund will not borrow money for investment purposes, it may invest all of its assets in underlying funds that borrow money for investment purposes (i.e., engage in the speculative activity of leveraging).

If an underlying fund submits a matter to shareholders for vote, each Fund will either vote the shares (i) in accordance with instructions received from Fund shareholders or (ii) in the same proportion as the vote of all other holders of such securities.

**Open-End Funds.** Each Fund may purchase shares of open-end funds that impose a front-end sales load (“Load Fund Shares”) and shares of open-end funds that do not impose a front-end sales load. An open-end fund is currently permitted under the rules of the Financial Industry Regulatory Authority (“FINRA”) to impose front-end sales loads as high as 8.5% of the public offering price (9.29% of the net amount invested), provided that it does not also impose an asset-based sales charge. The Adviser anticipates, however, investing substantially all of each Fund’s assets in funds that impose no front-end sales load. Where an underlying fund imposes a sales load, the Adviser, to the extent possible, seeks to reduce the front-end sales load imposed by purchasing shares pursuant to (I) letters of intent, permitting it to obtain reduced front-end sales loads by aggregating its intended purchases over time; (ii) rights of accumulation, permitting it to obtain reduced front-end sales loads as it purchases additional shares of an underlying fund; and (iii) rights to obtain reduced front-end sales loads by aggregating its purchases of several funds within a family of mutual funds. In addition to any front-end sales load imposed by an open-end fund, the open-end fund may be subject to annual distribution and service fees of up to 1.00% of the fund’s average daily net assets.

Each Fund also may purchase shares of open-end funds that impose contingent deferred sales charges (“CDSC”) or redemption fees. In the event that a Fund purchases and then redeems its investment in an underlying fund on a short-term basis, the Fund may pay a CDSC or redemption fee. To the extent that a Fund invests more than 5% of its total assets in any one underlying fund or more than 10% of its total assets in all underlying funds, the Fund will comply with Rule 12d1-3 under the 1940 Act, which imposes limitations on the aggregate amount of sales charges and service fees that may be imposed by the Fund and an underlying fund.

Although open-end fund shares are redeemable by a Fund upon demand to the issuer, under certain circumstances, an open-end fund may determine to make a payment for redemption of its shares to the Fund wholly or partly by a distribution in kind of securities from its portfolio, in lieu of cash, in conformity with the rules of the SEC. In such cases, the Fund may hold securities distributed by an open-end fund until the Adviser determines that it is appropriate to dispose of such securities. Such disposition generally will entail additional costs to the Fund.

**Closed-End Funds.** The Funds may purchase shares of closed-end funds. Shares of closed-end funds are typically offered to the public in a one-time initial public offering by a group of underwriters who retain a spread or underwriting commission of between 4% and 6% of the initial public offering price. Such securities are then listed for trading on the NYSE, the American Stock Exchange or the Nasdaq Stock Market (“Nasdaq”) or, in some cases, may be traded in other over-the-counter (“OTC”) markets. Because the shares of closed-end funds cannot be redeemed upon demand to the issuer like the shares of an open-end investment company (such as a Fund), investors seek to buy and sell shares of closed-end funds in the secondary market.

The Funds generally will purchase shares of closed-end funds only in the secondary market. Each Fund will incur normal brokerage costs on such purchases similar to the expenses the Fund would incur for the purchase of equity securities in the secondary market. The Funds may, however, also purchase securities of a closed-end fund in an initial public offering when, in the opinion of the Adviser, based on a consideration of the nature of the closed-end fund’s proposed investments, the prevailing market conditions and the level of demand for such securities, they represent an attractive opportunity for growth of capital. The initial offering price typically will include a dealer spread, which may be higher than the applicable brokerage cost if the Fund purchased such securities in the secondary market.

The shares of many closed-end funds, after their initial public offering, frequently trade at a price per share which is less than the net asset value per share, the difference representing the “market discount” of such shares. This market discount may be due in part to the investment objective of long-term appreciation, which is sought by

many closed-end funds, as well as to the fact that the shares of closed-end funds are not redeemable by the holder upon demand but rather are subject to the principles of supply and demand in the secondary market. A relative lack of secondary market purchasers of closed-end fund shares also may contribute to such shares' trading at a discount to their net asset value.

Each Fund may invest in shares of closed-end funds that are trading at a discount or a premium to net asset value. There can be no assurance that the market discount on shares of any closed-end fund purchased by a Fund will ever decrease. In fact, it is possible that this market discount may increase and the Fund may suffer realized or unrealized capital losses due to further decline in the market price of the securities of such closed-end funds, thereby adversely affecting the net asset value of the Fund's shares. Similarly, there can be no assurance that any shares of a closed-end fund purchased by a Fund at a premium will continue to trade at a premium or that the premium will not decrease subsequent to a purchase of such shares by the Fund.

A closed-end fund may issue senior securities (including preferred stock and debt obligations) or borrow money for the purpose, and with the effect, of leveraging the closed-end fund's common shares in an attempt to enhance the current return to such closed-end fund's common shareholders. A Fund's investment in the common shares of closed-end funds that are financially leveraged may create an opportunity for greater total return on its investment, but at the same time may be expected to exhibit more volatility in market price and net asset value than an investment in shares of investment companies without a leveraged capital structure. The Funds will only invest in common shares of closed-end funds and will not invest in any senior securities issued by closed-end funds.

**Business Development Companies** - Business Development Companies ("BDC's) are a specialized form of closed-end fund that invest generally in small developing companies and financially troubled businesses. BDCs are subject to the Investment Company Act of 1940 (the "1940 Act"); however, BDCs are exempt from many of the regulatory constraints imposed by the 1940 Act. The 1940 Act imposes certain restraints upon the operations of a BDC. For example, BDCs generally are required to invest at least 70% of their total assets primarily in securities of private companies or thinly traded U.S. public companies, cash, cash equivalents, U.S. government securities and high quality debt investments that mature in one year or less. BDC's invest in private companies and thinly traded securities of public companies, including debt instruments and may have concentrated portfolios. Generally, little public information exists for private and thinly traded companies and there is a risk that investors may not be able to make fully informed investment decisions. Less mature and smaller private companies involve greater risk than well-established and larger publicly- traded companies. Investing in debt involves risk that the issuer may default on its payments or declare bankruptcy. Many debt investments in which a BDC may invest will not be rated by a credit rating agency and will be below investment grade quality. These investments have predominantly speculative characteristics with respect to an issuer's capacity to make payments of interest and principal. BDCs may not generate income at all times. Additionally, limitations on asset mix and leverage may restrict the way that BDCs raise capital. Risks faced by BDCs include: competition for limited BDC investment opportunities; the liquidity of a BDC's private investments; uncertainty as to the value of a BDC's private investments; risks associated with access to capital and leverage; and reliance on the management of a BDC. A Fund's investments in BDC's are similar and include portfolio company risk, leverage risk, market and valuation risk, price volatility risk and liquidity risk.

**Index Securities and Enhanced Index Products.** Each Fund may invest in Index Securities and Enhanced Index Products. Index Securities, including exchange traded funds such as Standard & Poor's Depository Receipts™, iShares MSCI funds™, or iShares Lehman Aggregate Bond Fund™, represent interests in a portfolio of common stocks or fixed income securities designed to outperform the price and dividend yield performance of a broad-based equity or fixed income securities index, such as the Standard & Poor's 500 Composite Stock Price Index or the Lehman Brothers U.S. Aggregate Index. Index Securities are traded on an exchange like shares of common stock. The value of an Index Security fluctuates in relation to changes in the value of the underlying portfolio of securities. However, the market price of Index Securities may not be equivalent to the pro rata value of the index they track. Index Securities are subject to the risks of an investment in a broad-based portfolio of common stocks. Index Securities are considered investments in other investment companies.

Enhanced Index Products represent a portfolio of leveraged instruments, including equity index swaps, short sales, futures and options contracts, and stock indices, that engage in strategies such as short sales of securities in an effort to achieve investment results that will outperform the performance of a specific securities index or benchmark on a daily basis. Such benchmarks generally consist of a percentage return above or below that of a recognized securities index, such as 200% of the performance of the S&P 500 Index, NASDAQ 500 Index, or other such index, or 200% of the inverse (opposite) performance of such indices. If the Enhanced Index Product meets its objective, the value of its shares will tend to increase or decrease on a daily basis by 200% of the value of any increase in the underlying index, depending on whether the underlying index is based on inverse performance. When the value of the underlying index declines, the value of the Enhanced Index Fund's shares should also decrease or increase on a daily basis by a percentage of the value of any decrease in the underlying index.

Enhanced Index Products are subject to the risk that the manager may not be able to cause the Enhanced Index Product's performance to match or exceed that of the Enhanced Index Product's benchmark on a daily basis. In addition, because the Enhanced Index Product is tracking the performance of its benchmark on a daily basis, mathematical compounding may prevent the Enhanced Index Product from correlating with the monthly, quarterly, annual or other period performance of its benchmark. Tracking error may cause the Enhanced Index Product's performance to be less than expected.

To the extent that an Index Security or Enhanced Index Product is an investment company, investors in the Funds will bear not only their proportionate share of the expenses of a Fund (including operating costs and investment advisory and administrative fees) but also indirectly similar expenses of the Index Security or Enhanced Index Product.

**Investments in Private Investment Companies.** The Funds may invest in the securities of private investment companies, including "hedge funds." As with investments in other investment companies, if a Fund invests in a private investment company, the Fund will be charged its proportionate share of the advisory fees and other operating expenses of such company. These fees, which can be substantial, would be in addition to the advisory fees and other operating expenses incurred by the Fund. In addition, private investment companies are not registered with the SEC and may not be registered with any other regulatory authority. Accordingly, they are not subject to certain regulatory requirements and oversight to which registered issuers are subject. There may be very little public information available about their investments and performance. Moreover, because sales of shares of private investment companies are generally restricted to certain qualified purchasers, such shares may be illiquid and it could be difficult for a Fund to sell its shares at an advantageous price and time. Additionally, many hedge funds employ lock-ups, restrictions on redemption timing and redemption amounts, management incentives, and other restrictive features that may cause additional risk to the Fund. Finally, because shares of private investment companies are not publicly traded, a fair value for a Fund's investment in these companies typically will have to be determined under policies approved by the Board of Trustees.

**Leverage.** The Funds may engage in leverage. Leveraging by a Fund may exaggerate the effect on net asset value of any increase or decrease in the market value of a Fund's portfolio. Money borrowed for leveraging will be subject to interest and related costs that may or may not be recovered by appreciation of the securities purchased. A Fund may be required to maintain minimum average balances in connection with such borrowing or to pay a commitment or other fee to maintain a line of credit; either of these requirements would increase the cost of borrowing over the stated interest rate. There can be no certainty that a Fund will be able to borrow money when the Adviser seeks to do so or that it will be able to do so on advantageous terms.

**Warrants.** Each Fund may invest directly or indirectly through an investment in an underlying fund in warrants. Warrants are instruments that provide the owner with the right to purchase a specified security, usually an equity security such as common stock, at a specified price (usually representing a premium over the applicable market value of the underlying equity security at the time of the warrant's issuance) and usually during a specified period of time. Moreover, they are usually issued by the issuer of the security to which they relate. While

warrants may be traded, there is often no secondary market for them. A Fund may invest in publicly traded warrants only. To the extent that the market value of the security that may be purchased upon exercise of the warrant rises above the exercise price, the value of the warrant will tend to rise. To the extent that the exercise price equals or exceeds the market value of such security, the warrants will have little or no market value. If warrants remain unexercised at the end of the specified exercise period, they lapse and a Fund's investment in them will be lost. A Fund may not invest more than 5% of its net assets in warrants.

**Preferred Stock.** Each Fund may invest in preferred stock. Preferred stock pays dividends at a specified rate and generally has preference over common stock in the payment of dividends and the liquidation of the issuer's assets, but is junior to the debt securities of the issuer in those same respects. Unlike interest payments on debt securities, dividends on preferred stock are generally payable at the discretion of the issuer's board of directors. Shareholders may suffer a loss of value if dividends are not paid. The market prices of preferred stocks are subject to changes in interest rates and are more sensitive to changes in the issuer's creditworthiness than are the prices of debt securities. Under normal circumstances, preferred stock does not carry voting rights.

**Convertible Securities.** Each Fund may invest directly or indirectly through an investment in an underlying fund in a convertible security, which is a bond, debenture, note, preferred stock or other security that may be converted into or exchanged for a prescribed amount of common stock of the same or a different issuer within a particular period of time at a specified price or formula. A convertible security entitles the holder to receive interest paid or accrued on debt or the dividends paid on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Before conversion, convertible securities have characteristics similar to nonconvertible debt securities in that they ordinarily provide a stable stream of income with generally higher yields than those of common stocks of the same or similar issuers. Convertible securities rank senior to common stock in a corporation's capital structure but are usually subordinated to comparable nonconvertible securities. While no securities investment is without some risk, investments in convertible securities generally entail less risk than the issuer's common stock, although the extent to which such risk is reduced depends in large measure upon the degree to which the convertible security sells above its value as a fixed income security. Convertible securities have unique investment characteristics in that they generally (1) have higher yields than common stocks, but lower yields than comparable nonconvertible securities, (2) are less subject to fluctuation in value than the underlying stock since they have fixed income characteristics and (3) provide the potential for capital appreciation if the market price of the underlying common stock increases.

The value of a convertible security is a function of its "investment value" (determined by its yield comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its "conversion value" (the security's worth, at market value, if converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors also may have an effect on the convertible security's investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security decreases as the convertible security approaches maturity. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. In addition, a convertible security generally will sell at a premium over its conversion value determined by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed income security.

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by a Fund is called for redemption, the Fund will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party.

**Senior Securities.** Each Fund may utilize various investment techniques that may give rise to an obligation of the Fund to make a future payment. The SEC has stated it would not raise senior security concerns with regard to

certain such investments, provided a fund maintains segregated assets or an offsetting position in an amount that covers the future payment obligation. Such investment techniques include, among other things, when-issued securities, futures and forward contracts, short options positions and repurchase agreements.

**When-Issued Securities.** Each Fund may enter into commitments to purchase securities on a when-issued basis. When a Fund purchases securities on a when-issued basis, it assumes the risks of ownership at the time of the purchase, not at the time of receipt. However, the Fund does not have to pay for the obligations until they are delivered to it, and no interest accrues to the Fund until they are delivered. This is normally seven to 15 days later, but could be longer. Use of this practice could have a leveraging effect on the Fund. When the Fund commits to purchase a when-issued security, it will segregate cash or appropriate liquid securities, in an amount at least equal in value to the Fund's commitments to purchase when-issued securities. The Fund may sell the securities underlying a when-issued purchase, which may result in capital gains or losses.

**Stripped Securities.** Each Fund may invest in stripped securities. Stripped securities are created by separating bonds into their principal and interest components (commonly referred to as "IOs" and "POs") and selling each piece separately. Stripped securities are more volatile than other fixed-income securities in their response to changes in market interest rates. The value of some stripped securities moves in the same direction as interest rates, further increasing their volatility.

**Debt Securities.** The Funds and the underlying funds may invest in debt securities rated above or below investment grade. Investment grade debt securities are those that at the time of purchase have been assigned one of the four highest ratings by S&P or Moody's or, if unrated, are determined by the underlying fund's investment adviser to be of comparable quality. This includes debt securities rated "BBB" by S&P or "Baa" by Moody's. Moody's considers securities rated "Baa" to have speculative characteristics. Changes in economic conditions or other circumstances are more likely to lead to a weakened capacity for such securities to make principal and interest payments than is the case for higher grade debt securities. Debt securities rated below investment grade (commonly referred to as "junk bonds"), which include debt securities rated "BB," "B," "CCC" and "CC" by S&P and "Ba," "B," "Caa," "Ca" and "C" by Moody's, are deemed by these agencies to be predominantly speculative with respect to the issuer's capacity to pay interest and repay principal and may involve major risk exposure to adverse conditions. Debt securities rated lower than "B" may include securities that are in default or face the risk of default with respect to principal or interest.

Ratings of debt securities represent the rating agencies' opinions regarding their quality and are not a guarantee of quality. Subsequent to its purchase by an underlying fund, the rating of an issue of debt securities may be reduced below the minimum rating required for purchase by that fund. Credit ratings attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value. Also, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that an issuer's current financial condition may be better or worse than the rating indicates. The ratings of S&P and Moody's are described in detail in Appendix B of this SAI.

Lower rated debt securities generally offer a higher current yield than that available from higher grade issues. However, lower rated securities involve higher risks, in that they are especially subject to adverse changes in general economic conditions and in the industries in which the issuers are engaged, to changes in the financial condition of the issuers and to price fluctuation in response to changes in interest rates.

