

STATEMENT OF ADDITIONAL INFORMATION

Hotchkis and Wiley Funds

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Hotchkis and Wiley Diversified Value Fund (“Diversified Value Fund”), Hotchkis and Wiley Large Cap Value Fund (“Large Cap Value Fund”), Hotchkis and Wiley Mid-Cap Value Fund (“Mid-Cap Value Fund”), Hotchkis and Wiley Small Cap Value Fund (“Small Cap Value Fund”), Hotchkis and Wiley Value Opportunities Fund (“Value Opportunities Fund”), Hotchkis and Wiley Capital Income Fund (“Capital Income Fund”) and Hotchkis and Wiley High Yield Fund (“High Yield Fund”) (each, a “Fund” and collectively, the “Funds”) are funds (or series) of Hotchkis and Wiley Funds (the “Trust”). The Trust is an open-end, management investment company which is organized as a Delaware statutory trust.

Fund	Ticker Symbol			
	Class I	Class A	Class C	Class R
Diversified Value Fund	HWCIX	HWCAX	HWCCX	N/A
Large Cap Value Fund	HWLIX	HWLAX	HWLCX	HWLRX
Mid-Cap Value Fund	HWMIX	HWMAX	HWMCX	HWMRX
Small Cap Value Fund	HWSIX	HWSAX	HWSCX	N/A
Value Opportunities Fund	HWAIX	HWAAX	HWACX	N/A
Capital Income Fund	HWIIX	HWIAX	(not currently offered)	N/A
High Yield Fund	HWHIX	HWHAX	(not currently offered)	N/A

This Statement of Additional Information (“SAI”) is not a prospectus and should be read in conjunction with the Prospectus dated August 29, 2011 for the Large Cap Value and Mid-Cap Value Funds’ Class I, Class A, Class C and Class R shares, and the Diversified Value, Small Cap Value, Value Opportunities, Capital Income and High Yield Funds’ Class I, Class A and Class C shares (“Prospectus”). The Prospectus has been filed with the United States Securities and Exchange Commission (the “Commission”) and can be obtained, without charge, by calling the Funds at 1-866-HW-FUNDS (1-866-493-8637) or your financial consultant or other financial intermediary, or by writing to the Funds at U.S. Bancorp Fund Services, LLC, 615 East Michigan Street, Milwaukee, WI 53202. The Prospectus is incorporated by reference into this SAI, and this SAI is incorporated by reference into the Prospectus. The Funds’ audited financial statements are incorporated into this SAI by reference to their Annual Report for the fiscal year ended June 30, 2011. You may request a copy of the Annual Report at no charge by calling 1-866-HW-FUNDS (1-866-493-8637).

Hotchkis and Wiley Capital Management, LLC — (“Advisor”)

The date of this SAI is August 29, 2011.

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TRUST HISTORY

The Trust was formed on July 23, 2001 as a Delaware statutory trust. The Trust is an open-end, management investment company currently consisting of six separate diversified series (the Diversified Value Fund, the Large Cap Value Fund, the Mid-Cap Value Fund, the Small Cap Value Fund, the Capital Income Fund and the High Yield Fund) and one separate non-diversified series (the Value Opportunities Fund). The Trust was organized to acquire the assets and liabilities of the Mercury HW Large Cap Value Fund, the Mercury HW Mid-Cap Value Fund and the Mercury HW Small Cap Value Fund (the "Mercury HW Funds"). On February 4, 2002, the Mercury HW Funds were reorganized into the Trust through a non-taxable exchange. The performance of the Large Cap Value Fund, Mid-Cap Value Fund and Small Cap Value Fund includes the historical performance of their predecessors. Prior to August 28, 2009, the Diversified Value Fund was known as the Hotchkis and Wiley Core Value Fund and the Value Opportunities Fund was known as the Hotchkis and Wiley All Cap Value Fund.

DESCRIPTION OF THE FUNDS, THEIR INVESTMENTS AND RISKS

The investment objectives, principal investment strategies and related principal risks of the Funds are set forth in the Prospectus. This SAI includes additional information about those investment strategies and risks as well as information about other investment strategies in which the Funds may engage and the risks associated with such strategies.

Investment Restrictions

Each Fund has adopted the following restrictions (in addition to its investment objective(s)) as fundamental policies, which may not be changed without the favorable vote of the holders of a "majority" of that Fund's outstanding voting securities, as defined in the Investment Company Act of 1940, as amended (the "1940 Act"). Under the 1940 Act, the vote of the holders of a "majority" of a Fund's outstanding voting securities means the vote of the holders of the lesser of (1) 67% or more of the shares of the Fund represented at a meeting at which the holders of more than 50% of its outstanding shares are represented or (2) more than 50% of the outstanding shares.

Except as noted, none of the Funds may:

1. Purchase any security, other than obligations of the U.S. government, its agencies, or instrumentalities ("U.S. government securities"), if as a result: (i) with respect to 75% of its total assets, more than 5% of the Fund's total assets (determined at the time of investment) would then be invested in securities of a single issuer; or (ii) 25% or more of the Fund's total assets (determined at the time of investment) would be invested in one or more issuers having their principal business activities in a single industry. This restriction does not apply to the Value Opportunities Fund.
2. Purchase securities on margin (but any Fund may obtain such short-term credits as may be necessary for the clearance of transactions), provided that the deposit or payment by a Fund of initial or maintenance margin in connection with futures or options is not considered the purchase of a security on margin.
3. Except for the Capital Income Fund and the High Yield Fund, make short sales of securities or maintain a short position, unless at all times when a short position is open it owns an equal amount of such securities or securities convertible into or exchangeable, without payment of any further consideration, for securities of the same issue as, and equal in amount to, the securities sold short (short sale against-the-box), and unless not more than 25% of the Fund's net assets (taken at current value) is held as collateral for such sales at any one time.
4. Issue senior securities, borrow money or pledge its assets except that any Fund may borrow from a bank for temporary or emergency purposes in amounts not exceeding 10% (taken at the lower of cost or current value) of its total assets (not including the amount borrowed) and pledge its assets to secure such borrowings; none of the Funds will purchase any additional portfolio securities while such borrowings are outstanding, except for the High Yield Fund. The Capital Income Fund and the High Yield Fund may borrow from banks in amounts not exceeding 33 1/3% of their total assets (including borrowings) and may pledge their assets to secure such borrowings.
5. Purchase any security (other than U.S. government securities) if as a result, with respect to 75% of the Fund's total assets, the Fund would then hold more than 10% of the outstanding voting securities of an issuer. This restriction does not apply to the Value Opportunities Fund.

6. Purchase or sell commodities or commodity contracts or real estate or interests in real estate, although it may purchase and sell securities which are secured by real estate and securities of companies which invest or deal in real estate. (For the purposes of this restriction, forward foreign currency exchange contracts are not deemed to be commodities or commodity contracts.)
7. Act as underwriter except to the extent that, in connection with the disposition of portfolio securities, it may be deemed to be an underwriter under certain federal securities laws.
8. Make investments for the purpose of exercising control or management.
9. Make loans except to the extent permitted by the 1940 Act, and any regulations, interpretations or exemptive or other relief granted thereunder.

In addition, the Value Opportunities Fund may not:

1. Purchase any security (other than U.S. government securities) if as a result, 25% or more of the Fund's total assets (determined at the time of investment) would be invested in one or more issuers having their principal business activities in a single industry, except for temporary defensive purposes.
2. Purchase any security (other than U.S. government securities) if as a result, the Fund would then hold more than 10% of the outstanding voting securities of an issuer.

Any percentage limitation on a Fund's investments is determined when the investment is made, unless otherwise noted. The above restrictions do not prohibit representatives of a Fund or the Advisor from participating on creditors' committees with respect to the Fund's portfolio investments.

The Large Cap Value Fund, the Mid-Cap Value Fund, the Small Cap Value Fund and the High Yield Fund will provide 60 days' prior written notice to shareholders of a change in that Fund's non-fundamental policy of investing at least 80% of its net assets plus borrowings for investment purposes in the type of investments suggested by the Fund's name.

Recent Regulatory Events. The U.S. government, the Federal Reserve, the Treasury, the Commission, the Commodity Futures Trading Commission ("CFTC"), the Federal Deposit Insurance Corporation and other U.S. governmental and regulatory bodies have recently taken, or are considering taking, actions in response to the economic events of the past few years. These actions include, but are not limited to, the enactment by the United States Congress of the Dodd-Frank Wall Street Reform and Consumer Protection Act, signed into law on July 21, 2010, which imposes a new regulatory framework over the U.S. financial services industry and the consumer credit markets in general, as well as requiring sweeping new regulations by the Commission, the CFTC and other regulators. Given the broad scope, sweeping nature, and relatively recent enactment of some of these statutes and regulatory measures, the potential impact they could have on securities held by the Funds currently is unknown. There can be no assurance that these measures will not have an adverse effect on the value or marketability of securities held by the Funds. Furthermore, no assurance can be made that the U.S. government or any U.S. regulatory body (or other authority or regulatory body) will refrain from taking further legislative or regulatory action. All swap agreements and other derivative instruments that were not classified as commodities or commodity contracts prior to July 21, 2010 are not deemed to be commodities or commodity contracts for purposes of restriction No. 6 above.

Bonds

The term "bond" or "bonds" as used in the Prospectus and this SAI is intended to include all manner of fixed-income securities, debt securities and other debt obligations unless specifically defined or the context requires otherwise.

Borrowing

The Funds, except for the High Yield Fund and the Capital Income Fund, may borrow for temporary or emergency purposes in amounts not exceeding 10% of each Fund's total assets. The High Yield Fund and the Capital Income Fund may borrow money in amounts not exceeding 33 1/3% of their total assets. The 1940 Act requires a Fund to maintain continuous asset coverage (that is, total assets including borrowings, less liabilities exclusive of borrowings) of 300% of the amount borrowed. Borrowing subjects a Fund to interest costs which may or may not be recovered by appreciation of the securities purchased, and can exaggerate the effect on net asset value of any increase or decrease in the market value of a Fund's portfolio. This is the speculative factor known as leverage.