Accordingly, the yield on lower rated debt securities will fluctuate over time. During periods of economic downturn or rising interest rates, highly leveraged issuers may experience financial stress that could adversely affect their ability to make payments of principal and interest and increase the possibility of default. In addition, the market for lower rated securities has expanded rapidly in recent years, and its growth has paralleled a long economic expansion. In the past, the prices of many lower rated debt securities declined substantially, reflecting an expectation that many issuers of such securities might experience financial difficulties. As a result, the yields on lower rated debt securities rose dramatically, but such higher yields did not reflect the value of the income



stream that holders of such securities expected, but rather the risk that holders of such securities could lose a substantial portion of their value as a result of the issuers' financial restructuring or default. The market for lower rated debt securities may be thinner and less active than that for higher quality securities, which may limit an underlying fund's ability to sell such securities at their fair value in response to changes in the economy or the financial markets. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may also decrease the values and liquidity of lower rated securities, especially in a thinly traded market.

**Structured Notes.** Structured notes are interests in entities organized by investment banking firms for the purpose of restructuring the investment characteristics of instruments and securities, such as bonds and derivatives. The restructuring involves the deposit with, or purchase by, the entity of specified instruments and securities and the issuance by that entity of securities (structured notes) backed by, or representing interests in, the underlying instruments and securities. The extent of the payments made with respect to structured notes is dependent on the extent of the cash flow on the underlying instruments and securities.

The risks associated with investing in a structured note are primarily the risks associated with investing in the underlying instruments and securities. The risks will also depend upon the comparative subordination of the class of security held by the Fund, relative to the likelihood of a default on the underlying instruments and securities. To the extent that the Fund is exposed to default, the Fund's investment in structured notes may involve risks similar to those of high-yield debt securities. In addition to the market and credit risk of the underlying securities and instruments, a Fund is also exposed to the credit risk of the issuing investment banking firm. Structured notes typically are sold in private placement transactions, and there generally is no active trading market for structured notes and they may be difficult to value. To the extent structured notes are deemed to be illiquid, they will be subject to a Fund's restrictions on investments in illiquid securities.

The investment banking firms that organize the entities receive fees in connection with organizing the entity and arranging for the placement of the structured notes. A Fund will indirectly pay its portion of these fees in addition to the fees associated with the creation and marketing of the underlying instruments and securities. If an active investment management component is combined with the underlying instruments and securities held by the entity, there may be ongoing advisory fees which the Fund's shareholders would indirectly pay.

**Zero Coupon Securities.** The Funds and the underlying funds may invest in zero coupon securities and payment-in-kind securities. Zero coupon securities pay no interest to holders prior to maturity and payment-in-kind securities pay interest in the form of additional securities. However, a portion of the original issue discount on the zero coupon securities, and the "interest" on payment-in-kind securities, must be included in the Fund's or the underlying fund's income. Accordingly, to continue to qualify for tax treatment as a RIC and to avoid a certain excise tax, these funds may be required to distribute as a dividend an amount that is greater than the total amount of cash they actually receive. These distributions must be made from a fund's cash assets or, if necessary, from the proceeds of sales of portfolio securities. A Fund will not be able to purchase additional income-producing securities with cash used to make such distributions, and its current income ultimately may be reduced as a result. Zero coupon and payment-in-kind securities usually trade at a deep discount from their face or par value and will be subject to greater fluctuations of market value in response to changing interest rates than debt obligations of comparable maturities that make current distributions of interest in cash.

**Hedging Strategies.** Each Fund may engage directly or indirectly through an investment in an underlying fund in certain hedging strategies involving options, futures and forward currency exchange contracts. A Fund may also hedge currency risks associated with investments in foreign securities and in particular may hedge its portfolio through the use of forward foreign currency contracts. The objective of a hedging strategy is to protect a profit or offset a loss in a portfolio security from future price erosion or to assure a definite price for a security, stock index, futures contract, or currency. A Fund's ability to use options, futures and forward foreign currency contracts may be limited by market conditions, regulatory limits and tax considerations. These hedging strategies are described in detail in Appendix C of this SAI.

There are transactional costs connected with using hedging strategies. Where required under the 1940 Act, the Trust will segregate assets used in connection with hedging strategies. In addition, the use of hedging strategies involves certain special risks, including: (1) imperfect correlation between the hedging instruments and the securities or market sectors being hedged; (2) the possible lack of a liquid secondary market for closing out a particular instrument; (3) the need for additional skills and techniques beyond normal portfolio management; (4) the possibility of losses resulting from market movements not anticipated by the Adviser; and (5) possible impediments to effective portfolio management because of the percentage of the Fund's assets segregated to cover its obligations.

When engaging in hedging strategies, a Fund will be required not only to segregate assets as collateral against the derivatives being used, but to also maintain appropriate margin coverage with the counterparty to the transaction. The Trust has adopted policies and procedures to address these issues. With respect to margin coverage, a Fund would maintain coverage equal to the amount that would be payable by the fund if the fund were to exit the derivatives transaction at such time, marked-to-market on a daily basis. Additionally, with respect to collateral, a Fund is required to segregate assets equal to the full notional value of the underlying transaction, marked-to-market on a daily basis.

**Foreign Currency Transactions.** Each Fund may, either directly or indirectly through an investment in an underlying fund, use forward or foreign currency contracts to protect against uncertainty in the level of future foreign currency exchange rates. When the Fund purchases or sells a security denominated in a foreign currency, it may be required to settle the purchase transaction in the relevant foreign currency or to receive the proceeds of the sale in the relevant foreign currency. In either event, the Fund will be obligated to acquire or dispose of the foreign currency by selling or buying an equivalent amount of U.S. dollars. To effect the conversion of the amount of foreign currency involved in the purchase or sale of a foreign security, the Fund may purchase or sell such foreign currency on a "spot" (i.e., cash) basis.

In connection with its portfolio transactions in securities traded in the foreign currency, a Fund may enter into forward contracts to purchase or sell an agreed-upon amount of a specific currency at a future date that may be any fixed number of days from the date of the contract agreed upon by the parties at a price set at the time of the contract. The effect of such transactions would be to fix a U.S. dollar price for the security to protect against a possible loss resulting from an adverse change in the relationship between the U.S. dollar and the subject foreign currency during the period between the date the security is purchased or sold and the date on which payment is made or received, the normal range of which is three to fourteen days. Although such contracts tend to minimize the risk of loss due to a decline in the value of the subject currency, they tend to limit commensurately any potential gain that might result should the value of such currency increase during the contract period. These foreign currency transactions are described in detail in Appendix C of this SAI.

## MANAGEMENT OF THE TRUST

**Trustees and Officers.** The Trust is governed by a Board of Trustees. The Board elects officers who are responsible for the day-to-day operations of the Funds and who execute policies authorized by the Board. The names and ages of the Trustees and officers of the Trust, together with information as to their principal occupations during the past five years, are listed below, as well as information regarding the experience, qualifications, attributes and skills of the Trustees. The address of each Trustee and officer is 2303 Yorktown Avenue, Lynchburg, Virginia 24501. A Trustee who is considered an "interested person," as defined in Section 2(a)(19) of the 1940 Act, as well as those persons affiliated with any investment manager or adviser to a Fund, and the principal underwriter, and officers of the Trust, are noted.

**INTERESTED TRUSTEES (1)**

**Name of Trustee:** David D. Basten (2)  
**Birth Year:** 1951  
**Positions held with Trust and Tenure:** President and Chairman of the Board, Trustee since 1985  
**Number of Funds in Complex Overseen** 6  
**Principal Occupation(s) for the last Five (5) Years:** President, Director and Portfolio Manager, Yorktown Management & Research Company, Inc.; Vice President, The Travel Center of Virginia, Inc.; Partner, The Rivermont Company (real estate); Partner, Downtown Enterprises (real estate); Managing Partner, WAIMED Enterprises, LLC (real estate and travel services); He is the father of David M. Basten  
**Other Directorships Held by Trustee:** None

**Name of Trustee:** David M. Basten (2)  
**Birth Year:** 1977  
**Positions held with Trust and Tenure:** Trustee since 2008. Assistant Secretary.  
**Number of Funds in Complex Overseen** 6  
**Principal Occupation(s) for the last Five (5) Years:** Secretary/Treasurer and Director, Yorktown Management & Research Company, Inc.; He is the son of David D. Basten.  
**Other Directorships Held by Trustee:** None

**INDEPENDENT TRUSTEES**

**Name of Trustee:** Mark A. Borel  
**Birth Year:** 1952  
**Positions held with Trust and Tenure:** Trustee since 1985  
**Number of Funds in Complex Overseen** 6  
**Principal Occupation(s) for the last Five (5) Years:** President, Borel Construction Company, Inc.; President, Borel Properties, Inc. (real estate); Partner, James Riviera, LLC (real estate); Partner, JBO, LLC (real estate); Partner, A & K Bo, LLC (real estate); Partner, JAMBO International (commercial real estate); Partner, Jamborita, LLC (commercial real estate); Partner, Neighbors Place Restaurant; Partner, Schmokies (restaurant); Partner, Neighbors Place Café (restaurant); Vice-President, Winnbo Electric (electrical contractor); Partner, Tabo, LLC (real estate); Partner, The HAB Company, LC (real estate); Partner, Piedmont Professional Investments, LLC (real estate); Partner, New London Development Company (real estate); Partner, City Place Commercial (commercial real estate); Partner, City Place Apartments (real estate); Partner, Combo, LLC (real estate); Partner, Lake Group, LLC (real estate); Partner, Oakhill Apartments (real estate); Partner, Braxton Park, LLC (real estate); Partner, FATBO, LLC (shoe manufacturing)

**Other Directorships Held by Trustee:** None

**Name of Trustee:** Stephen B. Cox  
**Birth Year:** 1948  
**Positions held with Trust and Tenure:** Trustee since 1995  
**Number of Funds in Complex Overseen** 6  
**Principal Occupation(s) for the last Five (5) Years:** Retired  
**Other Directorships Held by Trustee:** None

**Name of Trustee:** G. Edgar Dawson III  
**Birth Year:** 1956  
**Positions held with Trust and Tenure:** Trustee since 1995  
**Number of Funds in Complex Overseen** 6  
**Principal Occupation(s) for the last Five (5) Years:** Shareholder, President and Director, Petty, Livingston, Dawson, & Richards, P.C. (law firm).  
**Other Directorships Held by Trustee:** None

**Name of Trustee:** Wayne C. Johnson  
**Birth Year:** 1953  
**Positions held with Trust and Tenure:** Trustee since 1988; Lead Independent Trustee  
**Number of Funds in Complex Overseen** 6  
**Principal Occupation(s) for the last Five (5) Years:** Retired. Previously Vice President of Operations and Human Resources, C.B. Fleet Company, Inc. (pharmaceuticals).  
**Other Directorships Held by Trustee:** None

#### **OFFICERS WHO ARE NOT TRUSTEES**

**Name of Officer:** David D. Jones  
**Birth Year:** 1957  
**Positions held with Trust and Tenure:** Chief Compliance Officer since February, 2008. Secretary since 2010.  
**Number of Funds in Complex Overseen** 6  
**Principal Occupation(s) for the last Five (5) Years:** Co-founder and Managing Member, Drake Compliance, LLC (compliance consulting); founder and controlling shareholder, David Jones & Associates (law firm), 1998 to 2015.  
**Other Directorships Held by Trustee:** None

**Name of Officer:** Charles D. Foster  
**Birth Year:** 1960  
**Positions held with Trust and Tenure:** Treasurer/Chief Financial Officer since 1988  
**Number of Funds in Complex Overseen** 6  
**Principal Occupation(s) for the last Five (5) Years:** Chief Financial Officer, Yorktown Management & Research Company, Inc.  
**Other Directorships Held by Trustee:** None

<b>Name of Officer:</b>	M. Dennis Stratton
<b>Birth Year:</b>	1962
<b>Positions held with Trust and Tenure:</b>	Controller since 1989
<b>Number of Funds in Complex Overseen</b>	6
<b>Principal Occupation(s) for the last Five (5) Years:</b>	Controller, Yorktown Management & Research Company, Inc.
<b>Other Directorships Held by Trustee:</b>	None

- (1) Trustees of the Trust serve a term of indefinite length until their resignation or removal and stand for re-election by shareholders only as and when required by the 1940 Act. Officers of the Trust serve one-year terms, subject to annual reappointment by the Board.
- (2) Mr. David Basten and Mr. David M. Basten are considered to be “interested persons” (as defined in the 1940 Act) of the Trust by virtue of their positions with the Trust’s investment adviser and as officers of the Trust.

#### **Additional Information about the Trustees**

The Board of Trustees believes that each Trustee’s experience, qualifications, attributes or skills on an individual basis and in combination with those of the other Trustees lead to the conclusion that the Trustees possess the requisite experience, qualifications, attributes and skills to serve on the Board. The Board of Trustees believes that the Trustees’ ability to review critically, evaluate, question and discuss information provided to them; to interact effectively with the Adviser, other service providers, legal counsel and independent public accountants; and to exercise effective business judgment in the performance of their duties as Trustees, support this conclusion. The Board of Trustees has also considered the contributions that each Trustee can make to the Board and the Trust.

As described in the table above, the Independent Trustees have served as such for a considerable period of time which has provided them with knowledge of the business and operation of the Funds and the Trust. In addition, the following specific experience, qualifications, attributes and/or skills apply as to each Trustee: David D. Basten, executive experience with investment advisory, broker dealer firms and other businesses; David M. Basten, executive experience in marketing, sale and distribution of securities; Mark A. Borel, executive experience in real estate development and other domestic and foreign businesses; Stephen B. Cox, executive experience in medical device business and various charitable organizations; G. Edgar Dawson, legal experience as a practicing attorney in a law firm; and Wayne C. Johnson, executive experience in a major pharmaceutical company. References to the experience, qualifications, attributes or skills of the Trustees are pursuant to requirements of the Securities and Exchange Commission and the appointment of Mr. Johnson as Lead Independent Trustee, do not constitute holding out of the Board or any Trustee as having special expertise or experience, and shall not impose any greater responsibility or liability on any such Trustee or on the Board by reason thereof.

#### **Board Structure**

The Board of Trustees is responsible for overseeing the management and operations of the Trust and the Funds. The Board consists of four Independent Trustees and two Trustees who are interested persons of the Trust. David D. Basten, who is an interested person of the Trust, serves as Chair of the Board and the Board has appointed Wayne Johnson as the Lead Independent Trustee. As such, Mr. Johnson works with Mr. D. D. Basten to set the agendas for the Board and Committee meetings, chairs meetings of the Independent Trustees, and generally serves as a liaison between the Independent Trustees and the Trust’s management between Board meetings. The Board of Trustees has two standing committees: the Audit Committee and the Nominating Committee. Each of

the Audit and Nominating Committees is chaired by an Independent Trustee and composed of all of the Independent Trustees.

The Audit Committee consists of Messrs. Borel, Cox, Dawson and Johnson. The members of the Audit Committee are not “interested” persons of the Trust (as defined in the 1940 Act). The primary responsibilities of the Trust’s Audit Committee are, as set forth in its charter, to make recommendations to the Board as to: the engagement or discharge of the Trust’s independent auditors (including the audit fees charged by auditors); the supervision of investigations into matters relating to audit matters; the review with the independent auditors of the results of audits; and addressing any other matters regarding audits. The Audit Committee met two times during the last fiscal year.

The Nominating Committee consists of Messrs. Borel, Cox, Dawson and Johnson, each of who is an independent member of the Board. The primary responsibilities of the Nominating Committee are to make recommendations to the Board on issues related to the composition and operation of the Board, and to communicate with management on those issues. The Nominating Committee does not have a policy on shareholder nominations. The Nominating Committee also evaluates and nominates Board member candidates. The Nominating Committee did not meet during the last fiscal year.

The Board holds four regular meetings each year to consider and act upon matters involving the Trust and the Funds. The Board also may hold special meetings to address matters arising between regular meetings. The Independent Trustees also regularly meet outside the presence of management and are advised by independent legal counsel. These meetings may take place in person or by telephone. Through the Audit Committee, the Independent Trustees consider and address important matters involving the Funds, including those presenting conflicts or potential conflicts of interest for Trust management. The Board of Trustees has determined that its committees help ensure that the Funds have effective and independent governance and oversight. Given the Adviser’s sponsorship of the Trust, that investors have selected the Adviser to provide overall management to the Funds, and Mr. D. D. Basten’s senior leadership role within the Adviser, the Board elected him Chairman. The Board reviews its structure regularly and believes that its leadership structure, including having two thirds of Independent Trustees, coupled with the responsibilities undertaken by Mr. D. D. Basten as Chair and Mr. Johnson as Lead Independent Trustee, is appropriate and in the best interests of the Trust, given its specific characteristics. The Board of Trustees also believes its leadership structure facilitates the orderly and efficient flow of information to the Independent Trustees from Fund management.

### **Board Oversight of Risk**

An integral part of the Board’s overall responsibility for overseeing the management and operations of the Trust is the Board’s oversight of the risk management of the Trust’s investment programs and business affairs. The Funds are subject to a number of risks, such as investment risk, credit risk, valuation risk, operational risk, and legal, compliance and regulatory risk. The Trust, the Adviser and the other service providers have implemented various processes, procedures and controls to identify risks to the Funds, to lessen the probability of their occurrence and to mitigate any adverse effect should they occur. Different processes, procedures and controls are employed with respect to different types of risks. These systems include those that are embedded in the conduct of the regular operations of the Board and in the regular responsibilities of the officers of the Trust and the other service providers.

The Board of Trustees exercises oversight of the risk management process through the Board itself and through the Audit Committee. In addition to adopting, and periodically reviewing, policies and procedures designed to address risks to the Funds, the Board of Trustees requires management of the Adviser and the Trust, including the Trust’s Chief Compliance Officer (“CCO”), to report to the Board and the Audit Committee on a variety of matters, including matters relating to risk management, at regular and special meetings. The Board and the Audit Committee receive regular reports from the Trust’s independent public accountants on internal control and financial reporting matters. On at least an annual basis, the Independent Directors meet separately with the

Fund's CCO outside the presence of management, to discuss issues related to compliance. Furthermore, the Board receives a quarterly report from the Fund's CCO regarding the operation of the compliance policies and procedures of the Trust and its primary service providers. The Board also receives quarterly reports from the Adviser on the investments and securities trading of the Funds, including their investment performance, as well as reports regarding the valuation of the Funds' securities. In addition, in its annual review of the Funds' advisory agreements, the Board reviews information provided by the Adviser relating to its operational capabilities, financial condition and resources. The Board also conducts an annual self-evaluation that includes a review of its effectiveness in overseeing the number of funds in the Trust and the effectiveness of its committee structure.

The Board recognizes that it is not possible to identify all of the risks that may affect a Fund or to develop processes, procedures and controls to eliminate or mitigate every occurrence or effect. The Board may, at any time and in its discretion, change the manner in which it conducts its risk oversight role.

The following table shows the amount of equity securities in the Funds owned by the Trustees and/or Portfolio Managers as of March 31, 2016:

<u>Name</u>	<u>Dollar Range of Equity Securities Owned (Fund)</u>	<u>Aggregate Dollar Range of Equity Securities in the Funds</u>
<b>INTERESTED TRUSTEES:</b>		
David D. Basten	Over \$100,000 (Growth Fund) Over \$100,000 (Capital Income Fund) Over \$100,000 (Short Term Bond Fund) Over \$100,000 (Value Fund) Over \$100,000 (Income Fund) \$10,001 to \$50,000 (Master Allocation Fund)	Over \$100,000
David M. Basten	Over \$100,000 (Growth Fund) \$10,001 to \$50,000 (Capital Income Fund) \$10,001 to \$50,000 (Short Term Bond Fund) \$10,001 to \$50,000 (Value Fund) \$10,001 to \$50,000 (Income Fund)	Over \$100,000
<b>INDEPENDENT TRUSTEES:</b>		
Mark A Borel	\$10,001 to \$50,000 (Growth Fund) \$1 to \$10,000 (Capital Income Fund) \$1 to \$10,000 (Short Term Bond Fund) \$1 to \$10,000 (Value Fund)	\$10,001 to \$50,000
Stephen B. Cox	None	None
G. Edgar Dawson, III	\$10,001 to \$50,000 (Growth Fund) \$10,001 to \$50,000 (Capital Income Fund)	\$10,001 to \$50,000
Wayne C. Johnson	\$1 to \$10,000 (Growth Fund) \$1 to \$10,000 (Capital Income Fund) \$1 to \$10,000 (Short Term Bond Fund) \$1 to \$10,000 (Value Fund) \$1 to \$10,000 (Income Fund)	\$10,001 to \$50,000
<b>PORTFOLIO MANAGERS</b>		
Brentz East	\$10,001 to \$50,000 (Growth Fund) \$10,001 to \$50,000 (Capital Income Fund) \$1 to \$10,000 (Short Term Bond Fund) \$10,001 to \$50,000 (Value Fund) \$1 to \$10,000 (Income Fund)	\$50,001 to \$100,000

<u>Name</u>	<u>Dollar Range of Equity Securities Owned (Fund)</u>	<u>Aggregate Dollar Range of Equity Securities in the Funds</u>
Michael Dixon	\$10,001 to \$50,000 (Growth Fund)	\$50,001 to \$100,000
	\$10,001 to \$50,000 (Capital Income Fund)	
	\$1 to \$10,000 (Short Term Bond Fund)	
	\$10,001 to \$50,000 (Value Fund)	
	\$1 to \$10,000 (Income Fund)	

Because the Adviser and other outside parties perform substantially all of the services necessary for the operation of the Trust and the Funds, the Trust requires no employees. No officer, Trustee or employee of the Adviser currently receives any compensation from the Trust for acting as a Trustee or officer.

The Trust currently pays each Trustee who is not an “interested person” of the Trust \$5,000 for his attendance at each meeting of the Board. Prior to March 26, 2014, the Trust paid \$2,500 to each eligible Trustee for his attendance at each meeting of the Board. There are no pension or retirement benefits accrued as part of the Trust’s expenses and there are no estimated annual benefits to be paid upon retirement. The following table shows the fees paid to the Trustees during the fiscal year ended January 31, 2016, for their services to the Trust:

Trustee	Aggregate Compensation From the Trust	Pension or Retirement Benefits Accrued As Part of Funds Expenses	Estimated Annual Benefits Upon Retirement	Total Compensation From Fund and Fund Complex Paid to Directors
Mark A. Borel	\$20,000	None	None	\$20,000
Stephen B. Cox	\$20,000	None	None	\$20,000
G. Edgar Dawson III	\$20,000	None	None	\$20,000
Wayne C. Johnson	\$20,000	None	None	\$20,000

**Policies Concerning Personal Investment Activities.** The Trust, the Adviser and the Distributor have each adopted a Code of Ethics, pursuant to Rule 17j-1 under the 1940 Act that permits investment personnel, subject to their particular Code of Ethics, to invest in securities, including securities that may be purchased or held by the Fund, for their own accounts. The Codes of Ethics are on file with, and can be reviewed and copied at, the SEC Public Reference Room in Washington, D.C. In addition, the Codes of Ethics are also available on the EDGAR Database on the SEC’s Internet website at <http://www.sec.gov>.

**Portfolio Holdings Disclosure.** The Trust has adopted policies and procedures that govern the timing and circumstances of disclosure to shareholders and third parties of information regarding the portfolio investments held by the Fund. The policies and procedures are intended to prevent unauthorized disclosure of Fund portfolio holdings information and have been approved by the Board. The policies permit disclosure of non-public portfolio holdings information to selected parties only when such party has a legitimate business purpose and a duty of confidentiality by agreement or by law. The Trust and/or the Adviser will seek to monitor a recipient’s use of non-public portfolio holdings information provided under these agreements and, when appropriate, use their best efforts to enforce the terms of such agreements. Such parties include the Trust’s service providers (e.g., the Fund’s Investment Adviser, custodian, fund accountants and independent accountants, legal counsel, proxy voting services and pricing services), who generally need access to such information in the performance of their contractual duties and responsibilities and are subject to duties of confidentiality by agreement or by law, including a duty to not trade on the non-public information.

The Trust has the following ongoing arrangements to make available information about the Trust’s portfolio investments. Third party service providers are described in greater detail under the heading “Other Service Providers” in this SAI.

- The Adviser has access to each Fund’s complete portfolio holdings on a daily basis to manage each Fund’s portfolio and vote proxies of the Funds.



- The Trust’s custodian, Huntington National Bank, legal counsel, Sullivan & Worcester, LLP, and pricing service, Interactive Data Pricing, may receive confirmation of portfolio activity within one business day of a trade.
- The Trust may provide its independent registered public accounting firm, Tait, Weller & Baker LLP, complete year-end portfolio holdings within one week of the Trust’s year-end.
- Lastly, the Trust may disclose portfolio holdings information on a monthly or quarterly basis to several rating and ranking organizations on the condition that such information will be used only in connection with developing a rating, ranking or research product for the Funds. The Trust may provide its complete month-end portfolio holdings to Morningstar and Lipper within fifteen days of month-end, and the Trust may provide its complete quarter-end portfolio holdings to Standard and Poor’s and Thomson Financial within fifteen days of quarter-end.

The Trust’s policy provides a process for approving the addition of a new service provider or rating, ranking and research organization as an authorized recipient of the Trust’s non-public portfolio holdings. The Trust may determine to add a recipient under the policy only if it is determined by the Trust’s Chief Executive Officer, Chief Financial Officer or Chief Compliance Officer that the standards under the Trust’s policy have been met prior to such disclosure. According to Trust policy, no disclosure of portfolio holdings is made unless it is determined that such disclosure is in the best interests of the Trust and any applicable Fund, and there are no conflicts of interest that would prevent such disclosure.

In no event does the Trust or the Adviser receive any direct or indirect compensation or other consideration from any third party in connection with the disclosure of information concerning a Fund’s portfolio holdings. The Trust’s Chief Compliance Officer will report any material violations of these policies to the Board at its next regularly scheduled meeting. It is a violation of the Amended and Restated Code of Ethics of the Trust and the Adviser for any covered person to release non-public information concerning the Trust portfolio holdings to any party other except in the normal course of his or her duties on behalf of the Trust.

Disclosure of each Fund’s complete portfolio holdings is required to be made within sixty days of the end of each fiscal quarter: (i) in the Annual Report and Semi-Annual Report to shareholders; and (ii) in the quarterly holdings reports filed on Form N-Q. These reports are available, free of charge, on the SEC’s Electronic Data Gathering and Retrieval (“EDGAR”) database on its website at <http://www.sec.gov>.

**Proxy Voting Policies.** The Trust is required to disclose information concerning each Fund’s proxy voting policies and procedures to shareholders. The Board has delegated to the Adviser responsibility for decisions regarding proxy voting for securities held by the applicable Fund. The Adviser will vote such proxies in accordance with its proxy policies and procedures, which have been reviewed by the Board, and which are found in Appendix A. Any material changes to the proxy policies and procedures will be submitted to the Board for approval. The Funds’ proxy voting record for the most recent 12 month period ended June 30, 2013 is available (1) without charge, upon request by calling API Funds at (800) 544-6060 and (2) on the SEC’s website at <http://www.sec.gov>.

## PRINCIPAL SECURITIES HOLDERS

As of March 31, 2016, the following persons were the only persons who were record owners (or to the knowledge of the Trust, beneficial owners) of 5% or more of the shares of the Funds. The Trust believes that most of the shares referred to below were held by the persons indicated in accounts for their fiduciary, agency or custodial customers.

Fund	Name and Address	Number of Shares	Class	% of Class
<b>Growth Fund</b>	Pershing, LLC PO Box 2052 Jersey City, NJ 07303	452,658.2730	A	22.47%
	NFS LLC FEBO 477 Hummingbird Drive Brea, CA 92823	924,001.6830	A	45.88%
	Charles Schwab & Co Special Custody Acct FBO Customers 101 Montgomery Street San Francisco, CA 94104	195,982.265	A	9.73%
	Raymond James Omnibus for Mutual Funds 880 Carillon Parkway Saint Petersburg, FL 33716	204,315.715	L	8.53%
	Pershing, LLC PO Box 2052 Jersey City, NJ 07303	177,750.586	L	7.42%
	Charles Schwab & Co Special Custody Acct FBO Customers 101 Montgomery Street San Francisco, CA 94104	407,781.881	L	17.03%
	Raymond James Omnibus for Mutual Funds 880 Carillon Parkway Saint Petersburg, FL 33716	118,930.279	I	15.06%
	Charles Schwab & Co Special Custody Acct FBO Customers 101 Montgomery Street San Francisco, CA 94104	268,847.073	I	34.05%
	NFS LLC FEBO 6478 Tuscarawas Road Midland, PA 15059	59,847.393	I	7.58%
	Pershing, LLC PO Box 2052 Jersey City, NJ 07303	218,750.366	I	27.70%
<b>Short Term Bond Fund</b>	Raymond James Omnibus for Mutual Funds 880 Carillon Parkway Saint Petersburg, FL 33716	342,991.359	L	5.97%
	Pershing, LLC PO Box 2052 Jersey City, NJ 07303	486,444.249	L	8.47%

<b>Fund</b>	<b>Name and Address</b>	<b>Number of Shares</b>	<b>Class</b>	<b>% of Class</b>
	LPL Financial, FBO Client Accounts 9785 Towne Center Drive San Diego, CA 92121	475,300.691	L	8.27%
	Charles Schwab & Co Special Custody Acct FBO Customers 101 Montgomery Street San Francisco, CA 94104	1,033,304.815	L	17.98%
	American Enterprise Inv SVCS 707 2 <sup>nd</sup> Avenue South Minneapolis, MN 55402	879,502.705	L	15.31%
	LPL Financial, FBO Client Accounts 9785 Towne Center Drive San Diego, CA 92121	293,667.831	A	18.87%
	Charles Schwab & Co Special Custody Acct FBO Customers 101 Montgomery Street San Francisco, CA 94104	418,114.197	A	26.87%
	Pershing, LLC PO Box 2052 Jersey City, NJ 07303	182,192.595	A	11.78%
	First Clearing LLC 2801 Market Street Saint Louis, MO 63103	128,951.294	A	8.29%
	Raymond James Omnibus for Mutual Funds 880 Carillon Parkway Saint Petersburg, FL 33716	77,642.724	I	6.72%
	Charles Mann TTEE 930 Tahoe Blvd. 802 501 Incline Village, NV 89451	277,357.441	I	23.99%
	Charles Schwab & Co Special Custody Acct FBO Customers 101 Montgomery Street San Francisco, CA 94104	154,034.548	I	13.32%
	LPL Financial, FBO Client Accounts 4707 Executive Drive San Diego, CA 92121	370,322.418	I	32.03%
	Tracy D. Wilkins 6254 Chestnut Ridge Drive Riner, VA 24149	89,489.833	I	7.74%
<b>Value Fund</b>	Pershing, LLC PO Box 2052 Jersey City, NJ 07303	65,675.376	A	7.50%
	NFS LLC FEBO 477 Hummingbird Drive Brea, CA 92823	695,076.289	A	79.42%

<b>Fund</b>	<b>Name and Address</b>	<b>Number of Shares</b>	<b>Class</b>	<b>% of Class</b>
	Pershing, LLC PO Box 2052 Jersey City, NJ 07303	65,694.189	L	12.86%
	Wallace L. Huff DDS, Inc. 401K 3708 S. Main Street, Suite C Blacksburg, VA 24060	50,590.883	L	9.91%
	American Enterprise Inv SVCS 707 2 <sup>nd</sup> Avenue South Minneapolis, MN 55402	30,917.661	L	6.05%
	Yorktown Management & Research Company 2303 Yorktown Avenue Lynchburg, VA 24501	6,425.145	I	7.89%
	Charles Mann TTEE 930 Tahoe Blvd. Incline Village, NV 89451	16,744.419	I	20.55%
	LPL Financial, FBO Client Accounts 4707 Executive Drive San Diego, CA 92121	9,998.562	I	12.27%
	Pershing, LLC PO Box 2052 Jersey City, NJ 07303	5,968.756	I	7.33%
	Tracy D. Wilkins 6254 Chestnut Ridge Road Riner, VA 24149	8,112.813	I	9.96%
	David D. Basten 1678 Spring Mountain Lynchburg, VA 24503	27,437.234	I	33.67%
<b>Capital Income Fund</b>	NFS LLC FEBO 230 Ashland Place, Apt 27D Brooklyn, NY 11217	271,357.402	I	61.19%
	LPL Financial, FBO Client Accounts 4707 Executive Drive San Diego, CA 92121	85,693.503	I	19.32%
	First Clearing LLC 2801 Market Street Saint Louis, MO 63103	23,466.665	I	5.29%
	Wallace L. Huff DDS, Inc. 401K 3708 S. Main Street, Suite C Blacksburg, VA 24060	24,4070.350	L	10.07%
	Pershing, LLC PO Box 2052 Jersey City, NJ 07303	38,329.634	L	15.81%