Convertible Securities

The Funds may invest in convertible securities of domestic or foreign issuers. Convertible securities are generally preferred stocks and other securities, including fixed-income securities, which may be converted at a stated price within a specified period of time into a certain quantity of common stock or other equity securities of the same or a different issuer. Convertible securities rank senior to common stock in a corporation's capital structure but are usually subordinated to similar non-convertible securities. While providing a fixed income stream (generally higher in yield than the income derivable from common stock but lower than that afforded by a similar non-convertible security), a convertible security also affords an investor the opportunity, through its conversion feature, to participate in the capital appreciation attendant upon a market price advance in the convertible security's underlying common stock.

In general, the market value of a convertible security is at least the higher of its "investment value" (that is, its value as a fixed-income security) or its "conversion value" (that is, its value upon conversion into its underlying stock). As a fixed-income security, a convertible security tends to increase in market value when interest rates decline and tends to decrease in value when interest rates rise. However, the price of a convertible security is also influenced by the market value of the security's underlying common stock. The price of a convertible security tends to increase as the market value of the underlying stock rises, whereas it tends to decrease as the market value of the underlying stock declines. While no security's investment is without some risk, investments in convertible securities generally entail less risk than investments in the common stock of the same issuer.

Corporate Debt Securities

The Funds, except for the High Yield Fund and the Value Opportunities Fund, may invest in corporate debt securities (corporate bonds, debentures, notes and other similar corporate debt instruments) of domestic or foreign issuers rated investment grade (any of the four highest grades). The Mid-Cap Value Fund and the Small Cap Value Fund may also invest up to 5% of their respective total assets in corporate debt securities rated below investment grade, but not below B. The High Yield Fund and the Value Opportunities Fund may invest in corporate debt securities of domestic or foreign issuers of which no more than 10% of their total assets may be invested in securities rated below investment grade. The Capital Income Fund may invest in corporate debt securities of domestic or foreign issuers of which up to 100% of its total assets may be invested in securities rated below investment grade. The rate of return or return of principal on some debt obligations may be linked or indexed to the level of exchange rates between the U.S. dollar and a foreign currency or currencies. Corporate debt securities are subject to the risk of the issuer's inability to meet principal and interest payments on the obligation and may also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity. When interest rates rise, the value of corporate debt securities can be expected to decline. Debt securities with longer maturities tend to be more sensitive to interest rate movements than those with shorter maturities. Security ratings are based on at least one major rating agency, or if unrated, of comparable quality in the Advisor's opinion.

Corporate Loans

The Funds can invest in corporate loans. Commercial banks and other financial institutions make corporate loans to companies that need capital to grow or restructure. Borrowers generally pay interest on corporate loans at rates that change in response to changes in market interest rates such as the London Interbank Offered Rate ("LIBOR") or the prime rates of U.S. banks. As a result, the value of corporate loan investments is generally less responsive to shifts in market interest rates. Because the trading market for corporate loans is less developed than the secondary market for bonds and notes, a Fund may experience difficulties from time to time in selling its corporate loans. Borrowers frequently provide collateral to secure repayment of these obligations. Leading financial institutions often act as agent for a broader group of lenders, generally referred to as a "syndicate." The syndicate's agent arranges the corporate loans, holds collateral and accepts payments of principal and interest. If the agent developed financial problems, a Fund may not recover its investment, or there might be a delay in the Fund's recovery. By investing in a corporate loan, the Fund becomes a member of the syndicate.

Delayed Funding Loans and Revolving Credit Facilities

The Capital Income Fund, the High Yield Fund and the Value Opportunities Fund may enter into, or acquire participations in, delayed funding loans and revolving credit facilities, in which a lender agrees to make loans up to a maximum amount upon demand by the borrower during a specified term. These commitments may have the effect of requiring the Capital Income Fund, the High Yield Fund or the Value Opportunities Fund to increase its investment in a company at a time when it might not otherwise decide to do so (including at a time when the company's financial condition makes it unlikely

that such amounts will be repaid). To the extent that the Capital Income Fund, the High Yield Fund or the Value Opportunities Fund is committed to advance additional funds, the Fund will segregate or “ earmark” cash or other unencumbered assets determined to be liquid by the Advisor in accordance with procedures established by the Board of Trustees (“liquid assets”), that are equal to its obligations under the commitment. Delayed funding loans and revolving credit facilities are subject to credit, interest rate and liquidity risk and the risks of being a lender.

Derivative Instruments

To the extent consistent with their investment objectives and policies and the investment restrictions listed in this SAI, the Funds may purchase and write call and put options on securities, securities indexes and on foreign currencies and enter into futures contracts and use options on futures contracts. The Funds also may enter into swap agreements with respect to credit default, foreign currencies, interest rates and securities indexes. The Funds may use these techniques to hedge against changes in interest rates, foreign currency exchange rates, or securities prices or as part of their overall investment strategies.

Options on Securities and on Securities Indexes. A Fund may purchase put options on securities or security indexes to protect holdings in an underlying or related security against a substantial decline in market value. A Fund may purchase call options on securities and security indexes. A Fund may sell put or call options it has previously purchased, which could result in a net gain or loss depending on whether the amount realized on the sale is more or less than the premium and other transaction costs paid on the put or call option which is sold. A Fund may write a call or put option only if the option is “covered” by the Fund holding a position in the underlying securities or by other means which would permit immediate satisfaction of the Fund’s obligation as writer of the option. Prior to exercise or expiration, an option may be closed out by an offsetting purchase or sale of an option of the same series.

A Fund may also purchase put and call options on stock indexes. The amount of cash received upon exercise of a stock index option, if any, will be the difference between the closing price of the index and the exercise price of the option, multiplied by a specified dollar multiple. All settlements of stock index option transactions are in cash. Some stock index options are based on a broad market index such as the Standard & Poor’s 500 Index (the “S&P 500 Index”), the New York Stock Exchange Composite Index, or the American Stock Exchange Major Market Index, or on a narrower index such as the Philadelphia Stock Exchange Over-the-Counter Index. Because the value of a stock index option depends upon movements in the level of the index rather than the price of a particular stock, whether the Fund will realize a gain or loss from the purchase of options on an index depends upon movements in the level of stock prices in the stock market generally or, in the case of certain indexes, in an industry or market segment, rather than upon movements in the price of a particular stock.

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

There are several risks associated with transactions in options on securities and on indexes. For example, there are significant differences between the securities and options markets that could result in an imperfect correlation between these markets, causing a given transaction not to achieve its objectives. A decision as to whether, when and how to use options involves the exercise of skill and judgment, and even a well-conceived transaction may be unsuccessful to some degree because of market behavior or unexpected events.

There can be no assurance that a liquid market will exist when a Fund seeks to close out an option position. If a Fund were unable to close out an option that it had purchased on a security, it would have to exercise the option in order to realize any profit or the option may expire worthless. If a Fund were unable to close out a covered call option that it had written on a security, it would not be able to sell the underlying security unless the option expired without exercise. As the

writer of a covered call option, a Fund forgoes, during the option's life, the opportunity to profit from increases in the market value of the security covering the call option above the sum of the premium and the exercise price of the call.

If trading were suspended in an option purchased by a Fund, the Fund would not be able to close out the option. If restrictions on exercise were imposed, the Fund might be unable to exercise an option it had purchased. Except to the extent that a call option on an index written by the Fund is covered by an option on the same index purchased by the Fund, movements in the index may result in a loss to the Fund; however, such losses may be mitigated by changes in the value of the Fund's securities during the period the option was outstanding.

Futures Contracts and Options on Futures Contracts. A Fund may use interest rate, foreign currency or index futures contracts, as specified for that Fund in the Prospectus or if permitted by its investment restrictions. An interest rate, foreign currency or index futures contract provides for the future sale by one party and purchase by another party of a specified quantity of a financial instrument, foreign currency or the cash value of an index at a specified price and time. A futures contract on an index is an agreement pursuant to which two parties agree to take or make delivery of an amount of cash equal to the difference between the value of the index at the close of the last trading day of the contract and the price at which the index contract was originally written. Although the value of an index might be a function of the value of certain specified securities, no physical delivery of these securities is made.

A Fund may purchase and write call and put options on futures. Options on futures possess many of the same characteristics as options on securities and indexes (discussed above). An option on a futures contract gives the holder the right, in return for the premium paid, to assume a long position (call) or short position (put) in a futures contract at a specified exercise price at any time during the period of the option. Upon exercise of a call option, the holder acquires a long position in the futures contract and the writer is assigned the opposite short position. In the case of a put option, the opposite is true.

Each Fund will use futures contracts and options on futures contracts in accordance with the rules of the Commodity Futures Trading Commission ("CFTC"). For example, a Fund might use futures contracts to hedge against anticipated changes in interest rates that might adversely affect either the value of the Fund's securities or the price of the securities which the Fund intends to purchase. A Fund's hedging activities may include sales of futures contracts as an offset against the effect of expected increases in interest rates, and purchases of futures contracts as an offset against the effect of expected declines in interest rates. Although other techniques could be used to reduce that Fund's exposure to interest rate fluctuations, the Fund may be able to hedge its exposure more effectively and perhaps at a lower cost by using futures contracts and options on futures contracts. Pursuant to CFTC Rule 4.5, the Trust has filed a notice of exemption from registration as a commodity pool operator in respect of each Fund.

Limitations on Use of Futures and Options Thereon. A Fund that may use futures and futures options will only enter into futures contracts and futures options which are standardized and traded on a U.S. or foreign exchange, board of trade, or similar entity, or quoted on an automated quotation system.