<b>Fund</b>	<b>Name and Address</b>	<b>Number of Shares</b>	<b>Class</b>	<b>% of Class</b>
	Charles Schwab & Co Special Custody Acct FBO Customers 101 Montgomery Street San Francisco, CA 94104	18,290.964	L	7.55%
	LPL Financial, FBO Client Accounts 4707 Executive Drive San Diego, CA 92121	17,404.985	L	7.18%
	American Enterprise Inv SVCS 707 2 <sup>nd</sup> Avenue South Minneapolis, MN 55402	15,151.175	L	6.25%
	Pershing, LLC PO Box 2052 Jersey City, NJ 07303	52,530.683	A	38.29%
	NFS LLC FBO Client Accounts 3606 Doris Amarillo, TX 79109	18,575.491	A	13.54%
<b>Income Fund</b>	Raymond James Omnibus for Mutual Funds 880 Carillon Parkway Saint Petersburg, FL 33716	7,737,901.171	L	20.22%
	Pershing, LLC PO Box 2052 Jersey City, NJ 07303	3,120,271.103	L	8.15%
	NFS LLC FBO Client Accounts 3606 Doris Amarillo, TX 79109	2,876,926.068	L	7.52%
	LPL Financial, FBO Client Accounts 9785 Towne Center Drive San Diego, CA 92121	3,983,814.01	L	10.41
	Charles Schwab & Co Special Custody Acct FBO Customers 101 Montgomery Street San Francisco, CA 94104	12,219,426.206	L	31.93%
	American Enterprise Inv SVCS 707 2 <sup>nd</sup> Avenue South Minneapolis, MN 55402	2,554,739.807	L	6.68%
	Raymond James Omnibus for Mutual Funds 880 Carillon Parkway Saint Petersburg, FL 33716	1,498,922.893	A	9.74
	Pershing, LLC PO Box 2052 Jersey City, NJ 07303	1,577,245.806	A	10.25%
	NFS LLC FEBO 10512 S. Kildare Oak Lawn, IL 60453	1,745,308.467	A	11.34%

<b>Fund</b>	<b>Name and Address</b>	<b>Number of Shares</b>	<b>Class</b>	<b>% of Class</b>
	First Clearing LLC 37337 Waterside Dr Ocean View, DE 19970	1,752,496.131	A	11.39%
	Charles Schwab & Co Special Custody Acct FBO Customers 101 Montgomery Street San Francisco, CA 94104	5,064,378.836	A	32.90%
	LPL Financial, FBO Client Accounts 9785 Towne Center Drive San Diego, CA 92121	982,871.706	A	6.39%
	American Enterprise Inv SVCS 707 2 <sup>nd</sup> Avenue South Minneapolis, MN 55402	881,961.861	A	5.73%
	Raymond James Omnibus for Mutual Funds 880 Carillon Parkway Saint Petersburg, FL 33716	1,153,231.468	I	7.28%
	LPL Financial, FBO Client Accounts 4707 Executive Drive San Diego, CA 92121	1,674,486.90	I	10.57%
	NFS LLC FEBO 2520 Birchford Court Raleigh, NC 27604	900,946.512	I	5.69%
	Pershing, LLC PO Box 2052 Jersey City, NJ 07303	985,892.568	I	6.22%
	First Clearing LLC 2801 Market Street Saint Louis, MO 63103	4,706,474.5370	I	29.70%
	Charles Schwab & Co Special Custody Acct FBO Customers 101 Montgomery Street San Francisco, CA 94104	3,586,072.009	I	22.63%
<b>Master Allocation Fund</b>	Pershing, LLC PO Box 2052 Jersey City, NJ 07303	63,946.436	L	8.53%
	LPL Financial, FBO Client Accounts 9785 Towne Center Drive San Diego, CA 92121	62,443.248	L	8.33%
	Charles Schwab & Co Special Custody Acct FBO Customers 101 Montgomery Street San Francisco, CA 94104	232,100.474	L	30.96%
	American Enterprise Inv SVCS 707 2 <sup>nd</sup> Avenue South Minneapolis, MN 55402	290,701.054	L	38.78%

<b>Fund</b>	<b>Name and Address</b>	<b>Number of Shares</b>	<b>Class</b>	<b>% of Class</b>
	Pershing, LLC PO Box 2052 Jersey City, NJ 07303	45,947.683	A	21.42%
	NFS LLC FEBO 12073 Holly Court Lemont, IL 60439	38,212.074	A	17.81%
	Charles Schwab & Co Special Custody Acct FBO Customers 101 Montgomery Street San Francisco, CA 94104	45,713.212	A	21.31%
	Robert W. Baird & Co, Inc. 777 East Wisconsin Ave Milwaukee, WI 53202	29,440.754	A	13.72%
	Charles Schwab & Co Special Custody Acct FBO Customers 101 Montgomery Street San Francisco, CA 94104	6,840.634	I	13.43%
	Charles Mann TTEE & Jeri Mann Trust 930 Tahoe Blvd. Incline Village, NV 89451	23,302.659	I	45.75%
	NFS LLC FEBO 2520 Birchford Court Court Raleigh, NC 27604	17,471.095	I	34.30%
	Pershing, LLC PO Box 2052 Jersey City, NJ 07303	2,581.246	I	5.07%

As of March 31, 2016, the Trustees and officers of the Trust as a group owned of record or beneficially 1.14% of the shares of the Growth Fund, 0.67% of the shares of the Capital Income Fund, 0.05% of the shares of the Income Fund, 0.72% of the shares of the Short Term Bond Fund, 2.41% of the shares of the Value Fund, and 0.10% of the shares of the Master Allocation Fund.

#### **INVESTMENT ADVISER AND ADVISORY AGREEMENT**

Yorktown Management & Research Company, Inc., the Adviser, located at 2303 Yorktown Avenue, Lynchburg, VA 24501, provides investment advisory and administrative services for the Funds pursuant to Investment Advisory and Administrative Services Agreements (“Advisory Agreements”) with the Trust. The Adviser is controlled, as a result of stock ownership, by David D. Basten. Mr. Basten is a Trustee and officer of the Trust.

Each Advisory Agreement provides that, subject to overall supervision by the Board, the Adviser shall act as investment adviser and shall manage the investment and reinvestment of the assets of each Fund, obtain and evaluate pertinent economic data relative to the investment policies of each Fund, place orders for the purchase and sale of securities on behalf of each Fund, and report to the Board periodically to enable them to determine that the investment policies of each Fund and all other provisions of its Advisory Agreement are being properly observed and implemented. Under the terms of each Advisory Agreement, the Adviser is further obligated to cover basic administrative and operating expenses including, but not limited to, office space and equipment, executive and clerical personnel, telephone and communications services and to furnish supplies, stationery and postage relating to the Adviser’s obligations under the Advisory Agreement.

Each Advisory Agreement provides that it will remain in effect and may be renewed from year to year with respect to each Fund, provided that such renewal is specifically approved at least annually by the vote of a majority of the outstanding voting securities of that Fund, or by the Board, including a majority of the Trustees who are not parties to the Advisory Agreement or “interested persons” of any such party (by vote cast in person at a meeting called for that purpose). Any approval of the Advisory Agreement or the renewal thereof with respect to a Fund shall be effective to continue the Advisory Agreement with respect to that Fund notwithstanding that (a) the Advisory Agreement or the renewal thereof has not been approved by any other Fund or (b) the Advisory Agreement or renewal has not been approved by the vote of a majority of the outstanding voting securities of the Trust as a whole.

Each Advisory Agreement provides that the Adviser will not be liable for any error of judgment or mistake of law or for any loss suffered by a Fund in connection with the performance of the Advisory Agreement, except a loss resulting from willful misfeasance, bad faith or gross negligence on the part of the Adviser in the performance of its duties or from reckless disregard of its duties and obligations thereunder. Each Advisory Agreement may be terminated as to a Fund, without penalty, by the Board or by the vote of a majority of the outstanding voting securities (as defined in the 1940 Act) of that Fund, on 60 days’ written notice to the Adviser or by the Adviser on 60 days’ written notice to the Trust. The Advisory Agreement may not be terminated by the Adviser unless another investment advisory agreement has been approved by the Fund in accordance with the 1940 Act. The Advisory Agreement terminates automatically upon assignment (as defined in the 1940 Act).

**Advisory Fees Paid to the Adviser.** Under the Advisory Agreements, the Adviser receives a fee, calculated daily and payable monthly, at an annual rate of 1.00% of the first \$100 million of the average daily net assets of the Growth Fund and 0.75% of the average daily net assets exceeding \$100 million; 0.60% of the average daily net assets of the Capital Income Fund; 0.70% of the average daily net assets of the Short Term Bond Fund; 0.90% of the average daily net assets of the Value Fund; 0.40% of the average daily net assets of the Income Fund; and 0.30% of the average daily net assets of the Master Allocation Fund. Pursuant to the terms of each Advisory Agreement, the Adviser pays all expenses incurred by it in connection with its activities thereunder, except the cost of securities (including brokerage commissions, if any) purchased for a Fund. The services furnished by the Adviser under each Advisory Agreement are not exclusive, and the Adviser is free to perform similar services for others.

For the fiscal year ended January 31, 2016, the Funds paid to the Adviser advisory fees in the following amounts:

Fund	Contractual Fees	Actual Fees Paid
Growth Fund	\$ 765,742	\$ 765,742
Capital Income Fund	\$ 225,472	\$ 225,472
Short Term Bond Fund	\$ 187,201	\$ 174,339
Value Fund	\$ 257,388	\$ 257,388
Income Fund	\$3,104,934	\$3,104,934
Master Allocation Fund	\$ 122,000	\$ 122,000

For the fiscal year ended January 31, 2015, the Funds paid to the Adviser advisory fees in the following amounts:

Fund	Contractual Fees	Actual Fees Paid
Growth Fund	\$ 722,703	\$ 722,703
Capital Income Fund	\$ 236,560	\$ 236,560
Short Term Bond Fund	\$ 143,428	\$ 81,959
Value Fund	\$ 276,147	\$ 276,147
Income Fund	\$3,194,760	\$3,194,760
Master Allocation Fund	\$ 135,251	\$ 135,251



For the fiscal year ended January 31, 2014, the Funds paid to the Adviser advisory fees in the following amounts:

Fund	Contractual Fees	Actual Fees Paid
Growth Fund	\$ 517,847	\$ 517,847
Capital Income Fund	\$ 184,305	\$ 184,305
Short Term Bond Fund	\$ 136,178	\$ 91,185
Value Fund	\$ 227,376	\$ 227,376
Income Fund	\$2,498,895	\$2,498,895
Master Allocation Fund	\$ 111,318	\$ 111,318

In addition to the advisory fees, the Trust and the Funds are obligated to pay certain expenses that are not assumed by the Adviser or the Distributor. These expenses include, among others, securities registration fees, compensation for non-interested Trustees, interest expense, taxes, brokerage fees, commissions and sales loads, custodian charges, accounting fees, transfer agency fees, certain distribution expenses pursuant to a plan of distribution adopted in the manner prescribed under Rule 12b-1 under the 1940 Act, if any, legal expenses, insurance expenses, association membership dues and the expense of reports to the shareholders, shareholders' meetings and proxy solicitations. The Trust and the Funds are also liable for nonrecurring expenses as may arise, including litigation to which the Trust or a Fund may be a party.

**Approval of Investment Advisory Agreements.** At a regular meeting of the Trust's Board of Trustees held on March 30, 2016, the Board considered the renewal of the investment advisory agreements (the "IA Agreements") by and between the Trust and Yorktown Management & Research Company, Inc. (the Advisor"). During the meeting, the Trustees discussed the Board's responsibilities and considerations when reviewing the IA Agreements. Legal counsel advised the Board that there are five factors set forth by the SEC as minimum considerations, each of which must be visited when considering the renewal of the IA Agreement. Legal counsel guided the Board through each consideration, including: (1) the nature, extent, and quality of the services to be provided by the investment advisor; (2) the investment performance of the fund and the investment advisor; (3) the costs of the services to be provided and profits to be realized by the investment advisor and its affiliates from the relationship with the fund; (4) the extent to which economies of scale would be realized as the fund grows; and (5) whether fee levels reflect these economies of scale for the benefit of fund investors.

The Board considered the fees charged by the Advisor in light of the services provided to each Fund by the Advisor. After full review of the materials presented and careful consideration, the Board, with the Independent Directors separately concurring, agreed that the fees charged by the Advisor were fair and reasonable in light of the services provided to each Fund.

The Board then discussed the nature, extent and quality of the Advisor's services to the Funds. In particular, the Board noted with approval the Advisor's commitment to maintaining certain targeted expense ratios for the Funds, its efforts in providing comprehensive and consistent investment management to the Funds and its efforts to maintain ongoing regulatory compliance for the Funds. The Board noted for the record that it reviewed, on a quarterly basis, performance and management reports relating to the Funds, and those prior reviews were incorporated into the Board's current considerations.

The Board discussed the Advisor's current fee structure and whether such structure would allow the Funds to realize economies of scale as they grow. The Board noted that the Advisor had been subsidizing certain of the Fund's operations since its inception and that the Advisor had a contractual right to recover certain of those expenses before the overall fund expense ratios would decrease. Accordingly, it would be premature of the Board to consider economies of scale.

The Board next considered the investment performance of the Funds and the Advisor's performance. The Board generally approved of the Funds' performance. The Board noted with approval the Advisor's ongoing efforts to maintain such consistent investment discipline. The Board also noted with approval that the Adviser did not appear to realize any extraordinary ancillary benefits or profits deriving from its relationship with the Fund.

After full discussion and consideration, and being no further questions or comments from the Board, and upon motion made, seconded and unanimously approved, with the Independent Directors separately approving, the renewal of the IA Agreements until March 31, 2017.

### ADDITIONAL INFORMATION ABOUT PORTFOLIO MANAGERS

Mr. David D. Basten, Mr. David M. Basten, Mrs. Brentz East, and Mr. Michael Dixon serve as the portfolio managers to the Funds. Mr. David D. Basten has been portfolio manager since commencement of each Fund’s operations. Mr. David M. Basten has served as portfolio manager since 2005. Mrs. Brentz East has served as a portfolio manager since 2011. Mr. Michael Dixon has served as a portfolio manager since 2012. The table below provides information as of March 31, 2016 regarding other accounts, in addition to the Funds, for which Messrs. Basten, Mrs. East, and Mr. Dixon have day-to-day management responsibilities.

Portfolio Manager	Registered Investment Companies		Other Pooled Investment Vehicles		Other Accounts	
	Number of Accounts	Total Assets	Number of Accounts	Total Assets	Number of Accounts*	Total Assets
David D. Basten	0	\$0	0	\$0.00	4	\$5,250,000
David M. Basten	0	\$0	0	\$0.00	0	\$ 0.00
Brentz East	0	\$0	0	\$0.00	0	\$ 0.00
Michael Dixon	0	\$0	0	\$0.00	0	\$ 0.00

\* None of the other accounts managed by the portfolio managers are subject to a performance-based advisory fee.

**Conflicts of Interest.** Mr. David D. Basten manages certain personal and family accounts for which he receives no compensation for his services in such capacity. The management of “other accounts” may give rise to potential conflicts of interest in connection with the management of a Fund’s investments, on the one hand, and the investments of the other accounts, on the other. The other accounts may have the same investment objective as a Fund. Therefore, a potential conflict of interest may arise as a result of the identical investment objectives, whereby the portfolio manager could favor one account over another. Another potential conflict could include the portfolio manager’s knowledge about the size, timing and possible market impact of Fund trades, whereby the portfolio manager could use this information to the advantage of other accounts and to the disadvantage of a Fund. However, Mr. Basten is subject to the Adviser’s Code of Ethics, which seeks to address potential conflicts of interest that may arise in connection with management of personal accounts, including family accounts.

**Compensation.** Mr. David D. Basten is a Portfolio Manager, the President and a Director of the Adviser. Mr. David M. Basten is a Portfolio Manager of the Adviser and is Director of Marketing. Mrs. East is a Portfolio Manager of the Adviser and is a Securities Analyst. Mr. Dixon is a Portfolio Manager of the Adviser and is a Securities Analyst. Messrs. Basten, Mrs. East, and Mr. Dixon each have an ownership interest in the Adviser and, therefore, receive a portion of its profits. Messrs. Basten, Mr. Dixon and Mrs. East are each also paid a fixed base salary and are eligible to receive employee benefits, including, but not limited to, health care and other insurance benefits and participation in the Adviser’s qualified retirement plan.

**Ownership of Securities by Portfolio Managers.** The Trustee table provided above provides information as of March 31, 2016, of the value, within the indicated range, of shares of beneficially owned by the portfolio managers in each Fund.

### OTHER SERVICE PROVIDERS

**Custodian.** Pursuant to a Custodian Agreement with the Trust, Huntington National Bank (the “Custodian”), 7 Easton Oval, Columbus, Ohio 43219, acts as the custodian of the Funds. The Custodian holds cash, securities and other assets of the Funds as required by the 1940 Act.

**Accounting and Pricing Services.** Pursuant to an Accounting and Pricing Services Agreement (the “Accounting Agreement”), Yorktown Management & Research Company, Inc. (“Yorktown”) acts as the accounting services agent of the Funds. As the accounting services agent of the Funds, Yorktown maintains and keeps current the books, accounts, records, journals or other records of original entry relating to the Funds’ business. For its services under the Accounting Agreement, Yorktown receives an annual base fee per Fund of \$30,000 (\$2,500 per month) for one class of shares. For each additional class of shares the annual base fee is increased by \$5,000. In addition to a base fee, Yorktown receives an asset based annualized fee (that is computed daily and paid monthly) of 0.010% of the average daily net assets of the Trust up to \$500 million and 0.005% of the average daily net assets of the Trust in excess of \$500 million. Pursuant to the Accounting Agreement, the Funds will also reimburse Yorktown for out-of-pocket expenses, including but not limited to the costs of the daily securities price quotation services and the required performance reporting services utilized by the Funds. Yorktown is controlled, as a result of stock ownership, by David D. Basten. Mr. Basten is a Trustee and officer of the Trust.

For the fiscal year ended January 31, 2014, the Advisor received \$43,353, \$42,888, \$29,658, \$40,700, and \$96,071 from the Growth Fund, Capital Income Fund, Short Term Bond Fund, Value Fund, and Income Fund, respectively for accounting and pricing services. Yorktown voluntarily waived \$10,000 for the Short Term Bond Fund.

For the fiscal year ended January 31, 2015, the Advisor received \$47,227, \$43,943, \$42,049, \$43,068, and \$104,936 from the Growth Fund, Capital Income Fund, Short Term Bond Fund, Value Fund, and Income Fund, respectively for accounting and pricing services.

For the fiscal year ended January 31, 2016, the Advisor received \$47,657, \$43,758, \$42,647, \$42,860, \$103,813 and \$36,699 from the Growth Fund, Capital Income Fund, Short Term Bond Fund, Value Fund, Income Fund and Master Allocation Fund, respectively for accounting and pricing services.

**Transfer Agent.** Pursuant to a Transfer Agent Agreement with the Trust, Ultimus Asset Services, LLC (formerly Huntington Asset Services, Inc.) (the “Transfer Agent”) acts as the Trust’s transfer and dividend disbursing agent. The Transfer Agent is located at 9465 Counselors Row, Suite 200, Indianapolis, Indiana 46240. The Transfer Agent provides certain shareholder and other services to the Trust, including furnishing account and transaction information and maintaining shareholder account records. The Transfer Agent is responsible for processing orders and payments for share purchases. The Transfer Agent mails proxy materials (and receives and tabulates proxies), shareholder reports, confirmation forms for purchases and redemptions and prospectuses to shareholders. The Transfer Agent disburses income dividends and capital distributions and prepares and files appropriate tax-related information concerning dividends and distributions to shareholders.

**Distributor.** Unified Financial Securities, Inc., located at 9465 Counselors Row, Suite 200, Indianapolis, Indiana 46240, serves as the principal underwriter and national distributor for the shares of the Funds pursuant to a Distribution Agreement (the “Distribution Agreement”). The Distributor is registered as a broker-dealer and is a member of the Financial Industry Regulatory Authority (“FINRA”). The offering of the Funds’ shares is continuous. The Distributor may receive Rule 12b-1 Distribution and Service Fees from the Funds, as described in the prospectus and this SAI.

**Independent Registered Public Accounting Firm.** The Trust’s independent registered public accounting firm, Tait, Weller & Baker LLP, audits the Funds’ annual financial statements, assists in the preparation of certain reports to the SEC, and prepares the Funds’ tax returns. Tait, Weller & Baker LLP is located at 1818 Market Street, Philadelphia, Pennsylvania 19103.

## DISTRIBUTION OF FUND SHARES

The Distributor acts as distributor of shares of the Funds under the Distribution Agreement, which requires the Distributor to use its best efforts to sell shares of the Funds. Shares of the Funds are offered continuously. As compensation for its services rendered to the Funds, the Adviser pays the Distributor a monthly fee based on the daily average net assets of the Funds. As distributor of Fund shares, the Distributor may spend such amounts as it deems appropriate on any activities or expenses primarily intended to result in the sale of the Funds' shares or the servicing and maintenance of shareholder accounts, including compensation to employees of the Distributor; compensation to and expenses, including overhead and telephone and other communication expenses, of the Distributor and selected dealers who engage in or support the distribution of shares or who service shareholder accounts; the costs of printing and distributing prospectuses, statements of additional information, and reports for other than existing shareholders; the costs of preparing, printing and distributing sales literature and advertising materials; and internal costs incurred by the Distributor and allocated by the Distributor to its efforts to distribute shares of the funds, such as office rent, employee salaries, employee bonuses and other overhead expenses.

The Distributor also may pay certain banks, fiduciaries, custodians for public funds, investment advisers and broker-dealers a fee for administrative services in connection with the distribution of Fund shares. Such fees would be based on the average net asset value represented by shares of the Distributor's customers invested in a Fund. This fee is in addition to any commissions these entities may receive from the Distributor out of the fees it receives pursuant to a distribution plan, and, if paid, will be reimbursed by the Adviser and not a Fund.

**Plan of Distribution.** The Board has adopted a Plan of Distribution for each Share Class offered by the Trust (the "12b-1 Plan"). Pursuant to the 12b-1 Plan, Funds offering certain Share Classes may finance from the assets of a particular class certain activities or expenses that are intended primarily to result in the sale of shares of such class, provided that the categories of expenses are approved in advance by the Board and the expenses paid under the Plan were incurred within the preceding 12 months and accrued while the 12b-1 Plan is in effect. Each Fund finances these distribution and service activities through payments made to financial institutions and intermediaries such as banks, savings and loan associations, insurance companies and investment counselors, broker-dealers, mutual fund supermarkets, the Adviser ("Firms") and/or the Distributor. The fee paid to Firms and/or the Distributor by each Fund is computed on an annualized basis reflecting the average daily net assets of a class. Class L Shares of the Growth Fund, Capital Income Fund, Income Fund and Short Term Bond Fund pay a maximum distribution and service fee of 1.00% of the applicable Fund's Class L Shares' average daily net assets. Of this amount, 0.75% represents distribution 12b-1 fees payable under Class L Shares' Rule 12b-1 Plan and 0.25% represents shareholder servicing fees. Class L Shares of the Value Fund pay a maximum distribution and service fee of 0.90% of Value Fund Class L Shares' average daily net assets. Of this amount, 0.65% represents distribution 12b-1 fees payable under Class L Shares' Rule 12b-1 Plan and 0.25% represents shareholder servicing fees. Class A Shares of the Capital Income Fund pay a maximum distribution and service fee of 0.50% of Capital Income Fund Class A Shares' average daily net assets. Of this amount, 0.25% represents distribution 12b-1 fees payable under Class A Shares' Rule 12b-1 Plan and 0.25% represents shareholder servicing fees.

Class A Shares of the Income Fund pay a maximum distribution and service fee of 0.50% of the Fund's Class A Shares' average daily net assets. Of this amount, 0.50% represents distribution 12b-1 fees payable under Class A Shares' Rule 12b-1 Plan.

Class L Shares of the Master Allocation Fund pay a maximum distribution and service fee of 1.00% of the Fund's Class L Shares' average daily net assets. Of this amount, 0.75% represents distribution 12b-1 fees payable under Class L Shares' Rule 12b-1 Plan and 0.25% represents shareholder servicing fees. Class A Shares of the Master Allocation Fund pay a maximum distribution and service fee of 0.50% of Master Allocation Fund's Class A Shares' average daily net assets. Of this amount, 0.50% represents distribution 12b-1 fees payable under Class A Shares' Rule 12b-1 Plan.

Payments for distribution expenses under the 12b-1 Plans are subject to Rule 12b-1 under the 1940 Act. Rule 12b-1 defines distribution expenses to include the cost of “any activity which is primarily intended to result in the sale of shares issued by the Trust.” Rule 12b-1 provides, among other things, that an investment company may bear such expenses only pursuant to a plan adopted in accordance with Rule 12b-1. In accordance with Rule 12b-1, the 12b-1 Plans provide that a report of the amounts expended under the 12b-1 Plans, and the purposes for which such expenditures were incurred, will be made to the Board for their review at least quarterly. The 12b-1 Plan provides that they may not be amended to increase materially the costs which shares of a Fund may bear for distribution pursuant to the 12b-1 Plan without shareholder approval, and that any other type of material amendment must be approved by a majority of the Board, including a majority of the Trustees who are neither “interested persons” (as defined in the 1940 Act) of the Trust nor have any direct or indirect financial interest in the operation of the 12b-1 Plan or in any related agreement (the “12b-1 Trustees”), by vote cast in person at a meeting called for the purpose of considering such amendments.

Shareholder servicing fees are paid to certain service providers (“Service Organizations”) for providing one or more of the following services to customers: (i) aggregating and processing purchase and redemption requests and placing net purchase and redemption orders with the Distributor; (ii) processing dividend payments from a Fund; (iii) providing sub-accounting or the information necessary for sub-accounting; (iv) providing periodic mailings to customers; (v) providing customers with information as to their positions in the applicable Fund; (vi) responding to customer inquiries; and (vii) providing a service to invest the assets of customers.

In approving these Plans, the Board considered factors deemed to be relevant, including that as the size of each Fund increases, each Fund should experience economies of scale and greater investment flexibility. The Board also considered the compensation to be received by Firms and the Distributor under the Plans and the benefits that would accrue to the Adviser as a result of the Plans in that the Adviser receives advisory fees that are calculated based upon a percentage of the average net assets of each Fund, which fees would increase if the Plans were successful and the Funds attained and maintained significant asset levels.

The Board has concluded that there is a reasonable likelihood that the 12b-1 Plan will benefit each Fund. The 12b-1 Plan is subject to annual re-approval by a majority of the 12b-1 Trustees and is terminable at any time with respect to a Fund by a vote of a majority of the 12b-1 Trustees or by vote of the holders of a majority of the applicable classes’ outstanding shares of a Fund. Any agreement entered into pursuant to the 12b-1 Plan with a Service Organization is terminable with respect to a Fund without penalty, at any time, by vote of a majority of the 12b-1 Trustees, by vote of the holders of a majority of the applicable classes’ outstanding shares of a Fund, by the Distributor or by the Service Organization. An agreement will also terminate automatically in the event of its assignment. As long as the 12b-1 Plan is in effect, the nomination of the Trustees who are not interested persons of the Trust (as defined in the 1940 Act) must be committed to the discretion of the 12b-1 Trustees.

During the period it is in effect, the 12b-1 Plan obligates the Funds to pay fees to Firms and the Distributor as compensation for the distribution and service activities of the Distributor and other financial intermediaries, not as reimbursement for specific expenses incurred. Thus, even if Firms’ or the Distributor’s expenses exceed the fees they receive, the Funds will not be obligated to pay more than those fees and, if Firms’ or the Distributor’s expenses are less than such fees, they may retain the full fee and realize a profit or pay them to the Adviser to cover its “allocated costs,” as discussed below.

For the fiscal year ended January 31, 2014, the Growth Fund, Capital Income Fund, Short Term Bond Fund, Value Fund, Income Fund and Master Allocation Fund paid to the Distributor aggregate distribution fees of \$291,795, \$118,641, \$154,807, \$84,551, \$4,308,087, and \$311,294, respectively.

For the fiscal year ended January 31, 2015, the Growth Fund, Capital Income Fund, Short Term Bond Fund, Value Fund, Income Fund and Master Allocation Fund paid to the Distributor aggregate distribution fees of \$357,092, \$143,815, \$145,688, \$90,053, \$5,373,224, and \$369,248, respectively.

For the fiscal year ended January 31, 2016, the Growth Fund, Capital Income Fund, Short Term Bond Fund, Value Fund, Income Fund and Master Allocation Fund paid to the Distributor aggregate distribution fees of \$346,564, \$142,390, \$172,093, \$82,007, \$4,961,160, and \$335,164, respectively.

The Adviser, in its capacity as the Fund's investment adviser, has an indirect financial interest in the operation of the 12b-1 Plan. David D. Basten and David M. Basten, who are interested persons of the Trust, have an indirect interest in the operation of the 12b-1 Plan by virtue of their positions with the Adviser.

### **PAYMENTS TO FINANCIAL INTERMEDIARIES**

The Adviser and/or its affiliates, at their discretion, may make payments from their own resources and not from Fund assets to affiliated or unaffiliated brokers, dealers, banks (including bank trust departments), trust companies, registered investment advisers, financial planners, retirement plan administrators, insurance companies, and any other institution having a similar arrangement with a Fund and/or its affiliates. These additional payments may be made to Financial Intermediaries to compensate them for the costs associated with making shares of the Funds available to their customers or registered representatives, including costs for providing a Fund with "shelf space" and/or placing a Fund on a preferred or recommended fund list.

The Adviser and/or its affiliates may also make payments from their own resources to Financial Intermediaries for costs associated with the purchase of products or services used in connection with sales and marketing, participation in and/or presentation at conferences or seminars, sales or training programs, client and investor entertainment and other sponsored events. The costs and expenses associated with these efforts may include travel, lodging, sponsorship at educational seminars and conferences, entertainment and meals to the extent permitted by law.

Revenue sharing payments may be negotiated based on a variety of factors, including the level of sales, the amount of Fund assets attributable to investments in the Funds by Financial Intermediaries' customers, a flat fee or other measures as determined from time to time by the Adviser and/or its affiliates. A significant purpose of these payments is to increase the sales of Fund shares, which in turn may benefit the Adviser through increased fees as Fund assets grow.

### **PORTFOLIO TRANSACTIONS**

Subject to policies established by the Board, the Adviser is responsible for the execution of each Fund's portfolio transactions and the allocation of brokerage transactions. In effecting portfolio transactions, the Adviser seeks to obtain the best net results for each Fund. This determination involves a number of considerations, including the economic effect on the Fund (involving both price paid or received and any commissions and other costs), the efficiency with which the transaction is effected where a large block is involved, the availability of the broker to stand ready to execute potentially difficult transactions, and the financial strength and stability of the broker. Such considerations are judgmental and are weighed by the Adviser in determining the overall reasonableness of brokerage commissions paid. Purchases from underwriters include an underwriting commission or concession and purchases from dealers serving as market makers include the spread between the bid and asked price. Where transactions are made in the over-the-counter market, the Funds will deal with the primary market makers unless more favorable prices are obtainable elsewhere.

Under the 1940 Act, a mutual fund must sell its shares at the price (including sales load, if any) described in its prospectus, and current rules under the 1940 Act do not permit negotiations of sales loads. Currently, an open-end fund is permitted to impose a front-end sales load of up to 8.5% of the public offering price, provided it does not also impose an asset-based sales charge. The Adviser takes into account the amount of the applicable sales load, if any, when it is considering whether or not to purchase shares of an underlying fund. The Adviser

anticipates investing a significant portion of the assets of each Fund in underlying funds that impose no front-end sales load. Where an underlying fund imposes a sales load, the Adviser, to the extent possible, seeks to reduce the sales load imposed by purchasing shares pursuant to (i) letters of intent, permitting purchases over time; (ii) rights of accumulation, permitting it to obtain reduced sales charges as it purchases additional shares of an underlying fund; and (iii) rights to obtain reduced sales charges by aggregating its purchases of several funds within a “family” of mutual funds. The Adviser also takes advantage of exchange or conversion privileges offered by any “family” of mutual funds.

A factor in the selection of brokers to execute the Funds’ portfolio transactions is the receipt of research, analysis, advice and similar services. To the extent that research services of value are provided by brokers with or through whom the Adviser places the Funds’ portfolio transactions, the Adviser may be relieved of expenses that it might otherwise bear. Research services furnished by brokers through which a Fund effects securities transactions may be used by the Adviser in advising other Funds, and, conversely, research services furnished to the Adviser by brokers in connection with other Funds the Adviser advises may be used by the Adviser in advising a Fund. Research and other services provided by brokers to the Adviser or the Funds is in addition to, and not in lieu of, services required to be performed by the Adviser under its Advisory Agreement.

For the fiscal year ended January 31, 2014, the Adviser directed \$64,184,017, \$16,216,767, \$34,769,500, \$14,276,579, \$939,612,022, and \$0 in portfolio transactions on behalf of the Growth Fund, Capital Income Fund, Short Term Bond Fund, Value Fund, Income Fund, and Master Allocation Fund, respectively, to brokers chosen because they provided research services, for which the Growth Fund, Capital Income Fund, Short Term Bond Fund, Value Fund, Income Fund, and Master Allocation Fund paid \$88,200, \$25,032, \$17,597, \$18,715, \$797,452, and \$0, respectively, in commissions.

For the fiscal year ended January 31, 2015, the Adviser directed \$22,319,906, \$89,943,393, \$4,804,274, \$10,934,057, \$433,811,099, and \$0 in portfolio transactions on behalf of the Growth Fund, Capital Income Fund, Short Term Bond Fund, Value Fund, Income Fund, and Master Allocation Fund, respectively, to brokers chosen because they provided research services, for which the Growth Fund, Capital Income Fund, Short Term Bond Fund, Value Fund, Income Fund, and Master Allocation Fund paid \$157,078, \$38,171, \$4,287, \$14,458, \$867,093, and \$0, respectively, in commissions.