When a purchase or sale of a futures contract is made by a Fund, the Fund is required to deposit with its custodian (or broker, if legally permitted) a specified amount of cash, U.S. government securities or other securities ("initial margin"). The margin required for a futures contract is set by the exchange on which the contract is traded and may be modified during the term of the contract. Margin requirements on foreign exchanges may be different than U.S. exchanges. The initial margin is in the nature of a performance bond or good faith deposit on the futures contract which is returned to the Fund upon termination of the contract, assuming all contractual obligations have been satisfied. Each Fund expects to earn interest income on its initial margin deposits. A futures contract held by a Fund is valued daily in accordance with policies approved by the Board of Trustees. Each day a Fund pays or receives cash, called "variation margin," equal to the daily change in value of the futures contract. This process is known as "marking to market." Variation margin does not represent a borrowing or loan by a Fund but is instead a settlement between the Fund and the broker of the amount one would owe the other if the futures contract expired. In computing daily net asset value, each Fund will mark-to-market its open futures positions.

A Fund is also required to deposit and maintain margin with respect to put and call options on futures contracts written by it. Such margin deposits will vary depending on the nature of the underlying futures contract (and the related initial margin requirements), the current market value of the option, and other futures positions held by the Fund.

Although some futures contracts call for making or taking delivery of the underlying securities or commodities, generally these obligations are closed out prior to delivery by offsetting purchases or sales of matching futures contracts (same exchange, underlying security or index, and delivery month). Closing out a futures contract sale is effected by

purchasing a futures contract for the same aggregate amount of the specific type of financial instrument or commodity with the same delivery date. If an offsetting purchase price is less than the original sale price, a Fund realizes a capital gain, or if it is more, a Fund realizes a capital loss. Conversely, if an offsetting sale price is more than the original purchase price, a Fund realizes a capital gain, or if it is less, a Fund realizes a capital loss. The transaction costs must also be included in these calculations.

When purchasing a futures contract, a Fund will segregate or "earmark" liquid assets, that, when added to the amounts deposited with a futures commission merchant as margin, are equal to the market value of the futures contract. Alternatively, a Fund may "cover" its position by purchasing a put option on the same futures contract with a strike price as high as or higher than the price of the contract held by the Fund. When selling a futures contract, a Fund will segregate or "earmark" liquid assets that are equal to the market value of the futures contract. Alternatively, a Fund may "cover" its position by owning the instruments underlying the futures contract (or, in the case of an index futures contract, a portfolio with a volatility substantially similar to that of the index on which the futures contract is based), or by holding a call option permitting the Fund to purchase the same futures contract at a price no higher than the price of the contract written by the Fund (or at a higher price if the difference is maintained in liquid assets with the Trust's custodian).

If a Fund writes a call option on a security or an index, it may "cover" its obligation under the call option by owning the security or index underlying the call option, by having an absolute and immediate right to acquire that security or index without additional cash consideration (or, if additional cash consideration is required, cash or other liquid assets in such amount are segregated or "earmarked") upon conversion or exchange of other securities held by the Fund, or by segregating or "earmarking" liquid assets in an amount equal to the market value of the security or index underlying the option. A call option written by a Fund is also covered if the Fund holds a call on the same security or index as the call written where the exercise price of the call held is (i) equal to or less than the exercise price of the call written; or (ii) greater than the exercise price of the call written, provided the difference is maintained by the Fund in segregated or "earmarked" liquid assets. A put option on a security or an index written by a Fund is "covered" if the Fund segregates or "earmarks" liquid assets equal to the exercise price. A put option written by a Fund is also covered if the Fund holds a put on the same security or index as the put written where the exercise price of the put held is (i) equal to or greater than the exercise price of the put written, or (ii) less than the exercise price of the put written, provided the difference is maintained by the Fund in segregated or "earmarked" liquid assets.

When selling a call option on a futures contract, a Fund will segregate or "earmark" liquid assets, that, when added to the amounts deposited with a futures commission merchant as margin, equal the total market value of the futures contract underlying the call option. Alternatively, the Fund may cover its position by entering into a long position in the same futures contract at a price no higher than the strike price of the call option, by owning the instruments underlying the futures contract, or by holding a separate call option permitting the Fund to purchase the same futures contract at a price not higher than the strike price of the call option sold by the Fund.

When selling a put option on a futures contract, a Fund will segregate or "earmark" liquid assets, that equal the purchase price of the futures contract, less any margin on deposit. Alternatively, the Fund may cover the position either by entering into a short position in the same futures contract, or by owning a separate put option permitting it to sell the same futures contract so long as the strike price of the purchased put option is the same or higher than the strike price of the put option sold by the Fund.

Risk Factors in Futures Transactions and Options. Investment in futures contracts involves the risk of imperfect correlation between movements in the price of the futures contract and the price of the security being hedged. The hedge will not be fully effective when there is imperfect correlation between the movements in the prices of two financial instruments. For example, if the price of the futures contract moves more than the price of the hedged security, a Fund will experience either a loss or gain on the futures contract which is not completely offset by movements in the price of the hedged securities. To compensate for imperfect correlations, the Fund may purchase or sell futures contracts in a greater dollar amount than the hedged securities if the volatility of the hedged securities is historically greater than the volatility of the futures contracts. Conversely, the Fund may purchase or sell fewer futures contracts if the volatility of the price of the hedged securities is historically less than that of the futures contracts.

The particular securities comprising the index underlying the index financial futures contract may vary from the securities held by a Fund. As a result, the Fund's ability to hedge effectively all or a portion of the value of its securities through the use of such financial futures contracts will depend in part on the degree to which price movements in the index underlying the financial futures contract correlate with the price movements of the securities held by the Fund. The correlation may be affected by disparities in the Fund's investments as compared to those comprising the index and general economic or political factors. In addition, the correlation between movements in the value of the index may be

subject to change over time as additions to and deletions from the index alter its structure. The trading of futures contracts also is subject to certain market risks, such as inadequate trading activity, which could at times make it difficult or impossible to liquidate existing positions.

Each Fund expects to liquidate a majority of the futures contracts it enters into through offsetting transactions on the applicable contract market. There can be no assurance, however, that a liquid secondary market will exist for any particular futures contract at any specific time. Thus, it may not be possible to close out a futures position. In the event of adverse price movements, the Fund would continue to be required to make daily cash payments of variation margin. In such situations, if the Fund has insufficient cash, it may be required to sell portfolio securities to meet daily variation margin requirements at a time when it may be disadvantageous to do so. The inability to close out futures positions also could have an adverse impact on the Fund's ability to hedge effectively its investments. The liquidity of a secondary market in a futures contract may be adversely affected by "daily price fluctuation limits" established by commodity exchanges which limit the amount of fluctuation in a futures contract price during a single trading day. Once the daily limit has been reached in the contract, no trades may be entered into at a price beyond the limit, thus preventing the liquidation of open futures positions. Prices have in the past moved beyond the daily limit on a number of consecutive trading days. A Fund will enter into a futures position only if, in the judgment of the Advisor, there appears to be an actively traded secondary market for such futures contracts.

The successful use of transactions in futures and related options also depends on the ability of the Advisor to forecast correctly the direction and extent of interest rate movements within a given time frame. To the extent interest rates remain stable during the period in which a futures contract or option is held by a Fund or such rates move in a direction opposite to that anticipated, the Fund may realize a loss on a hedging transaction which is not fully or partially offset by an increase in the value of portfolio securities. As a result, the Fund's total return for such period may be less than if it had not engaged in the hedging transaction.

Because of low initial margin deposits made upon the opening of a futures position, futures transactions involve substantial leverage. As a result, relatively small movements in the price of the futures contracts can result in substantial unrealized gains or losses. There is also the risk of loss by a Fund of margin deposits in the event of the bankruptcy of a broker with whom the Fund has an open position in a financial futures contract.

The amount of risk a Fund assumes when it purchases an option on a futures contract is the premium paid for the option plus related transaction costs. In addition to the correlation risks discussed above, the purchase of an option on a futures contract also entails the risk that changes in the value of the underlying futures contract will not be fully reflected in the value of the option purchased.

Emerging Market Securities

The Funds may invest in securities and instruments that are economically tied to developing (or "emerging market") countries. Emerging markets generally include every country in the world other than the United States, Canada, Japan, Australia, Malaysia, New Zealand, Hong Kong, Singapore and most Western European countries. The Advisor generally considers an instrument to be economically tied to an emerging market country if the issuer or guarantor is a government of an emerging market country (or any political subdivision, agency, authority or instrumentality of such government), if the issuer or guarantor is organized under the laws of an emerging market country, or if the currency of settlement of the security is a currency of an emerging market country. With respect to derivative instruments, the Advisor generally considers such instruments to be economically tied to emerging market countries if the underlying assets are currencies of emerging market countries (or baskets or indexes of such currencies), or instruments or securities that are issued or guaranteed by governments of emerging market countries or by entities organized under the laws of emerging market countries. The Advisor has broad discretion to identify countries that it considers to qualify as emerging markets. In making investments in emerging market securities, a Fund emphasizes countries with relatively low gross national product per capita and with the potential for rapid economic growth. Emerging market countries are generally located in Asia, Africa, the Middle East, Latin America and Eastern Europe. The Advisor will select the country and currency composition based on its evaluation of relative interest rates, inflation rates, exchange rates, monetary and fiscal policies, trade and current account balances, and any other specific factors it believes to be relevant.

Investing in emerging market securities imposes risks different from, or greater than, risks of investing in domestic securities or in foreign, developed countries. These risks include: smaller market capitalization of securities markets, which may suffer periods of relative illiquidity; significant price volatility; restrictions on foreign investment; possible repatriation of investment income and capital. In addition, foreign investors may be required to register the proceeds of sales; future economic or political crises could lead to price controls, forced mergers, expropriation or confiscatory

taxation, seizure, nationalization, or creation of government monopolies. The currencies of emerging market countries may experience significant declines against the U.S. dollar, and devaluation may occur subsequent to investments in these currencies by a Fund. Inflation and rapid fluctuations in inflation rates have had, and may continue to have, negative effects on the economies and securities markets of certain emerging market countries.