For the fiscal year ended January 31, 2016, the Adviser directed \$22,334,794, \$60,841,482, \$27,061,144, \$21,232,33,, \$1,301,316,289, and \$0 in portfolio transactions on behalf of the Growth Fund, Capital Income Fund, Short Term Bond Fund, Value Fund, Income Fund, and Master Allocation Fund, respectively, to brokers chosen because they provided research services, for which the Growth Fund, Capital Income Fund, Short Term Bond Fund, Value Fund, Income Fund, and Master Allocation Fund paid \$84,213, \$39,606, \$28,053, \$25,890, \$1,434,201, and \$0, respectively, in commissions.

The Funds reserve the right to pay brokerage commissions to brokers affiliated with the Trust or with affiliated persons of such persons. Any such commissions will comply with applicable securities laws and regulations. In no instance, however, will portfolio securities be purchased from or sold to the Adviser or any other affiliated person. Since the Funds’ inception, no brokerage commissions have been paid to such affiliated persons.

The Trust expects that purchases and sales of money market instruments will usually be principal transactions, and purchases and sales of other debt securities may be principal transactions. Thus, the Funds will normally not pay brokerage commissions in connection with those transactions. Money market instruments are generally purchased directly from the issuer, an underwriter or market maker for the securities and other debt securities may be purchased in a similar manner. Purchases from underwriters include an underwriting commission or concession and purchases from dealers serving as market makers include the spread between the bid and asked price. Where transactions are made in the over-the-counter market, the Funds will deal with the primary market makers unless more favorable prices are obtainable elsewhere.

Investment decisions for each Fund are made independently of each other in light of differing considerations. However, the same investment decision may occasionally be made for more than one Fund. In such cases, simultaneous transactions are inevitable. Purchases or sales are then averaged as to price and allocated between the Funds as to amount according to a formula deemed equitable to the Funds. While in some cases this practice could have a detrimental effect upon the price or quantity of the security as far as a Fund is concerned, or upon its ability to complete its entire order, in other cases it is believed that coordination and the ability to participate in volume transactions will be beneficial to a Fund.

The policy of the Trust with respect to brokerage is reviewed by the Board from time to time. Because of the possibility of further regulatory developments affecting the securities exchanges and brokerage practices generally, the foregoing practices may be modified.

For the fiscal years ended January 31, 2016, 2015, and 2014, the Funds paid the following amounts in brokerage commissions:

<u>Fund</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Growth Fund	\$ 84,213	\$157,0478	\$ 88,120
Capital Income Fund	\$ 39,606	\$ 38,171	\$ 25,032
Short Term Bond Fund	\$ 28,053	\$ 4,287	\$ 17,597
Value Fund	\$ 25,890	\$ 14,458	\$ 18,715
Income Fund	\$1,434,201	\$ 867,093	\$801,863
Master Allocation Fund	\$ N/A	N/A	N/A

**Portfolio Turnover.** The portfolio turnover rate may vary greatly from year to year for any Fund and will not be a limiting factor when the Adviser deems portfolio changes appropriate. Variations in turnover rate from year to year may be due to market conditions, fluctuating volume of shareholder purchases and redemptions or changes in the Adviser's investment outlook. The annual portfolio turnover rate is calculated by dividing the lesser of a 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 Fund during the year. Each Fund's portfolio turnover rate for the fiscal years ended January 31, 2016, 2015, and 2014 is shown in the table below.

<u>Fund</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Growth Fund	47%	60%	50%
Capital Income Fund	30%	28%	16%
Short Term Bond Fund	84%	31%	103%
Value Fund	30%	19%	25%
Income Fund	101%	50%	59%
Master Allocation Fund	1%	7%	3%

## CAPITAL STOCK AND DIVIDENDS

The Trust is authorized to issue an unlimited number of shares of beneficial interest without par value of separate series and separate classes. Shares of each Fund, when issued, are fully paid, non-assessable, fully transferable, redeemable at the option of the shareholder and have equal dividend and liquidation rights and non-cumulative voting rights. The shares of each series of the Trust will be voted separately except when an aggregate vote of all series is required by the 1940 Act.

Each series or class shall have such preference, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications, terms and conditions of redemption and other characteristics as the Board may determine in a written instrument.



Shares have no preemptive rights and only such conversion or exchange rights as the Board may grant in their discretion. When issued for payment as described in the prospectuses, shares will be fully paid and non-assessable. Each class of shares in the Fund bear pro-rata the same expenses and are entitled equally to the Fund's dividends and distributions except as follows. Each class will bear the expenses of any distribution and/or service plans applicable to such class. In addition, each class may incur differing transfer agency fees and may have different sales charges. Standardized performance quotations are computed separately for each class of shares. The differences in expenses paid by the respective classes will affect their performances.

Shareholders are entitled to one vote for each full share held, and a proportionate fractional vote for each fractional share held, and will vote in the aggregate, and not by series or class, except as otherwise expressly required by law or when the Board determines that the matter to be voted on affects the interest of shareholders of a particular series or class. Shares of the Funds 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. In such event, the holders of the remaining shares will not be able to elect any person to the Board. Shares will be maintained in open accounts on the books of the Transfer Agent.

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.

A shareholder will automatically receive all income dividends and capital gain distributions in additional full and fractional shares of the applicable Fund at its net asset value as of the date of payment unless the shareholder elects to receive such dividends or distributions in cash. The reinvestment date normally precedes the payment date by about seven days although the exact timing is subject to change. Shareholders will receive a confirmation of each new transaction in their account. The Trust will confirm all account activity, and transactions made as a result of the Automatic Investment Plan.

**Rule 18f-3 Plan.** The Board has adopted a Rule 18f-3 Multiple Class Plan on behalf of the Trust for the benefit of each of its series. The key features of the Rule 18f-3 Plan are as follows: (i) shares of each class of a Fund represent an equal pro rata interest in the Fund and generally have identical voting, dividend, liquidation, and other rights, preferences, powers, restrictions, limitations qualifications, terms and conditions, except that each class bears certain specific expenses and has separate voting rights on certain matters that relate solely to that class or in which the interests of shareholders of one class differ from the interests of shareholders of another class; (ii) subject to certain limitations described in the prospectuses, shares of a particular class of a Fund may be exchanged for shares of the same class of another Fund.

## **PRICING AND ADDITIONAL PURCHASE AND EXCHANGE INFORMATION**

**Determining Net Asset Value.** Each Fund determines its net asset value per share ("NAV") as of the close of regular trading (generally, 4:00 p.m., eastern time) on the NYSE on each business day, which is defined as each Monday through Friday when the NYSE is open. Currently, the NYSE is closed on New Year's Day, Martin Luther King, Jr. Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day.

NAV is computed by adding the total value of a Fund's investments and other assets (including dividends accrued but not yet collected) attributable to a Fund's particular share Class, subtracting any liabilities (including accrued expenses) attributable to a Fund's particular share Class, and then dividing by the total number of the applicable class' shares outstanding. Due to the fact that different expenses may be charged against shares of different classes of a Fund, the NAV of the different classes may vary.

Foreign security prices are expressed in their local currency and translated into U.S. dollars at current exchange rates. Any changes in the value of forward contracts due to exchange rate fluctuations are included in the

determination of net asset value. Foreign currency exchange rates are generally determined prior to the close of trading on the NYSE. Occasionally, events affecting the value of foreign securities and such exchange rates occur between the time at which they are determined and the close of trading on the NYSE. When events materially affecting the value of such securities or exchange rates occur during such time period, the securities will be valued at their fair value as determined in good faith by or under the direction of the Board.

For more information on calculation of NAV, see “Determining Net Asset Value” in the Fund’s prospectuses.

**Purchase and Exchange of Shares.** When shares of a Fund are initially purchased, an account is automatically established for the shareholder. Any shares of that Fund subsequently purchased or received as a distribution are credited directly to the shareholder’s account. No share certificates are issued. Shareholders will receive at least 60 days notice of any termination or material modification of the exchange privilege described in the applicable prospectus, except no notice need be given if, under extraordinary circumstances, either redemptions are suspended under the circumstances described below or a Fund temporarily delays or ceases the sale of its shares because it is unable to invest amounts effectively in accordance with the Fund’s investment objective, policies and restrictions.

**Telephone Transactions.** Shareholders may initiate three types of transactions by telephone: telephone exchanges; telephone redemptions by wire; and telephone redemptions by check. Once a telephone transaction request has been placed, it cannot be revoked. The telephone redemptions by wire privilege must be elected by you when you fill out your initial application or you may select that option later by completing the appropriate form(s) that is available from Shareholder Services. The telephone exchange privilege and telephone redemptions by check privilege are available to shareholders of the funds automatically, unless declined in the application or in writing.

The Funds will employ reasonable procedures to confirm that instructions received by telephone (including instructions with respect to changes in addresses) are genuine, such as requesting personal identification information that appears on an account application and recording the telephone conversation. A shareholder will bear the risk of loss due to unauthorized or fraudulent instructions regarding his or her account, although the Funds may be liable if reasonable procedures are not employed.

**Undeliverable Mail.** If the U.S. Postal Service cannot deliver a check representing the payment of a distribution to a shareholder, or if any such check remains uncashed for six months, the check(s) will be reinvested in shares of the distributing fund at their then-current NAV per share and all future distributions to that shareholder will be reinvested in fund shares.

## TAXATION

### Taxation of the Funds – General

The following is only a summary of certain additional federal income tax considerations generally affecting the Funds and their shareholders that are not described in the prospectuses. No attempt is made to present a detailed explanation of the federal, state, local or foreign tax treatment of the Funds or their shareholders, and the discussion here and in the prospectuses is not intended to be a substitute for careful tax planning.

The following general discussion of certain federal income tax consequences is based on the Internal Revenue Code of 1986, as amended (the “Code”) and regulations issued thereunder as in effect on the date of this SAI. New legislation, as well as administrative changes or court decisions, may significantly change the conclusions expressed herein, and may have a retroactive effect with respect to the transactions contemplated herein.

Each Fund is treated as a separate corporation for federal income tax purposes and intends to continue to qualify for treatment as a RIC. By doing so, it will be relieved of federal income tax on the part of its investment

company taxable income (consisting generally of net investment income, plus the excess of net short-term capital gain over net long-term capital loss) and net capital gain (the excess of net long-term capital gain over net short-term capital loss), including distributions thereof it receives from an underlying fund, that it distributes to its shareholders.

To continue to qualify for treatment as a RIC, a Fund must distribute annually to its shareholders at least 90% of its investment company taxable income (which includes dividends, taxable interest and the excess of net short-term capital gains over net long-term capital losses, less operating expenses) (“Distribution Requirement”) and must meet several additional requirements. With respect to each Fund, these requirements include the following: (1) the Fund must derive at least 90% of its gross income each taxable year from dividends, interest, payments with respect to securities loans, gains from the sale or other disposition of securities or foreign currencies and other income (including gains from options, futures or forward contracts) derived with respect to its business of investing in securities or those currencies and net income derived from interests in qualified publicly traded partnerships (“Income Requirement”); and (2) at the close of each quarter of the Fund’s taxable year, (a) at least 50% of the value of its total assets must be represented by cash and cash items, U.S. Government securities, securities of other RICs and other securities, with these other securities limited, in respect of any one issuer, to an amount that does not exceed 5% of the value of the Fund’s total assets and that does not represent more than 10% of the issuer’s outstanding voting securities, and (b) not more than 25% of the value of its total assets may be invested in securities (other than U.S. Government securities or securities of other RICs) of any one issuer or two or more issuers which the Fund controls and which are engaged in the same, similar, or related trades or businesses, or the securities of one or more qualified publicly traded partnerships (“Diversification Requirements”).

If a Fund failed to qualify for treatment as a RIC for any taxable year, (1) it would be taxed as an ordinary corporation on the full amount of its taxable income for that year without being able to deduct the distributions it makes to its shareholders and (2) the shareholders would treat all those distributions, including distributions of net capital gain, as dividends (taxable as ordinary income, except, for individual shareholders, the part thereof that is “qualified dividend income,” which would be taxable at the rate for net long-term capital gain – currently, a maximum of 15%) to the extent of the Fund’s earnings and profits. In addition, the Fund could be required to recognize unrealized gains, pay substantial taxes and interest and make substantial distributions before requalifying for RIC treatment.

Each Fund will be subject to a nondeductible 4% excise tax (“Excise Tax”) to the extent it fails to distribute by the end of any calendar year at least 98% of its ordinary income for that year and capital gain net income for the one-year period ending on October 31 of that year, plus certain other amounts.

### **Taxation of Investments in Underlying Funds**

The Funds invest, and intend to continue to invest, only in underlying funds that intend to qualify for treatment as RICs. If an underlying fund failed to qualify for that treatment, it would be subject to federal income tax on its income and gains and might adversely affect the Fund’s ability to satisfy the Diversification Requirements and thereby its ability to qualify as a RIC. No assurance can be given, however, that an underlying fund will qualify for treatment as a RIC.

A Fund’s redemption of shares it holds in an underlying fund will result in taxable gain or loss to the Fund, depending on whether the redemption proceeds are more or less than its adjusted basis in the redeemed shares (which normally includes any sales charge paid on them); an exchange of an underlying fund’s shares for shares of another underlying fund normally will have similar tax consequences. However, if a Fund disposes of an underlying fund’s shares (“original shares”) within 90 days after its purchase thereof and subsequently reacquires shares of that underlying fund or acquires shares of another underlying fund on which a sales charge normally is imposed (“replacement shares”), without paying the sales charge (or paying a reduced charge) due to an exchange privilege or a reinstatement privilege, then (1) any gain on the disposition of the original shares will be

increased, or the loss thereon decreased, by the amount of the sales charge paid when those shares were acquired and (2) that amount will increase the adjusted basis in the replacement shares that were subsequently acquired. In addition, if a Fund purchases shares of an underlying fund within thirty days before or after redeeming other shares of that fund at a loss, all or part of that loss will not be deductible and instead will increase the basis in the newly purchased shares (“wash sale rule”).

### **Taxation of Shareholders**

Dividends and other distributions a Fund declares in December generally are taxable to its shareholders as though received on December 31 if paid to them during the following January. Accordingly, those distributions will be taxed to the shareholders for the taxable year in which that December 31 falls.

As noted in the prospectuses, certain dividends from a Fund’s investment company taxable income (*i.e.*, “qualified dividend income”), whether paid in cash or reinvested in additional Fund shares, are taxed to individual shareholders at the 20% maximum rate applicable to net long-term capital gain. A portion of a Fund’s dividends also may be eligible for the dividends-received deduction allowed to corporations. It is not anticipated that any part of the distributions by the Income Fund (which invests exclusively in debt securities and thus receives no dividend income) will be eligible for that rate or that deduction.

Redemptions and exchanges of a Fund’s shares may be taxable transactions for federal and state income tax purposes. If you hold your shares as a capital asset, the gain or loss that you realize will be capital gain or loss and will be long-term or short-term, generally depending on how long you hold your shares. If Fund shares are sold at a loss after being held for six months or less, the loss will be treated as long-term, instead of short-term, capital loss to the extent of any capital gain distributions received on those shares. If a shareholder purchases Fund shares within thirty days before or after redeeming other shares of that Fund at a loss, the wash sale rule will apply. If shares are purchased shortly before the record date for any dividend or capital gain distribution, the investor will pay full price for the shares and receive some portion of the price back as a taxable distribution.

**Qualified Retirement Plans.** An investment in Fund shares may be appropriate for individual retirement accounts (including “Roth IRAs”), tax-deferred annuity plans under section 403(b) of the Code, self-employed individual retirement plans (commonly referred to as “Keogh plans”), simplified employee pension plans, savings incentive match plans for employees and other qualified retirement plans (including section 401(k) plans). Dividends and capital gain distributions received on Fund shares held by any of these accounts or plans are automatically reinvested in additional Fund shares, and taxation thereof is deferred until distributed by the account or plan. Investors who are considering establishing such an account or plan may wish to consult their attorneys or other tax advisers with respect to individual tax questions. The option of investing in these accounts or plans through regular payroll deductions may be arranged with the Distributor and the employer.

### **Taxation of Particular Investments**

**Zero Coupon and Payment-In-Kind Securities.** A Fund or an underlying fund may acquire zero coupon securities or other securities issued with original issue discount (“OID”), such as “stripped” U.S. Treasury securities. As a holder of those securities, a Fund or an underlying fund annually must include in its income the OID that accrues on the securities during the taxable year, even if it receives no corresponding payment on them during the year. Similarly, it must include in its gross income securities it receives as “interest” on payment-in-kind securities. Because each underlying fund annually must distribute substantially all of its investment company taxable income, including any accrued OID and other non-cash income, to satisfy the Distribution Requirement and avoid imposition of the Excise Tax, it may be required in a particular year to distribute as a dividend an amount that is greater than the total amount of cash it actually receives. Those distributions will be made from its cash assets or from the proceeds of sales of portfolio securities, if necessary. It may realize capital gains or losses from those sales, which would increase or decrease its investment company taxable income and/or net capital gain.

**Foreign Income and Gains.** Dividends and interest a Fund or an underlying fund receives, and gains it realizes, may be subject to income, withholding or other taxes imposed by foreign countries and U.S. possessions that would reduce the yield and/or total return on its securities. Tax conventions between certain countries and the United States may reduce or eliminate these foreign taxes, however, and many foreign countries do not impose taxes on capital gains in respect of investments by foreign investors.

A Fund or an underlying fund may invest in the stock of “passive foreign investment companies” (“PFICs”). A PFIC is any foreign corporation (with certain exceptions) that, in general, meets either of the following tests: (1) at least 75% of its gross income for the taxable year is passive or (2) an average of at least 50% of its assets produce, or are held for the production of, passive income. Under certain circumstances, a Fund or an underlying fund will be subject to federal income tax on a portion of any “excess distribution” it receives on the stock of a PFIC or of any gain from disposition of that stock (collectively “PFIC income”), plus interest thereon, even if the fund distributes the PFIC income as a taxable dividend to its shareholders. The balance of the PFIC income will be included in the fund’s investment company taxable income and, accordingly, will not be taxable to it to the extent it distributes that income to its shareholders. Distributions thereof will not be eligible for the 15% maximum federal income tax rate on individuals’ “qualified dividend income” mentioned above.

If a Fund or an underlying fund invests in a PFIC and elects to treat the PFIC as a “qualified electing fund” (“QEF”), then in lieu of the foregoing tax and interest obligation, the Fund or underlying fund will be required to include in income each year its *pro rata* share of the QEF’s annual ordinary earnings and net capital gain — which it probably would have to distribute to satisfy the Distribution Requirement and avoid imposition of the Excise Tax — even if the Fund or an underlying fund did not receive those earnings and gain from the QEF. In most instances it will be very difficult, if not impossible, to make this election because some of the information required to make this election may not be easily obtainable.

A Fund or an underlying fund may elect to “mark to market” its stock in any PFIC. “Marking-to-market,” in this context, means including in ordinary income each taxable year the excess, if any, of the fair market value of the PFIC’s stock over the underlying fund’s adjusted basis therein as of the end of that year. Pursuant to the election, a Fund or an underlying fund also would be allowed to deduct (as an ordinary, not capital, loss) the excess, if any, of its adjusted basis in PFIC stock over the fair market value thereof as of the taxable year-end, but only to the extent of any net mark-to-market gains with respect to that stock the underlying fund included in income for prior taxable years under the election (and under regulations proposed in 1992 that provided a similar election with respect to the stock of certain PFICs). A Fund’s or an underlying fund’s adjusted basis in each PFIC’s stock subject to the election would be adjusted to reflect the amounts of income included and deductions taken thereunder.

Section 988 of the Code also may apply to forward currency contracts and options on foreign currencies. Under section 988 each foreign currency gain or loss generally is computed separately and treated as ordinary income or loss. In the case of overlap between sections 1256 (see below) and 988, special provisions determine the character and timing of any income, gain or loss.

**Hedging Strategies (Underlying Funds and Value Fund).** The use of hedging strategies, such as writing (selling) and purchasing options and futures contracts and entering into forward contracts, involves complex rules that will determine for income tax purposes the amount, character and timing of recognition of the gains and losses an underlying fund realizes in connection therewith. Gains from the disposition of foreign currencies (except certain gains that may be excluded by future regulations), and gains from options, futures and forward contracts an underlying fund derives with respect to its business of investing in securities or those currencies, will be treated as qualifying income under the Income Requirement.

Certain futures, foreign currency contracts and “nonequity” options (*i.e.*, certain listed options, such as those on a “broad-based” securities index) in which the underlying funds may invest will be “section 1256 contracts.” Section 1256 contracts an underlying fund holds at the end of each taxable year, other than section 1256 contracts

that are part of a “mixed straddle” with respect to which the underlying fund has made an election not to have the following rules apply, must be “marked-to-market” (that is, treated as sold for their fair market value) for federal income tax purposes, with the result that unrealized gains or losses will be treated as though they were realized. Sixty percent of any net gain or loss recognized on these deemed sales, and 60% of any net realized gain or loss from any actual sales of section 1256 contracts, will be treated as long-term capital gain or loss, and the balance will be treated as short-term capital gain or loss. Section 1256 contracts also may be marked-to-market for purposes of the Excise Tax.

Code section 1092 (dealing with straddles) also may affect the taxation of certain hedging instruments in which an underlying fund may invest. That section defines a “straddle” as offsetting positions with respect to actively traded personal property; for these purposes, options, futures and forward contracts are personal property. Under that section, any loss from the disposition of a position in a straddle generally may be deducted only to the extent the loss exceeds the unrealized gain on the offsetting position(s) of the straddle. In addition, these rules may postpone the recognition of loss that otherwise would be recognized under the mark-to-market rules discussed above. The regulations under section 1092 also provide certain “wash sale” rules, which apply to transactions where a position is sold at a loss and a new offsetting position is acquired within a prescribed period, and “short sale” rules applicable to straddles. If an underlying fund makes certain elections, the amount, character and timing of recognition of gains and losses from the affected straddle positions would be determined under rules that vary according to the elections made. Because only a few of the regulations implementing the straddle rules have been promulgated, the tax consequences of straddle transactions are not entirely clear.

If a Fund or an underlying fund has an “appreciated financial position” — generally, an interest (including an interest through an option, futures or forward contract or short sale) with respect to any stock, debt instrument (other than “straight debt”) or partnership interest the fair market value of which exceeds its adjusted basis — and enters into a “constructive sale” of the position, the fund will be treated as having made an actual sale thereof, with the result that it will recognize gain at that time. A constructive sale generally consists of a short sale, an offsetting notional principal contract or futures or forward contract an underlying fund or a related person enters into with respect to the same or substantially identical property. In addition, if the appreciated financial position is itself a short sale or such a contract, acquisition of the underlying property or substantially identical property will be deemed a constructive sale. The foregoing will not apply, however, to any transaction by a Fund or an underlying fund during any taxable year that otherwise would be treated as a constructive sale if the transaction is closed within 30 days after the end of that year and the Fund or underlying fund holds the appreciated financial position unhedged for 60 days after that closing (*i.e.*, at no time during that 60-day period is the fund’s risk of loss regarding that position reduced by reason of certain specified transactions with respect to substantially identical or related property, such as having an option to sell, being contractually obligated to sell, making a short sale, or granting an option to buy substantially identical stock or securities).

## **COST BASIS**

For those securities defined as “covered” under current IRS cost basis tax reporting regulations, each Fund is responsible for maintaining accurate cost basis and tax lot information for tax reporting purposes. The Funds are not responsible for the reliability or accuracy of the information for those securities that are not “covered.” The Funds and its service providers do not provide tax advice. You should consult independent sources, which may include a tax professional, with respect to any decisions you may make with respect to choosing a tax lot identification method.

As of January 1, 2012, federal law requires that mutual fund companies report their shareholders’ cost basis, gain/loss, and holding period to the IRS on the fund’s shareholders’ Consolidated Form 1099s when “covered” securities are sold. Covered securities are any regulated investment company and/or dividend reinvestment plan shares acquired on or after January 1, 2012. The Trust has chosen the average cost method as its standing (default) cost basis method for all shareholders. Under this method, each Fund will average the cost of all shares held by a shareholder for tax reporting purposes. Each shareholder has the option to elect a different cost basis

method by notifying the Fund in writing. A tax lot identification method is the way the Fund will determine which specific shares are deemed to be sold when there are multiple purchases on different dates at differing net asset values, and the entire position is not sold at one time. The Fund's standing tax lot identification method is the method covered shares will be reported on your Consolidated Form 1099 if you do not select a specific tax lot identification method. You may choose a method different than the Fund's standing method and will be able to do so at the time of your purchase or upon the sale of covered shares. Please refer to the appropriate Internal Revenue Service regulations or consult your tax advisor with regard to your personal circumstances.

## **OTHER INFORMATION**

The Trust is an entity of the type commonly known as a "Massachusetts business trust." Under Massachusetts law, shareholders could, under certain circumstances, be held personally liable for the obligations of the Trust. The Declaration of Trust states that no shareholder as such shall be subject to any personal liability whatsoever to any person in connection with Trust property or the acts, omissions, obligations or affairs of the Trust. It also states that every written obligation, contract, instrument, certificate, share, other security of the Trust or undertaking made or issued by the Trustees may recite, in substance, that the same is executed or made by them not individually, but as Trustees under the Declaration of Trust, and that the obligations of the Trust under any such instrument are not binding upon any of the Trust's Trustees or shareholders individually, but bind only the Trust estate, and may contain any further recital which they or he may deem applicable, but the omission of such recital shall not operate to bind the Trustees or shareholders individually.

The Declaration of Trust further provides that the Trust shall indemnify and hold each shareholder harmless from and against all claims and liabilities to which such shareholder may become subject by reason of his being or having been a shareholder, and shall reimburse such shareholder for all legal and other expenses reasonably incurred by him in connection with any such claim or liability. Thus, the risk of a shareholder incurring financial loss on account of shareholder liability is limited to circumstances in which the Trust would be unable to meet its obligations.

The prospectuses relating to the Funds and this SAI do not contain all the information included in the Trust's registration statement filed with the SEC under the Securities Act of 1933 and the 1940 Act with respect to the securities offered hereby, certain portions of which have been omitted pursuant to the rules and regulations of the SEC. The registration statement, including the exhibits filed therewith, may be examined at the offices of the SEC in Washington, D.C. or by visiting the SEC's web site at <http://www.sec.gov>.

Statements contained in the prospectuses and this SAI as to the contents of any contract or other documents referred to are not necessarily complete, and in each instance reference is made to the copy of such contracts or other documents filed as an exhibit to the registration statement, each such statement being qualified in all respects by such reference.

## **FINANCIAL STATEMENTS**

The annual report to shareholders of the Funds for the fiscal year ended January 31, 2016, which includes the financial statements and financial highlights, as filed with the SEC, is hereby incorporated by reference.

## **APPENDIX A: DESCRIPTION OF COMMERCIAL PAPER AND BOND RATINGS**

### **DESCRIPTION OF MOODY'S SHORT-TERM DEBT RATINGS**

Prime-1. Issuers (or supporting institutions) rated Prime-1 ("P-1") have a superior ability for repayment of senior short-term debt obligations. P-1 repayment ability will often be evidenced by many of the following characteristics: leading market positions in well-established industries; high rates of return on funds employed; conservative capitalization structure with moderate reliance on debt and ample asset protection; broad margins in earnings coverage of fixed financial charges and high internal cash generation; well-established access to a range of financial markets and assured sources of alternate liquidity.

Prime-2. Issuers (or supporting institutions) rated Prime-2 ("P-2") have a strong ability for repayment of senior short-term debt obligations. This will normally be evidenced by many of the characteristics cited above but to a lesser degree. Earnings trends and coverage ratios, while sound, may be more subject to variation. Capitalization characteristics, while still appropriate, may be more affected by external conditions. Ample alternate liquidity is maintained.

### **DESCRIPTION OF S&P COMMERCIAL PAPER RATINGS**

A. Issues assigned this highest rating are regarded as having the greatest capacity for timely payment. Issues in this category are delineated with the numbers 1, 2 and 3 to indicate the relative degree of safety.

A-1. This designation indicates that the degree of safety regarding timely payment is strong. Those issues determined to possess extremely strong safety characteristics are denoted with a plus (+) sign designation.

A-2. Capacity for timely payment on issues with this designation is satisfactory. However, the relative degree of safety is not as high as for issues designated A-1.

### **DESCRIPTION OF MOODY'S LONG-TERM DEBT RATINGS**

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 by 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 which make the long-term risk appear somewhat larger than the Aaa securities.

A. Bonds which are rated A possess many favorable investment attributes and are 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 some time in the 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 rated Ba are judged to have speculative elements; their future cannot be considered as 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 the 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 rated Ca are present 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 rate Class D of bonds, and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

Note: Moody's applies numerical modifiers 1, 2 and 3 in each generic rating classification from Aa to B. The modifier 1 indicates that the Company ranks in the higher end of its generic rating category; the modifier 2 indicates amid-range ranking; and the modifier 3 indicates that the company ranks in the lower end of its generic rating category.

#### DESCRIPTION OF S&P CORPORATE DEBT RATINGS

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, and C. Debt rated BB, B, CCC, CC and C 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 C the highest degree of speculation. While such debt will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.

BB. Debt rated BB has less near-term vulnerability to default than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to inadequate capacity to meet timely interest and principal payments. The BB rating category is also used for debt subordinated to senior debt that is assigned an actual or implied BBB- rating.

B. Debt rated B has a greater vulnerability to default but currently has the capacity to meet interest payments and principal repayments. Adverse business, financial, or economic conditions will likely impair capacity or willingness to pay interest and repay principal. The B rating category is also used for debt subordinated to senior debt that is assigned an actual or implied BB or BB- rating.

CCC. Debt rated CCC has a currently identifiable vulnerability to default, and is dependent upon favorable business, financial and economic conditions to meet timely payment of interest and repayment of principal. In the event of adverse business, financial or economic conditions, it is not likely to have the capacity to pay interest and repay principal. The CCC rating category is also used for debt subordinated to senior debt that is assigned an actual or implied B or B- rating; CC. The rating CC is typically applied to debt subordinated to senior debt that is assigned an actual or implied CCC rating.

C. The rating C is typically applied to debt subordinated to senior debt which is assigned an actual or implied CCC-debt rating. The C rating may be used to cover a situation where a bankruptcy petition has been filed, but debt service payments are continued.

CI. The rating CI is reserved for income bonds on which no interest is being paid.

D. Debt rated D is in payment default. The D rating category is used when interest payments or principal payments are not made on the date due even if the applicable grace period has not expired, unless S&P believes that such payments will be made during such grace period. The D rating also will be used upon the filing of a bankruptcy petition if debt service payments are in jeopardy.

## APPENDIX B: HEDGING STRATEGIES

### GENERAL DESCRIPTION OF HEDGING STRATEGIES

The Adviser may engage in a variety of strategies (“Hedging Strategies”) involving the use of certain financial instruments, including options, futures contracts (sometimes referred to as “futures”) and options on futures contracts to attempt to hedge a Fund’s portfolio. The Adviser may also hedge currency risks associated with these Funds’ investments in foreign securities through the use of forwarding foreign currency contracts. An underlying fund may also engage in Hedging Strategies.

Hedging Strategies are used to hedge against price movements in one or more particular securities positions that the Fund owns or intends to acquire. Hedging Strategies on stock indices, in contrast, generally are used to hedge against price movements in broad equity market sectors in which the Fund has invested or expects to invest. Hedging Strategies on debt securities may be used to hedge either individual securities or broad fixed income market sectors.

The use of Hedging Strategies is subject to applicable regulations of the SEC, the several options and futures exchanges upon which they are traded, the Commodity Futures Trading Commission (“CFTC”) and various state regulatory authorities. In addition, the Funds’ ability to use Hedging Strategies will be limited by tax considerations.

### SPECIAL RISKS OF HEDGING STRATEGIES

The use of Hedging Strategies involves special considerations and risks, as described below. Risks pertaining to particular instruments are described in the sections that follow:

- (1) Successful use of most Hedging Strategies depends upon the Adviser’s ability to predict movements of the overall securities and interest rate markets, which requires different skills than predicting changes in the prices of individual securities. There can be no assurance that any particular hedging strategy adopted will succeed.
- (2) There might be imperfect correlation, or even no correlation, between price movements of a Hedging Strategy and price movements of the investments being hedged. For example, if the value of an instrument used in a short hedge increased by less than the decline in value of the hedged investment, the hedge would not be fully successful. Such a lack of correlation might occur due to factors unrelated to the value of the investments being hedged, such as speculative or other pressures on the markets in which hedging instruments are traded. The effectiveness of Hedging Strategies on indices will depend on the degree of correlation between price movements in the index and price movements in the securities being hedged.
- (3) Hedging Strategies, if successful, can reduce risk of loss by wholly or partially offsetting the negative effect of unfavorable price movements in the investments being hedged. However, Hedging Strategies can also reduce opportunity for gain by offsetting the positive effect of favorable price movements in the hedged investments. For example, if a Fund entered into a short hedge because the Adviser projected a decline in the price of a security in the Fund’s portfolio, and the price of that security increased instead, the gain from that increase might be wholly or partially offset by a decline in the price of the hedging instrument. Moreover, if the price of the hedging instrument declined by more than the increase in the price of the security, the Fund could suffer a loss. In either such case, the Fund would have been in a better position had it not hedged at all.
- (4) A Fund might be required to maintain assets as “cover,” maintain segregated accounts or make margin payments when it takes positions in hedging instruments involving obligations to third parties (i.e., hedging instruments other than purchased options). If the Fund were unable to close out its positions in such hedging instruments, it might be required to continue to maintain such assets or accounts or make such payments until the positions expired or matured. These requirements might impair the Fund’s ability to sell a portfolio security or

make an investment at a time when it would otherwise be favorable to do so, or require that the Fund sell a portfolio security at a disadvantageous time. The Fund's ability to close out a position in an instrument prior to expiration or maturity depends on the existence of a liquid secondary market or, in the absence of such a market, the ability and willingness of the opposite party to the transaction to enter into a transaction closing out the position. Therefore, there is no assurance that any hedging position can be closed out at a time and price that is favorable to the Fund.