Additional risks of emerging market securities may include: greater social, economic and political uncertainty and instability; more substantial governmental involvement in the economy; less governmental supervision and regulation; unavailability of currency hedging techniques; companies that are newly organized and small; differences in auditing and financial reporting standards, which may result in unavailability of material information about issuers; and less developed legal systems. In addition, emerging securities markets may have different clearance and settlement procedures, which may be unable to keep pace with the volume of securities transactions or otherwise make it difficult to engage in such transactions. Settlement problems may cause a Fund to miss attractive investment opportunities, hold a portion of its assets in cash pending investment, or be delayed in disposing of a portfolio security. Such a delay could result in possible liability to a purchaser of the security.

The Capital Income Fund and the High Yield Fund may invest in Brady Bonds, which are securities created through the exchange of existing commercial bank loans to sovereign entities for new obligations in connection with debt restructurings. Investments in Brady Bonds may be viewed as speculative. Brady Bonds acquired by the Capital Income Fund and the High Yield Fund may be subject to restructuring arrangements or to requests for new credit, which may cause the Fund to suffer a loss of interest or principal on any of its holdings of relevant Brady Bonds.

Foreign investment risk may be particularly high to the extent that a Fund invests in emerging market securities that are economically tied to countries with developing economies. These securities may present market, credit, currency, liquidity, legal, political and other risks different from, or greater than, the risks of investing in developed foreign countries.

Event-Linked Exposure

The Capital Income Fund, the High Yield Fund and the Value Opportunities Fund may obtain event-linked exposure by investing in “event-linked bonds” or “event-linked swaps” or implement “event-linked strategies.” Event-linked exposure results in gains or losses that typically are contingent, or formulaically related to, defined trigger events. Examples of trigger events include hurricanes, earthquakes, weather-related phenomena, or statistics relating to such events. Some event-linked bonds are commonly referred to as “catastrophe bonds.” If a trigger event occurs, the Capital Income Fund, the High Yield Fund or the Value Opportunities Fund may lose a portion or its entire principal invested in the bond or notional amount on a swap. Event-linked exposure often provides for an extension of maturity to process and audit loss claims where a trigger event has, or possibly has, occurred. An extension of maturity may increase volatility. Event-linked exposure may also expose the Capital Income Fund, the High Yield Fund and the Value Opportunities Fund to certain unanticipated risks including credit risk, counterparty risk, adverse regulatory or jurisdictional interpretations, and adverse tax consequences. Event-linked exposures may also be subject to liquidity risk.

Equity Securities

Equity securities, such as common stock, represent an ownership interest, or the right to acquire an ownership interest, in an issuer and have greater price volatility than fixed-income securities. The market price of equity securities owned by a Fund may go up or down, sometimes rapidly or unpredictably.

Common stock generally takes the form of shares in a corporation. The value of a company's stock may fall as a result of factors directly relating to that company, such as decisions made by its management or lower demand for the company's products or services. A stock's value also may fall because of factors affecting not just the company, but also companies in the same industry or in a number of different industries, such as increases in production costs. The value of a company's stock also may be affected by changes in financial markets that are relatively unrelated to the company or its industry, such as changes in interest rates or currency exchange rates. In addition, a company's stock generally pays dividends only after the company invests in its own business and makes required payments to holders of its bonds, other debt and preferred stock. For this reason, the value of a company's stock will usually react more strongly than its bonds, other debt and preferred stock to actual or perceived changes in the company's financial condition or prospects. Stocks of smaller companies may be more vulnerable to adverse developments than those of larger companies. Stocks of companies that the portfolio managers believe are fast-growing may trade at a higher multiple of current earnings than other stocks. The value of such stocks may be more sensitive to changes in current or expected earnings than the values of other stocks.

Different types of equity securities provide different voting and dividend rights and priority in the event of the bankruptcy and/or insolvency of the issuer. In addition to common stock, equity securities may include preferred stock, convertible securities and warrants, which are discussed elsewhere in the Prospectuses and this Statement of Additional Information. Equity securities other than common stock are subject to many of the same risks as common stock, although possibly to different degrees. The risks of equity securities are generally magnified in the case of equity investments in distressed companies.

Foreign (Non-U.S.) Currencies

The Capital Income Fund, the High Yield Fund and the Value Opportunities Fund may invest directly in foreign currencies or in securities that trade in, or receive revenues in, foreign currencies and will be subject to currency risk. Foreign currency exchange rates may fluctuate significantly over short periods of time. They generally are determined by supply and demand in the foreign exchange markets and the relative merits of investments in different countries, actual or perceived changes in interest rates and other complex factors. Currency exchange rates also can be affected unpredictably by intervention (or the failure to intervene) by U.S. or foreign governments or central banks, or by currency controls or political developments.

The Capital Income Fund, the High Yield Fund and the Value Opportunities Fund may engage in foreign currency transactions on a spot (cash) basis, and enter into forward foreign currency exchange contracts and invest in foreign currency futures contracts and options on foreign currencies and futures. A forward foreign currency exchange contract, which involves an obligation to purchase or sell a specific currency at a future date at a price set at the time of the contract, reduces the Capital Income Fund's, the High Yield Fund's or the Value Opportunities Fund's exposure to changes in the value of the currency it will deliver and increases its exposure to changes in the value of the currency it will receive for the duration of the contract. Certain foreign currency transactions may also be settled in cash rather than the actual delivery of the relevant currency. The effect on the value of the Funds is similar to selling securities denominated in one currency and purchasing securities denominated in another currency. A contract to sell foreign currency would limit any potential gain which might be realized if the value of the hedged currency increases. The Funds may enter into these contracts to hedge against foreign exchange risk, to increase exposure to a foreign currency or to shift exposure to foreign currency fluctuations from one currency to another. Suitable hedging transactions may not be available in all circumstances and there can be no assurance that the Funds will engage in such transactions at any given time or from time to time. Also, such transactions may not be successful and may eliminate any chance for the Fund to benefit from favorable fluctuations in relevant foreign currencies. The Funds may use one currency (or a basket of currencies) to hedge against adverse changes in the value of another currency (or a basket of currencies) when exchange rates between the two currencies are positively correlated. When purchasing forward foreign currency exchange contracts for non-hedging purposes, a Fund will segregate or "earmark" liquid assets that are equal to its obligations under the contracts.

Foreign Currency Options and Related Risks

The Funds may take positions in options on foreign currencies to hedge against the risk of foreign exchange rate fluctuations on foreign securities the Funds hold in their portfolios or intend to purchase. For example, if a Fund were to enter into a contract to purchase securities denominated in a foreign currency, it could effectively fix the maximum U.S. dollar cost of the securities by purchasing call options on that foreign currency. Similarly, if a Fund held securities denominated in a foreign currency and anticipated a decline in the value of that currency against the U.S. dollar, it could hedge against such a decline by purchasing a put option on the currency involved. The markets in foreign currency options are relatively new, and a Fund's ability to establish and close out positions in such options is subject to the maintenance of a liquid secondary market. There can be no assurance that a liquid secondary market will exist for a particular option at any specific time. In addition, options on foreign currencies are affected by all of those factors that influence foreign exchange rates and investments generally.

The quantities of currencies underlying option contracts represent odd lots in a market dominated by transactions between banks, and as a result extra transaction costs may be incurred upon exercise of an option.

There is no systematic reporting of last sale information for foreign currencies or any regulatory requirement that quotations be firm or revised on a timely basis. Quotation information is generally representative of very large transactions in the interbank market and may not reflect smaller transactions where rates may be less favorable. Option markets may be closed while round-the-clock interbank currency markets are open, and this can create price and rate discrepancies.

Risks of Options Trading. The Funds may effectively terminate their rights or obligations under options by entering into closing transactions. Closing transactions permit a Fund to realize profits or limit losses on its options positions prior to the exercise or expiration of the option. The value of a foreign currency option depends on the value of the underlying currency relative to the U.S. dollar. Other factors affecting the value of an option are the time remaining until expiration, the relationship of the exercise price to market price, the historical price volatility of the underlying currency and general market conditions. As a result, changes in the value of an option position may have no relationship to the investment merit of a foreign security. Whether a profit or loss is realized on a closing transaction depends on the price movement of the underlying currency and the market value of the option.

Options normally have expiration dates of up to nine months. The exercise price may be below, equal to or above the current market value of the underlying currency. Options that expire unexercised have no value, and a Fund will realize a loss of any premium paid and any transaction costs. Closing transactions may be effected only by negotiating directly with the other party to the option contract, unless a secondary market for the options develops. Although the Funds intend to enter into foreign currency options only with dealers which agree to enter into, and which are expected to be capable of entering into, closing transactions with the Funds, there can be no assurance that a Fund will be able to liquidate an option at a favorable price at any time prior to expiration. In the event of insolvency of the counter-party, a Fund may be unable to liquidate a foreign currency option. Accordingly, it may not be possible to effect closing transactions with respect to certain options, with the result that a Fund would have to exercise those options that it had purchased in order to realize any profit.

Foreign Investment Risks

Foreign Market Risk. Each Fund may invest in foreign securities. Foreign security investment involves special risks not present in U.S. investments that can increase the chances that a Fund will lose money.