#### COVER FOR HEDGING STRATEGIES

The Funds will not use Hedging Strategies for speculative purposes or for purposes of leverage, although an underlying fund may do so. Hedging Strategies, other than purchased options, expose the Funds to an obligation to another party. The Funds will not enter into any such transactions unless they own either (1) an offsetting ("covered") position in securities or other options or futures contracts or (2) cash, receivables and short-term debt securities, with a value sufficient at all times to cover its potential obligations to the extent not covered as provided in (1) above. The Funds will comply with SEC guidelines regarding cover for Hedging Strategies and will set aside cash or liquid assets in a segregated account with their custodian in the prescribed amount.

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

#### OPTIONS ACTIVITIES

Each Fund, either directly or through an underlying fund, may write (i.e., sell) call options ("calls") if the calls are "covered" throughout the life of the option. A call is "covered" if the fund owns the optioned securities. When a fund writes a call, it receives a premium and gives the purchaser the right to buy the underlying security at anytime during the call period (usually not more than nine months in the case of common stock) at a fixed exercise price regardless of market price changes during the call period. If the call is exercised, the fund will forego any gain from an increase in the market price of the underlying security over the exercise price. Each Fund also is authorized to write covered call options, but has no intention of doing so during the current fiscal year.

Each Fund, either directly or through an underlying fund, may purchase a call on securities only to effect a "closing transaction," which is the purchase of a call covering the same underlying security and having the same exercise price and expiration date as a call previously written by the fund on which it wishes to terminate its obligation. If the fund is unable to effect a closing transaction, it will not be able to sell the underlying security until the call previously written by the fund expires (or until the call is exercised and the fund delivers the underlying security).

Each Fund, either directly or through an underlying fund, may also may write and purchase put options ("puts"). When a fund writes a put, it receives a premium and gives the purchaser of the put the right to sell the underlying security to the fund at the exercise price at any time during the option period. When a fund purchases a put, it pays a premium in return for the right to sell the underlying security at the exercise price at any time during the option period. An underlying fund also may purchase stock index puts, which differ from puts on individual securities in that they are settled in cash based on the values of the securities in the underlying index rather than by delivery of the underlying securities. Purchase of a stock index put is designed to protect against a decline in the value of the portfolio generally rather than an individual security in the portfolio. If any put is not exercised or sold, it will become worthless on its expiration date.

A fund's option positions may be closed out only on an exchange that provides a secondary market for options of the same series, but there can be no assurance that a liquid secondary market will exist at any given time for any

particular option. In this regard, trading in options on certain securities (such as U.S. Government securities) is relatively new, so that it is impossible to predict to what extent liquid markets will develop or continue. Closing transactions may be effected with respect to options traded in the OTC markets (currently the primary markets for options on debt securities) only by negotiating directly with the other party to the option contract or in a secondary market for the option if such market exists. Although the funds will enter into OTC options with dealers that agree to enter into, and that are expected to be capable of entering into, closing transactions with the fund, there can be no assurance that the fund would be able to liquidate an OTC option at a favorable price at any time prior to expiration. In the event of insolvency of the contra-party, the fund may be unable to liquidate an OTC option. Accordingly, it may not be possible to effect closing transactions with respect to certain options, which would result in the fund having to exercise those options that it has purchased in order to realize any profit. With respect to options written by the fund, the inability to enter into a closing transaction may result in material losses to the fund. For example, because the fund must maintain a covered position with respect to any call option it writes on a security or stock index, the fund may not sell the underlying security or invest any cash, U.S. Government securities or short-term debt securities used to cover the option during the period it is obligated under such option. This requirement may impair the fund's ability to sell a portfolio security or make an investment at a time when such a sale or investment might be advantageous.

An underlying fund's custodian, or a securities depository acting for it, generally acts as escrow agent as to the securities on which the fund has written puts or calls, or as to other securities acceptable for such escrow so that no margin deposit is required of the fund. Until the underlying securities are released from escrow, they cannot be sold by the fund.

In the event of a shortage of the underlying securities deliverable on exercise of an option, the Options Clearing Corporation ("OCC") has the authority to permit other, generally comparable securities to be delivered in fulfillment of option exercise obligations. If the OCC exercises its discretionary authority to allow such other securities to be delivered, it may also adjust the exercise prices of the affected options by setting different prices at which otherwise ineligible securities may be delivered. As an alternative to permitting such substitute deliveries, the OCC may impose special exercise settlement procedures.

In view of the risks involved in using the options strategies described above, each Fund that engages directly in options activities has adopted the following investment guidelines to govern its use of such strategies; these guidelines may be modified without shareholder vote:

- (1) a Fund will write only covered options and each such option will remain covered so long as the Fund is obligated under the option;
- (2) a Fund will not write call or put options having aggregate exercise prices greater than 25% of its net assets; and
- (3) a Fund may purchase a put or call option, including any straddles or spreads, only if the value of its premium, when aggregated with the premiums on all other options held by the Funds, does not exceed 5% of the Fund's total assets.

The Funds' activities in the option markets may result in a higher portfolio turnover rate and additional brokerage costs; however, the Funds also may save on commissions by using options as a hedge rather than buying or selling individual securities in anticipation of or as a result of market movements.

## FUTURES CONTRACTS

A Fund or an underlying fund may enter into futures contracts for the purchase or sale of debt securities and stock indexes. A futures contract is an agreement between two parties to buy and sell a security or an index for a set price on a future date. Futures contracts are traded on designated "contract markets" that, through their clearing corporation, guarantee performance of the contracts.

Generally, if market interest rates increase, the value of outstanding debt securities declines (and vice versa). Entering into a futures contract for the sale of debt securities has an effect similar to the actual sale of securities, although sale of the futures contract might be accomplished more easily and quickly. For example, if an underlying fund holds long-term U.S. Government securities and it anticipates a rise in long-term interest rates (and therefore a decline in the value of those securities), it could, in lieu of disposing of those securities, enter into futures contracts for the sale of similar long-term securities. If rates thereafter increase and the value of the fund's portfolio securities thus declines, the value of the fund's futures contracts would increase, thereby protecting the fund by preventing the net asset value from declining as much as it otherwise would have. Similarly, entering into futures contracts for the purchase of debt securities has an effect similar to the actual purchase of the underlying securities, but permits the continued holding of securities other than the underlying securities. For example, if an underlying fund expects long-term interest rates to decline, it might enter into futures contracts for the purchase of long-term securities so that it could gain rapid market exposure that may offset anticipated increases in the cost of securities it intends to purchase while continuing to hold higher-yield short-term securities or waiting for the long-term market to stabilize.

A stock index futures contract may be used to hedge an underlying fund's portfolio with regard to market risk as distinguished from risk relating to a specific security. A stock index futures contract does not require the physical delivery of securities, but merely provides for profits and losses resulting from changes in the market value of the contract to be credited or debited at the close of each trading day to the respective accounts of the parties to the contract. On the contract's expiration date, a final cash settlement occurs. Changes in the market value of a particular stock index futures contract reflect changes in the specified index of equity securities on which the contract is based.

There are several risks in connection with the use of futures contracts. In the event of an imperfect correlation between the futures contract and the portfolio position that is intended to be protected, the desired protection may not be obtained and the fund may be exposed to risk of loss. Further, unanticipated changes in interest rates or stock price movements may result in a poorer overall performance for the fund than if it had not entered into futures contracts on debt securities or stock indexes.

In addition, the market prices of futures contracts may be affected by certain factors. First, all participants in the futures market are subject to margin deposit and maintenance requirements. Rather than meeting additional margin deposit requirements, investors may close futures contracts through offsetting transactions that could distort the normal relationship between the securities and futures markets. Second, from the point of view of speculators, the deposit requirements in the futures market are less onerous than margin requirements in the securities market. Therefore, increased participation by speculators in the futures market may also cause temporary price distortions.

Positions in futures contracts may be closed out only on an exchange or board of trade that provides a secondary market for such futures. Although the Funds intend to purchase or sell futures only on exchanges or boards of trade where there appears to be an active secondary market, there is no assurance that a liquid secondary market on an exchange or board of trade will exist for any particular contract at any particular time. In such event, it may not be possible to close a futures position, and in the event of adverse price movements, the Funds would continue to be required to make variation margin deposits.

As is the case with options, the Funds' activities in the futures markets may result in a higher portfolio turnover rate and additional transaction costs in the form of added brokerage commissions; however, the Funds also may save on commissions by using futures contracts as a hedge rather than buying or selling individual securities in anticipation of or as a result of market movements.

In view of the risks involved in using the futures strategies that are described above, each of these Funds has adopted the following investment guidelines to govern its use of such strategies; these guidelines may be modified without shareholder vote.

- (1) a Fund will not purchase or sell futures contracts or related options if, immediately thereafter, the sum of the amount of initial margin deposits on the Fund's existing futures positions and related options and premiums paid for related options would exceed 5% of the Fund's total assets; and
- (2) futures contracts and related options will not be purchased if immediately thereafter more than 30% of the Fund's total assets would be so invested.

#### OPTIONS ON FUTURES CONTRACTS

A Fund or an underlying fund may purchase and write (sell) put and call options on futures contracts. An option on a futures contract gives the purchaser the right, in return for the premium paid, to assume a position in a futures contract (a long position if the option is a call and a short position if the option is a put), at a specified exercise price at any time during the option period. When an option on a futures contract is exercised, delivery of the futures position is accompanied by cash representing the difference between the current market price of the futures contract and the exercise price of the option. A fund may purchase put options on futures contracts in lieu of, and for the same purpose as, a sale of a futures contract. It also may purchase such put options in order to hedge a long position in the underlying futures contract in the same manner as it purchases "protective puts" on securities.

Each Fund, either directly or indirectly through an underlying fund, also may purchase put options on interest rate and stock index futures contracts. As with options on securities, the holder of an option on a futures contract may terminate its position by selling an option of the same series. There is no guarantee that such closing transactions can be effected. An underlying fund is required to deposit initial margin and variation margin with respect to put and call options on futures contracts written by it pursuant to brokers' requirements similar to those applicable to futures contracts described above and, in addition, net option premiums received will be included as initial margin deposits.

In addition to the risks that apply to all options transactions, there are several special risks relating to options on futures contracts. The ability to establish and close out positions on such options will be subject to the development and maintenance of a liquid secondary market. There can be no certainty that liquid secondary markets for all options on futures contracts will develop. Compared to the use of futures contracts, the purchase of options on futures contracts involves less potential risk to an underlying fund because the maximum amount at risk is the premium paid for the options (plus transaction costs). However, there may be circumstances when the use of an option on a futures contract would result in a loss to the fund when the use of a futures contract would not, such as when there is no movement in the prices of the underlying securities. Writing an option on a futures contract involves risks similar to those arising in the sale of futures contracts, as described above.

#### FORWARD AND FOREIGN CURRENCY CONTRACTS

A Fund or an underlying fund may use forward or foreign currency contracts to protect against uncertainty in the level of future foreign currency exchange rates. The Funds will not speculate with forward currency contracts or foreign currency exchange rates.

A Fund or an underlying fund may enter into forward currency contracts with respect to specific transactions. For example, when a Fund enters into a contract for the purchase or sale of a security denominated in a foreign currency, or the Fund anticipates the receipt in a foreign currency of dividend or interest payments on a security that it holds or anticipates purchasing, the Fund may desire to "lock in" the U.S. dollar price of the security or the U.S. dollar equivalent of such payment, as the case may be, by entering into a forward contract for the purchase or sale, for a fixed amount of U.S. dollars or foreign currency, of the amount of foreign currency involved in the

underlying transaction. The Fund will thereby be able to protect itself against a possible loss resulting from an adverse change in the relationship between the currency exchange rates during the period between the date on which the security is purchased or sold, or on which the payment is declared, and the date on which such payments are made or received. These contracts are traded in the interbank market conducted directly between currency traders (usually large commercial banks) and their customers. A forward contract generally has no deposit requirement, and no commissions are charged at any stage for trades. Although such contracts tend to minimize the risk of loss due to a decline in the value of the subject currency, they tend to limit commensurately any potential gain that might result should the value of such currency increase during the contract period.

A Fund or an underlying fund may hedge by using forward currency contracts in connection with portfolio positions to lock in the U.S. dollar value of those positions, to increase the Fund's exposure to foreign currencies that the Adviser believes may rise in value relative to the U.S. dollar or to shift the Fund's exposure to foreign currency fluctuations from one country to another. For example, when the Adviser believes that the currency of a particular foreign country may suffer a substantial decline relative to the U.S. dollar or another currency, it may enter into a forward contract to sell the amount of the former foreign currency approximating the value of some or all of the Fund's portfolio securities denominated in such foreign currency. This investment practice generally is referred to as "cross-hedging" when another foreign currency is used.

The precise matching of the forward amounts and the value of the securities involved will not generally be possible because the future value of such securities in foreign currencies will change as a consequence of market movements in the value of those securities between the date the forward contract is entered into and the date it matures. Accordingly, it may be necessary for the Fund to purchase additional foreign currency on the spot (that is, cash) market (and bear the expense of such purchase) if the market value of the security is less than the amount of foreign currency the Fund is obligated to deliver and if a decision is made to sell the security and make delivery of the foreign currency. Conversely, it may be necessary to sell on the spot market some of the foreign currency received upon the sale of the portfolio security if the market value of the security exceeds the amount of foreign currency the Fund is obligated to deliver. The projection of short-term currency market movements is extremely difficult and the successful execution of a short-term hedging strategy is highly uncertain. Forward contracts involve the risk that anticipated currency movements will not be accurately predicted, causing the Fund to sustain losses on these contracts and transaction costs. The Fund may enter into forward contracts or maintain a net exposure on such contracts only if (1) the consummation of the contracts would not obligate the Fund to deliver an amount of foreign currency in excess of the value of the Fund's portfolio securities or other assets denominated in that currency or (2) the Fund maintains cash, U.S. Government securities or liquid, high-grade debt securities in a segregated account in an amount not less than the value of the Fund's total assets committed to the consummation of the contract which value must be marked to market daily. Under normal circumstances, consideration of the prospect for currency parties will be incorporated into the longer term investment decisions made with regard to overall diversification strategies. However, the Adviser believes that it is important to have the flexibility to enter into such forward contracts when it determines that the best interests of the Fund will be served.

At or before the maturity date of a forward contract requiring the Fund to sell a currency, the Fund may either sell a portfolio security and use the sale proceeds to make delivery of the currency or retain the security and offset its contractual obligation to deliver the currency by purchasing a second contract pursuant to which the Fund will obtain, on the same maturity date, the same amount of the currency that it is obligated to deliver. Similarly, the Fund may close out a forward contract requiring it to purchase a specified currency by entering into a second contract entitling it to sell the same amount of the same currency on the maturity date of the first contract. The Fund would realize a gain or loss as a result of entering into such an offsetting forward currency contract under either circumstance to the extent the exchange rate or rates between the currencies involved moved between the execution dates of the first contract and the offsetting contract.

The cost to the Fund of engaging in forward currency contracts varies with factors such as the currencies involved, the length of the contract period and the market conditions then prevailing. Because forward currency



contracts are usually entered into on a principal basis, no fees or commissions are involved. The use of forward currency contracts does not eliminate fluctuations in the prices of the underlying securities the Fund owns or intends to acquire, but it does fix a rate of exchange in advance. In addition, although forward currency contracts limit the risk of loss due to a decline in the value of the hedged currencies, at the same time they limit any potential gain that might result should the value of the currencies increase.

Although each Fund values its assets daily in terms of U.S. dollars, it does not intend to convert its holdings of foreign currencies into U.S. dollars on a daily basis. The Fund may convert foreign currency from time to time and investors should be aware of the costs of currency conversion. Although foreign exchange dealers do not charge a fee for conversion, they do realize a profit based on the difference between the prices at which they are buying and selling various currencies. Thus, a dealer may offer to sell a foreign currency to the Fund at one rate, while offering a lesser rate of exchange should the Fund desire to resell that currency to the dealer.