Foreign Economy Risk. The economies of certain foreign markets often do not compare favorably with that of the United States with respect to such issues as growth of gross national product, reinvestment of capital, resources, and balance of payments position. Certain such economies may rely heavily on particular industries or foreign capital and are more vulnerable to diplomatic developments, the imposition of economic sanctions against a particular country or countries, changes in international trading patterns, trade barriers, and other protectionist or retaliatory measures. Investments in foreign markets may also be adversely affected by governmental actions such as the imposition of capital controls, nationalization of companies or industries, expropriation of assets, or the imposition of punitive taxes. In addition, the governments of certain countries may prohibit or impose substantial restrictions on foreign investing in their capital markets or in certain industries. Any of these actions could severely affect security prices, impair a Fund's ability to purchase or sell foreign securities or otherwise adversely affect a Fund's operations. Other foreign market risks include difficulties in pricing securities, defaults on foreign government securities, difficulties in enforcing favorable legal judgments in foreign courts, and political and social instability. Legal remedies available to investors in certain foreign countries may be less extensive than those available to investors in the United States or other foreign countries.

Governmental Supervision and Regulation/Accounting Standards. Many foreign governments supervise and regulate stock exchanges, brokers and the sale of securities less than the U.S. government does. Some countries may not have laws to protect investors the way that the United States securities laws do. Accounting standards in other countries are not necessarily the same as in the United States. If the accounting standards in another country do not require as much disclosure or detail as U.S. accounting standards, it may be harder for a Fund's portfolio managers to completely and accurately determine a company's financial condition.

Dividends or interest on, or proceeds from the sale of, foreign securities may be subject to foreign withholding taxes, and special U.S. tax considerations may apply.

Foreign (Non-U.S.) Securities

The Funds may invest in securities and instruments that are economically tied to foreign (non-U.S.) countries. The Advisor generally considers an instrument to be economically tied to a non-U.S. country if the issuer is a foreign government (or any political subdivision, agency, authority or instrumentality of such government), or if the issuer is organized under the laws of a non-U.S. country. In the case of certain money market instruments, such instruments will be considered economically tied to a non-U.S. country if either the issuer or the guarantor of such money market instrument is organized under the laws of a non-U.S. country. With respect to derivative instruments, the Advisor generally considers such instruments to be economically tied to non-U.S. countries if the underlying assets are foreign currencies (or baskets or indexes of such currencies), or instruments or securities that are issued by foreign governments or issuers organized

under the laws of a non-U.S. country (or if the underlying assets are certain money market instruments, if either the issuer or the guarantor of such money market instruments is organized under the laws of a non-U.S. country).

Investing in foreign securities involves special risks and considerations not typically associated with investing in U.S. securities. Shareholders should consider carefully the substantial risks involved for the Fund from investing in securities issued by foreign companies and governments of foreign countries. These risks include: differences in accounting, auditing and financial reporting standards; generally higher commission rates on foreign portfolio transactions; the possibility of nationalization, expropriation or confiscatory taxation; adverse changes in investment or exchange control regulations; and political instability. Individual foreign economies may differ favorably or unfavorably from the U.S. economy in such respects as growth of gross domestic product, rates of inflation, capital reinvestment, resources, self-sufficiency and balance of payments position. The securities markets, values of securities, yields and risks associated with foreign securities markets may change independently of each other. Also, foreign securities and dividends and interest payable on those securities may be subject to foreign taxes, including taxes withheld from payments on those securities. Foreign securities often trade with less frequency and volume than domestic securities and therefore may exhibit greater price volatility. Investments in foreign securities may also involve higher custodial costs than domestic investments and additional transaction costs with respect to foreign currency conversions. Changes in foreign exchange rates also will affect the value of securities denominated or quoted in foreign currencies.

The Funds may invest in the securities of foreign issuers in the form of Depositary Receipts or other securities convertible into securities of foreign issuers or other foreign securities. These securities may not necessarily be denominated in the same currency as the securities into which they may be converted. American Depositary Receipts ("ADRs") are receipts typically issued by an American bank or trust company that evidence ownership of underlying securities issued by a foreign corporation. European Depositary Receipts ("EDRs") are receipts issued in Europe that evidence a similar ownership arrangement. Global Depositary Receipts ("GDRs") are receipts issued throughout the world that evidence a similar arrangement. Generally, ADRs, in registered form, are designed for use in the U.S. securities markets, and EDRs, in bearer form, are designed for use in European securities markets. GDRs are tradable both in the United States and in Europe and are designed for use throughout the world. A Fund may invest in unsponsored Depositary Receipts. The issuers of unsponsored Depositary Receipts are not obligated to disclose material information in the United States, and, therefore, there may be less information available regarding such issuers and there may not be a correlation between such information and the market value of the Depositary Receipts. Depositary Receipts are generally subject to the same risks as the foreign securities that they evidence or into which they may be converted.

The Capital Income Fund, the High Yield Fund and the Value Opportunities Fund also may invest in sovereign debt issued by governments, their agencies or instrumentalities, or other government-related entities. Holders of sovereign debt may be requested to participate in the rescheduling of such debt and to extend further loans to governmental entities. In addition, there is no bankruptcy proceeding by which defaulted sovereign debt may be collected.

Forward Foreign Currency Exchange Contracts

The Funds may use forward contracts to protect against uncertainty in the level of future exchange rates. The Diversified Value Fund, the Large Cap Value Fund, the Mid-Cap Value Fund and the Small Cap Value Fund will not speculate with forward contracts or foreign currency exchange rates.

A Fund may enter into forward 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 when a Fund anticipates the receipt in a foreign currency of dividend or interest payments on a security that it holds, the Fund may desire to "lock in" the U.S. dollar price of the security or the U.S. dollar equivalent of the payment, 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. A 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.

A Fund also may use forward 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 Advisor 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 Advisor 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 contract 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 a 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 its market value 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. A Fund may enter into forward contracts or maintain a net exposure to 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 will segregate or "earmark" liquid assets in an amount not less than the value of the Fund's total assets committed to the consummation of the contracts. Under normal circumstances, consideration of the prospect for currency parities will be incorporated into the longer term investment decisions made with regard to overall diversification strategies. However, the Advisor believes 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 that requires a 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, a 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 contract under either circumstance to the extent the exchange rate between the currencies involved moved between the execution dates of the first and second contracts.

The cost to a Fund of engaging in forward contracts varies with factors such as the currencies involved, the length of the contract period and the market conditions then prevailing. Because forward contracts are usually entered into on a principal basis, no fees or commissions are involved. The use of forward 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 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 the Funds value their assets daily in terms of U.S. dollars, they do not intend to convert holdings of foreign currencies into U.S. dollars on a daily basis. The Funds 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 a Fund at one rate, while offering a lesser rate of exchange should the Fund desire to resell that currency to the dealer.

Illiquid or Restricted Securities

Each Fund may invest up to 15% of its net assets in securities that lack an established secondary trading market or otherwise are considered illiquid. Liquidity of a security relates to the ability to dispose easily of the security and the price to be obtained upon disposition of the security, which may be less than would be obtained for a comparable more liquid security. Illiquid securities may trade at a discount from comparable, more liquid investments. Investment of a Fund's assets in illiquid securities may restrict the ability of the Fund to dispose of its investments in a timely fashion and for a fair price as well as its ability to take advantage of market opportunities. The risks associated with illiquidity will be particularly acute where a Fund's operations require cash, such as when the Fund redeems shares or pays dividends, and could result in the Fund borrowing to meet short term cash requirements or incurring capital losses on the sale of illiquid investments.

A Fund may invest in securities that are not registered ("restricted securities") under the Securities Act of 1933, as amended (the "Securities Act"). Restricted securities may be sold in private placement transactions between issuers and their purchasers and may be neither listed on an exchange nor traded in other established markets. In many cases, privately placed securities may not be freely transferable under the laws of the applicable jurisdiction or due to contractual

restrictions on resale. As a result of the absence of a public trading market, privately placed securities may be less liquid and more difficult to value than publicly traded securities. To the extent that privately placed securities may be resold in privately negotiated transactions, the prices realized from the sales, due to illiquidity, could be less than those originally paid by the Fund or less than their fair market value. In addition, issuers whose securities are not publicly traded may not be subject to the disclosure and other investor protection requirements that may be applicable if their securities were publicly traded. If any privately placed securities held by a Fund are required to be registered under the securities laws of one or more jurisdictions before being resold, the Fund may be required to bear the expenses of registration. Certain of the Fund's investments in private placements may consist of direct investments and may include investments in smaller, less seasoned issuers, which may involve greater risks. These issuers may have limited product lines, markets or financial resources, or they may be dependent on a limited management group. In making investments in such securities, a Fund may obtain access to material nonpublic information, which may restrict the Fund's ability to conduct portfolio transactions in such securities.

Over the years, a large institutional market has developed for certain securities that are not registered under the Securities Act, including repurchase agreements, commercial paper, foreign securities, municipal securities, convertible securities and corporate bonds and notes. Institutional investors depend on an efficient institutional market in which the unregistered security can be readily resold or on an issuer's ability to honor a demand for repayment. The fact that there are contractual or legal restrictions on resale to the general public or to certain institutions may not be indicative of the liquidity of such investments.

Inflation-Indexed Bonds

The Capital Income Fund, the High Yield Fund and the Value Opportunities Fund may invest in inflation-indexed bonds. Inflation-indexed bonds (other than municipal inflation-indexed bonds and certain corporate inflation-indexed bonds) are fixed income securities whose principal value is periodically adjusted according to the rate of inflation. If the index measuring inflation falls, the principal value of inflation-indexed bonds (other than municipal inflation indexed bonds and certain corporate inflation-indexed bonds) will be adjusted downward, and consequently the interest payable on these securities (calculated with respect to a smaller principal amount) will be reduced. Repayment of the original bond principal upon maturity (as adjusted for inflation) is guaranteed in the case of U.S. Treasury inflation-indexed bonds. For bonds that do not provide a similar guarantee, the adjusted principal value of the bond repaid at maturity may be less than the original principal.

With regard to municipal inflation-indexed bonds and certain corporate inflation-indexed bonds, the inflation adjustment is reflected in the semi-annual coupon payment. As a result, the principal value of municipal inflation-indexed bonds and such corporate inflation-indexed bonds does not adjust according to the rate of inflation.

The value of inflation-indexed bonds is expected to change in response to changes in real interest rates. Real interest rates are tied to the relationship between nominal interest rates and the rate of inflation. If nominal interest rates increase at a faster rate than inflation, real interest rates may rise, leading to a decrease in value of inflation-indexed bonds. Any increase in the principal amount of an inflation-indexed bond will be considered taxable ordinary income, even though investors do not receive their principal until maturity.

Leverage

Certain transactions may give rise to a form of leverage. Such transactions may include, among others, reverse repurchase agreements, loans of portfolio securities, and the use of when-issued, delayed delivery or forward commitment transactions. The use of derivatives may also create leveraging risk. To mitigate leveraging risk, the Advisor will segregate or " earmark " liquid assets to cover the transactions that may give rise to such risk. The High Yield Fund also may be exposed to leveraging risk by borrowing money for investment purposes. Leveraging may cause the High Yield Fund to liquidate portfolio positions to satisfy its obligations or to meet segregation requirements when it may not be advantageous to do so. Leveraging, including borrowing, may cause the Funds to be more volatile than if the Funds had not been leveraged. This is because leveraging tends to exaggerate the effect of any increase or decrease in the value of the portfolio securities.

Loan Participations and Assignments

The Capital Income Fund, the High Yield Fund and the Value Opportunities Fund may purchase indebtedness and participations in commercial loans (such as bank loans), or may purchase assignments of such loans. Such investments may be secured or unsecured. Indebtedness is different from traditional debt securities in that debt securities are part of a

large issue of securities to the public and indebtedness may not be a security, but may represent a specific commercial loan to a borrower. Loan participations typically represent direct participation, together with other parties, in a loan to a corporate borrower, and generally are offered by banks or other financial institutions or lending syndicates. The Funds may participate in such syndications, or can buy part of a loan, becoming a part lender. When purchasing indebtedness and loan participations, a Fund assumes the credit risk associated with the corporate borrower and may assume the credit risk associated with an interposed bank or other financial intermediary. The indebtedness and loan participations in which a Fund intends to invest may not be rated by any nationally recognized rating service.

The Capital Income Fund, the High Yield Fund and the Value Opportunities Fund may invest in debtor-in-possession financings (commonly known as “DIP financings”). DIP financings are arranged when an entity seeks the protections of the bankruptcy court under Chapter 11 of the U.S. Bankruptcy Code. These financings allow the entity to continue its business operations while reorganizing under Chapter 11. Such financings constitute senior liens on unencumbered security (i.e., security not subject to other creditors’ claims). There is a risk that the entity will not emerge from Chapter 11 and be forced to liquidate its assets under Chapter 7 of the U.S. Bankruptcy Code. In the event of liquidation, a Fund’s only recourse will be against the property securing the DIP financing.

A loan is often administered by an agent bank acting as agent for all holders. The agent bank administers the terms of the loan, as specified in the loan agreement. In addition, the agent bank is normally responsible for the collection of principal and interest payments from the corporate borrower and the apportionment of these payments to the credit of all institutions which are parties to the loan agreement. Unless, under the terms of the loan or other indebtedness, a Fund has direct recourse against the corporate borrower, the Fund may have to rely on the agent bank or other financial intermediary to apply appropriate credit remedies against a corporate borrower.

A financial institution’s employment as agent bank might be terminated in the event that it fails to observe a requisite standard of care or becomes insolvent. A successor agent bank would generally be appointed to replace the terminated agent bank, and assets held by the agent bank under the loan agreement should remain available to holders of such indebtedness. However, if assets held by the agent bank for the benefit of a Fund were determined to be subject to the claims of the agent bank’s general creditors, the Fund might incur certain costs and delays in realizing payment on a loan or loan participation and could suffer a loss of principal and/or interest. In situations involving other interposed financial institutions (e.g., an insurance company or governmental agency) similar risks may arise.

Purchasers of loans and other forms of direct indebtedness depend primarily upon the creditworthiness of the corporate borrower for payment of principal and interest. If a Fund does not receive scheduled interest or principal payments on such indebtedness, the Fund’s share price and yield could be adversely affected. Loans that are fully secured offer a Fund more protection than an unsecured loan in the event of non-payment of scheduled interest or principal. However, there is no assurance that the liquidation of collateral from a secured loan would satisfy the corporate borrower’s obligation, or that the collateral can be liquidated.

The Funds may invest in loan participations with credit quality comparable to that of issuers of their other securities investments. Indebtedness of companies whose creditworthiness is poor involves substantially greater risks, and may be highly speculative. Some companies may never pay off their indebtedness, or may pay only a small fraction of the amount owed. Consequently, when investing in indebtedness of companies with poor credit, a Fund bears a substantial risk of losing the entire amount invested.

Certain Funds that are diversified limit the amount of their total assets that they will invest in any one issuer and all Funds limit the amount of their total assets that they will invest in issuers within the same industry (see “Investment Restrictions”). For purposes of these limits, a Fund generally will treat the corporate borrower as the “issuer” of indebtedness held by the Fund. In the case of loan participations where a bank or other lending institution serves as a financial intermediary between a Fund and the corporate borrower, if the participation does not shift to the Fund the direct debtor-creditor relationship with the corporate borrower, the Commission’s interpretations require the Fund to treat both the lending bank or other lending institution and the corporate borrower as “issuers”. Treating a financial intermediary as an issuer of indebtedness may restrict a Funds’ ability to invest in indebtedness related to a single financial intermediary, or a group of intermediaries engaged in the same industry, even if the underlying borrowers represent many different companies and industries.

Loan assignments, loan participations, delayed funding loans, revolving credit facilities, bridge loans and other types of direct indebtedness may not be readily marketable and may be subject to restrictions on resale. In some cases, negotiations involved in disposing of indebtedness may require weeks to complete. Consequently, some indebtedness may be difficult or impossible to dispose of readily at what the Adviser believes to be a fair price. Certain types of loans,

such as bridge loans, may provide certain types of equity features such as warrants and conversion rights. Those equity-type instruments and investments involve additional risks of an investment in equity, including potentially significant changes in value, difficulty in accurately valuing them, a lack of liquidity, and a significant loss on the investment, and the possibility that the particular right could expire worthless if not exercised.

Valuation of illiquid indebtedness involves a greater degree of judgment in determining a Fund's net asset value than if that value were based on available market quotations, and could result in significant variations in the Fund's daily share price. At the same time, some loan interests are traded among certain financial institutions and accordingly may be deemed liquid. As the market for different types of indebtedness develops, the liquidity of these instruments is expected to improve. In addition, the Funds currently intend to treat indebtedness for which there is no readily available market as illiquid for purposes of the Funds' limitation on illiquid investments. Investments in loan participations are considered to be debt obligations for purposes of the Trust's investment restriction relating to the lending of funds or assets by a Fund.

Investments in loans through a direct assignment of the financial institution's interests with respect to the loan may involve additional risks to the Funds. For example, if a loan is foreclosed, a Fund could become part owner of any collateral, and would bear the costs and liabilities associated with owning and disposing of the collateral. In addition, it is conceivable that under emerging legal theories of lender liability, a Fund could be held liable as co-lender. It is unclear whether loans and other forms of direct indebtedness offer securities law protections against fraud and misrepresentation. In the absence of definitive regulatory guidance, the Funds rely on the Advisor's research in an attempt to avoid situations where fraud or misrepresentation could adversely affect the Funds.

Master Limited Partnerships

The Funds may invest in publicly traded master limited partnerships ("MLPs"), which are limited partnerships or limited liability companies taxable as partnerships. MLPs may derive income and gains from the exploration, development, mining or production, processing, refining, transportation (including pipelines transporting gas, oil, or products thereof), or the marketing of any mineral or natural resources. MLPs generally have two classes of owners, the general partner and limited partners. When investing in an MLP, a Fund intends to purchase publicly traded common units issued to limited partners of the MLP. The general partner is typically owned by a major energy company, an investment fund, the direct management of the MLP or is an entity owned by one or more of such parties. The general partner may be structured as a private or publicly traded corporation or other entity. The general partner typically controls the operations and management of the MLP through an up to 2% equity interest in the MLP plus, in many cases, ownership of common units and subordinated units. Limited partners own the remainder of the partnership, through ownership of common units, and have a limited role in the partnership's operations and management.

MLPs are typically structured such that common units and general partner interests have first priority to receive quarterly cash distributions up to an established minimum amount ("minimum quarterly distributions" or "MQD"). Common and general partner interests also accrue arrearages in distributions to the extent the MQD is not paid. Once common and general partner interests have been paid, subordinated units receive distributions of up to the MQD; however, subordinated units do not accrue arrearages. Distributable cash in excess of the MQD paid to both common and subordinated units is distributed to both common and subordinated units generally on a pro rata basis. The general partner is also eligible to receive incentive distributions if the general partner operates the business in a manner which results in distributions paid per common unit surpassing specified target levels. As the general partner increases cash distributions to the limited partners, the general partner receives an increasingly higher percentage of the incremental cash distributions. A common arrangement provides that the general partner can reach a tier where it receives 50% of every incremental dollar paid to common and subordinated unit holders. These incentive distributions encourage the general partner to streamline costs, increase capital expenditures and acquire assets in order to increase the partnership's cash flow and raise the quarterly, cash distribution in order to reach higher tiers. Such results benefit all security holders of the MLP.

MLP common units represent a limited partnership interest in the MLP. Common units are listed and traded on U.S. securities exchanges, with their value fluctuating predominantly based on prevailing market conditions and the success of the MLP. The Funds may purchase common units in market transactions. Unlike owners of common stock of a corporation, owners of common units have limited voting rights and have no ability annually to elect directors. In the event of liquidation, common units have preference over subordinated units, but not over debt or preferred units, to the remaining assets of the MLP.

Mortgage-Related and Other Asset-Backed Securities

Mortgage-related securities include mortgage pass-through securities, collateralized mortgage obligations ("CMOs"), commercial mortgage-backed securities, mortgage dollar rolls, CMO residuals, stripped mortgage-backed securities ("SMBSs") and other securities that directly or indirectly represent a participation in, or are secured by and payable from, mortgage loans on real property.

The value of some mortgage- or asset-backed securities may be particularly sensitive to changes in prevailing interest rates. Early repayment of principal on some mortgage-related securities may expose the High Yield Fund to a lower rate of return upon reinvestment of principal. When interest rates rise, the value of a mortgage-related security generally will decline; however, when interest rates are declining, the value of mortgage-related securities with prepayment features may not increase as much as other fixed income securities. The rate of prepayments on underlying mortgages will affect the price and volatility of a mortgage-related security, and may shorten or extend the effective maturity of the security beyond what was anticipated at the time of purchase. If unanticipated rates of prepayment on underlying mortgages increase the effective maturity of a mortgage-related security, the volatility of the security can be expected to increase. The value of these securities may fluctuate in response to the market's perception of the creditworthiness of the issuers. Additionally, although mortgages and mortgage-related securities are generally supported by some form of government or private guarantee and/or insurance, there is no assurance that private guarantors or insurers will meet their obligations.

One type of SMBS has one class receiving all of the interest from the mortgage assets (the interest-only, or "IO" class), while the other class will receive all of the principal (the principal-only, or "PO" class). The yield to maturity on an IO class is extremely sensitive to the rate of principal payments (including prepayments) on the underlying mortgage assets, and a rapid rate of principal payments may have a material adverse effect on a Fund's yield to maturity from these securities. The Capital Income Fund and the High Yield Fund may invest up to 5% of their total assets in any combination of mortgage-related or other asset-backed IO, PO, or inverse floater securities.

The Capital Income Fund, the High Yield Fund and the Value Opportunities Fund may invest in collateralized debt obligations ("CDOs"), which includes collateralized bond obligations ("CBOs"), collateralized loan obligations ("CLOs") and other similarly structured securities. CBOs and CLOs are types of asset-backed securities. A CBO is a trust which is backed by a diversified pool of high-risk, below investment grade fixed-income securities. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans, and subordinate corporate loans, including loans that may be rated below investment grade or equivalent unrated loans. The Capital Income Fund, the High Yield Fund and the Value Opportunities Fund may invest in other asset-backed securities that have been offered to investors.

Municipal Bonds

Municipal bonds are generally issued by states and local governments and their agencies, authorities and other instrumentalities. Municipal bonds are subject to interest rate, credit and market risk. The ability of an issuer to make payments could be affected by litigation, legislation or other political events or the bankruptcy of the issuer. Lower-rated municipal bonds are subject to greater credit and market risk than higher quality municipal bonds. The types of municipal bonds in which the Capital Income Fund, the High Yield Fund and the Value Opportunities Fund may invest include municipal lease obligations. The Capital Income Fund, the High Yield Fund and the Value Opportunities Fund may also invest in industrial development bonds, which are municipal bonds issued by a government agency on behalf of a private sector company and, in most cases, are not backed by the credit of the issuing municipality and may therefore involve more risk. The Capital Income Fund, the High Yield Fund and the Value Opportunities Fund may also invest in securities issued by entities whose underlying assets are municipal bonds.

The Capital Income Fund, the High Yield Fund and the Value Opportunities Fund may invest, without limitation, in residual interest bonds ("RIBs"), which brokers create by depositing municipal bonds in trusts. The trusts in turn issue variable rate securities and RIBs. The interest rate for the variable rate security is determined by an index or an auction process held approximately every 7 to 35 days, while the RIB holder receives the balance of the income from the underlying municipal bond less an auction fee. The market prices of RIBs may be highly sensitive to changes in market rates and may decrease significantly when market rates increase.

In a transaction in which the Capital Income Fund, the High Yield Fund or the Value Opportunities Fund purchases a RIB from a trust, and the underlying municipal bond was held by the Fund prior to being deposited into the trust, the Fund treats the transaction as a secured borrowing for financial reporting purposes. As a result, the Fund will incur a non-cash interest expense with respect to interest paid by the trust on the variable rate securities, and will recognize additional

interest income in an amount directly corresponding to the non-cash interest expense. Therefore, the Fund's net asset value per share and performance are not affected by the non-cash interest expense. This accounting treatment does not apply to RIBs acquired by the Funds where the Funds did not previously own the underlying municipal bond.

Other Investment Companies

The Funds can invest in securities of other investment companies, including exchange-traded funds ("ETFs"), except to the extent prohibited by law. Like all equity investments, these investments may go up or down in value. They also may not perform in correlation with a Fund's principal strategies. The Funds will pay additional fees through their investments in other investment companies.

Preferred Stock

The Funds may invest in preferred stock. Preferred stock represents an equity or ownership interest in an issuer. Preferred stock normally pays dividends at a specified rate and has precedence over common stock in the event the issuer is liquidated or declares bankruptcy. However, in the event an issuer is liquidated or declares bankruptcy, the claims of owners of bonds take precedence over the claims of those who own preferred and common stock. Preferred stock, unlike common stock, often has a stated dividend rate payable from the corporation's earnings. Preferred stock dividends may be cumulative or non-cumulative, participating, or auction rate. "Cumulative" dividend provisions require all or a portion of prior unpaid dividends to be paid before dividends can be paid to the issuer's common stock. "Participating" preferred stock may be entitled to a dividend exceeding the stated dividend in certain cases. If interest rates rise, the fixed dividend on preferred stocks may be less attractive, causing the price of such stocks to decline. Preferred stock may have mandatory sinking fund provisions, as well as provisions allowing the stock to be called or redeemed, which can limit the benefit of a decline in interest rates. Preferred stock is subject to many of the risks to which common stock and debt securities are subject.

Real Estate Investment Trusts

Each Fund may invest in securities of companies in the real estate industry generally or in real estate investment trusts ("REITs"). Unlike corporations, REITs do not have to pay income taxes if they meet certain Internal Revenue Code requirements. REITs offer investors greater liquidity and diversification than direct ownership of properties, as well as greater income potential than an investment in common stocks.

Companies in the real estate industry and real estate related investments may include, for example, REITs that either own properties or make construction or mortgage loans, real estate developers, companies with substantial real estate holdings, and other companies whose products and services are related to the real estate industry, such as building supply manufacturers, mortgage lenders, or mortgage servicing companies. Changes in real estate values or economic downturns can have a significant negative effect on issuers in the real estate industry. The real estate industry is particularly sensitive to economic downturns. The value of securities of issuers in the real estate industry can be affected by changes in real estate values and rental income, property taxes, interest rates, and tax and regulatory requirements. In addition, the value of a REIT can depend on the structure of and cash flow generated by the REIT.

An investment in a REIT, or in a real estate-linked derivative instrument linked to the value of a REIT, is subject to the risks that impact the value of the underlying properties of the REIT. These risks include loss to casualty or condemnation, and changes in supply and demand, interest rates, zoning laws, regulatory limitations on rents, property taxes and operating expenses. Other factors that may adversely affect REITs include poor performance by management of the REIT, changes to the tax laws, or failure by the REIT to qualify for tax-free distribution of income. REITs are also subject to default by borrowers and self-liquidation, and are heavily dependent on cash flow. Some REITs lack diversification because they invest in a limited number of properties, a narrow geographic area, or a single type of property. Mortgage REITs may be impacted by the quality of the credit extended.

Repurchase Agreements

The Funds may invest in repurchase agreements. A repurchase agreement is an agreement where the seller agrees to repurchase a security from a Fund at a mutually agreed-upon time and price. The period of maturity is usually quite short, possibly overnight or a few days, although it may extend over a number of months. The resale price is more than the purchase price, reflecting an agreed-upon rate of return effective for the period of time a Fund's money is invested in the repurchase agreement. A Fund's repurchase agreements will at all times be fully collateralized in an amount at least equal to the resale price. The instruments held as collateral are valued daily, and if the value of those instruments declines, the

Fund will require additional collateral. In the event of a default, insolvency or bankruptcy by a seller, the Fund will promptly seek to liquidate the collateral. In such circumstances, the Fund could experience a delay or be prevented from disposing of the collateral. To the extent that the proceeds from any sale of such collateral upon a default in the obligation to repurchase are less than the repurchase price, the Fund will suffer a loss.

Reverse Repurchase Agreements, Dollar Rolls and Other Borrowings

The Capital Income Fund and the High Yield Fund may enter into reverse repurchase agreements and dollar rolls, subject to their limitations on borrowings. A reverse repurchase agreement or dollar roll involves the sale of a security by the Capital Income Fund or the High Yield Fund and their agreement to repurchase the instrument at a specified time and price, and may be considered a form of borrowing for some purposes. The Capital Income Fund and the High Yield Fund will segregate or “ earmark ” liquid assets to cover their obligations under reverse repurchase agreements, dollar rolls and other borrowings. Reverse repurchase agreements, dollar rolls and other forms of borrowings may create leveraging risk for the Funds.

Rule 144A Securities

A Fund may purchase restricted securities that can be offered and sold to “ qualified institutional buyers ” under Rule 144A under the Securities Act. The Trustees have determined to treat as liquid Rule 144A securities that are either freely tradable in their primary markets offshore or have been determined to be liquid in accordance with the policies and procedures adopted by the Trustees. The Trustees have adopted guidelines and delegated to the Advisor the daily function of determining and monitoring liquidity of restricted securities. The Trustees, however, will retain sufficient oversight and be ultimately responsible for the determinations. This investment practice could have the effect of increasing the level of illiquidity in a Fund to the extent that qualified institutional buyers become for a time uninterested in purchasing these securities.

Securities Lending

Each Fund may lend portfolio securities with a value not exceeding 33 1/3% of its total assets or the limit prescribed by applicable law to banks, brokers and other financial institutions. In return, the Fund receives collateral in cash or securities issued or guaranteed by the U.S. government, which will be maintained at all times in an amount equal to at least 100% of the current market value of the loaned securities. Each Fund maintains the ability to obtain the right to vote or consent on proxy proposals involving material events affecting securities loaned. A Fund receives the income on the loaned securities. Where a Fund receives securities as collateral, the Fund receives a fee for its loans from the borrower and does not receive the income on the collateral. Where a Fund receives cash collateral, it may invest such collateral and retain the amount earned, net of any amount rebated to the borrower. As a result, the Fund’s yield may increase. Loans of securities are terminable at any time and the borrower, after notice, is required to return borrowed securities within the standard time period for settlement of securities transactions. The Fund is obligated to return the collateral to the borrower at the termination of the loan. A Fund could suffer a loss in the event the Fund must return the cash collateral and there are losses on investments made with the cash collateral. In the event the borrower defaults on any of its obligations with respect to a securities loan, a Fund could suffer a loss where there are losses on investments made with the cash collateral or where the value of the securities collateral falls below the market value of the borrowed securities. A Fund could also experience delays and costs in gaining access to the collateral. Each Fund may pay reasonable finder’s, lending agent, administrative and custodial fees in connection with its loans.

Short Sales

The Capital Income Fund and the High Yield Fund may make short sales as part of their overall portfolio management strategies or to offset a potential decline in value of a security. A short sale involves the sale of a security that is borrowed from a broker or other institution to complete the sale. The Capital Income Fund and the High Yield Fund may also enter into a short derivative position through a futures contract or swap agreement. If the price of the security or derivative has increased during this time, then the Capital Income Fund and the High Yield Fund will incur a loss equal to the increase in price from the time that the short sale was entered into plus any premiums and interest paid to the third party. Therefore, short sales involve the risk that losses may be exaggerated, potentially losing more money than the actual cost of the investment. Also, there is the risk that the third party to the short sale may fail to honor its contract terms, causing a loss to the Capital Income Fund and the High Yield Fund. Short sales expose the Capital Income Fund and the High Yield Fund to the risk that they will be required to acquire, convert or exchange securities to replace the borrowed securities (also known as “ covering ” the short position) at a time when the securities sold short have appreciated in value, thus resulting in a loss to the Capital Income Fund and the High Yield Fund. The Fund making a short sale must segregate or “ earmark ”

liquid assets or otherwise cover its position in a permissible manner. The Capital Income Fund and the High Yield Fund may engage in short selling to the extent permitted by the 1940 Act and rules and interpretations thereunder.

Short Sales Against-the-Box

Each Fund can borrow and sell "short" securities when a Fund also owns an equal amount of those securities (or their equivalent). Except for the Capital Income Fund and the High Yield Fund, no more than 25% of a Fund's net assets (33 1/3% of total assets in the case of the Capital Income Fund and the High Yield Fund) can be held as collateral for short sales at any one time. No more than 33 1/3% of total assets of the Capital Income Fund or the High Yield Fund can be held as collateral for short sales at any one time.

Swap Agreements

The Funds may enter into credit default, interest rate, index and currency exchange rate swap agreements for purposes of attempting to obtain a particular desired return at a lower cost to a Fund than if the Fund had invested directly in an instrument that yielded the desired return. Swap agreements are two-party contracts entered into primarily by institutional investors for periods ranging from a few weeks to more than one year. In a standard "swap" transaction, two parties agree to exchange the returns (or differentials in rates of return) earned or realized on particular predetermined investments or instruments. The gross returns to be exchanged or "swapped" between the parties are calculated with respect to a "notional amount," i.e., the dollar amount invested at a particular interest rate, in a particular foreign currency, or in a "basket" of securities representing a particular index. The "notional amount" of the swap agreement is only a fictive basis on which to calculate the obligations which the parties to a swap agreement have agreed to exchange. A Fund's obligations (or rights) under a swap agreement will generally be equal only to the net amount to be paid or received under the agreement based on the relative values of the positions held by each party to the agreement (the "net amount"). A Fund's obligations under a swap agreement will be accrued daily (offset against any amounts owing to the Fund). In connection with credit default swaps in which a Fund is the buyer, the Fund will segregate or " earmark" liquid assets, or enter into certain offsetting positions, with a value at least equal to the Fund's obligations (any accrued but unpaid net amounts owed by the Fund to any counterparty), on a marked-to-market basis. In connection with credit default swaps in which a Fund is the seller, the Fund will segregate or " earmark" liquid assets, or enter into offsetting positions, with a value at least equal to the full notional amount of the swap (minus any amounts owed to the Fund). Such segregation or " earmarking" will ensure that the Fund has assets available to satisfy its obligations with respect to the transaction and will limit any potential leveraging of the Fund's portfolio. Such segregation or " earmarking" will not limit the Fund's exposure to loss.

In January 2009, the Commission issued temporary rules to allow for clearinghouses to facilitate certain credit default swap transactions between one or more counterparties. A clearinghouse may act as the intermediary, or central counterparty, in credit default swap transactions, reducing the risk of a counterparty defaulting on a transaction while providing a central location for regulators to view traders' positions and prices. The use of a clearinghouse for credit default swaps is voluntary. In March 2009 the Commission approved exemptions to allow the CME Group, Inc. and IntercontinentalExchange, Inc. to operate a clearinghouse for credit default swaps. Similarly, dealers of credit-default swaps in Europe agreed in February 2009 to use a clearinghouse in the European Union to guarantee derivatives. The clearinghouse(s) are funded by their members. In response to these developments, in March 2009 the Financial Industry Regulatory Authority ("FINRA") proposed a pilot program imposing margin rules for credit default swap transactions executed by a registered broker-dealer and cleared by the CME Group, Inc. or other central counterparty platforms. FINRA speculates that the creation of CDS central counterparties will result in an increasing volume of CDS transactions being handled through broker-dealers instead of through affiliated entities of investment banks as in the past. Recent legislative and regulatory developments will ultimately require the clearing and exchange-trading of most over-the-counter derivative instruments. The Advisor will continue to monitor developments in this area, particularly to the extent regulatory changes affect the Funds' ability to enter into swap agreements.

Whether a Fund's use of swap agreements will be successful in furthering its investment objective will depend on the Advisor's ability to correctly predict whether certain types of investments are likely to produce greater returns than other investments. Because they are two party contracts and because they may have terms of greater than seven days, swap agreements may be considered to be illiquid. Moreover, each Fund bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or bankruptcy of a swap agreement counter-party. Restrictions imposed by the Internal Revenue Code may limit a Fund's ability to use swap agreements. The swaps market is a relatively new market and is largely unregulated. It is possible that developments in the swaps market, including government regulation, could adversely affect a Fund's ability to terminate existing swap agreements or to realize amounts to be received under such agreements.

U.S. Government Securities

U.S. government agencies or instrumentalities which issue or guarantee securities include the Federal National Mortgage Association, Government National Mortgage Association, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, Federal Intermediate Credit Banks, Federal Land Banks, Tennessee Valley Authority, Inter-American Development Bank, Asian Development Bank, Student Loan Marketing Association and the International Bank for Reconstruction and Development. These securities generally are supported only by the credit of the government agency or instrumentality.

Except for U.S. Treasury securities, obligations of U.S. government agencies and instrumentalities may or may not be supported by the full faith and credit of the United States. Some are backed by the right of the issuer to borrow from the Treasury; others by discretionary authority of the U.S. government to purchase the agencies' obligations; while still others, such as the Student Loan Marketing Association, are supported only by the credit of the instrumentality. In the case of securities not backed by the full faith and credit of the United States, the investor must look principally to the agency or instrumentality issuing or guaranteeing the obligation for ultimate repayment, and may not be able to assert a claim against the United States itself in the event the agency or instrumentality does not meet its commitment. Each Fund will invest in securities of such instrumentality only when the Advisor is satisfied that the credit risk with respect to any instrumentality is acceptable.

As of September 7, 2008, the Federal Housing Finance Agency ("FHFA") has been appointed by the Conservator of the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association for an indefinite period. In accordance with the Federal Housing Finance Regulatory Reform Act of 2008 and the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as Conservator, the FHFA will control and oversee the entities until the FHFA deems them financially sound and solvent. During the Conservatorship, each entity's obligations are expected to be paid in the normal course of business. Although no express guarantee exists for the debt or mortgage-backed securities issued by the entities, the U.S. Department of Treasury, through a secured lending credit facility and a Senior Preferred Stock Purchase Agreement, has attempted to enhance the ability of the entities to meet their obligations.

The Funds may invest in component parts of U.S. Treasury notes or bonds, namely, either the corpus (principal) of such Treasury obligations or one of the interest payments scheduled to be paid on such obligations. These obligations may take the form of (1) Treasury obligations from which the interest coupons have been stripped; (2) the interest coupons that are stripped; (3) book-entries at a Federal Reserve member bank representing ownership of Treasury obligation components; or (4) receipts evidencing the component parts (corpus or coupons) of Treasury obligations that have not actually been stripped. Such receipts evidence ownership of component parts of Treasury obligations (corpus or coupons) purchased by a third party (typically an investment banking firm) and held on behalf of the third party in physical or book-entry form by a major commercial bank or trust company pursuant to a custody agreement with the third party. These custodial receipts are known by various names, including "Treasury Receipts," "Treasury Investment Growth Receipts" ("TIGRs") and "Certificates of Accrual on Treasury Securities" ("CATS"), and are not issued by the U.S. Treasury; therefore they are not U.S. government securities, although the underlying bonds represented by these receipts are debt obligations of the U.S. Treasury.

Variable and Floating Rate Securities

Variable and floating rate securities provide for a periodic adjustment in the interest rate paid on the obligations. The Capital Income Fund, the High Yield Fund and the Value Opportunities Fund may invest in floating rate debt instruments ("floaters") and engage in credit spread trades. Variable and floating rate securities generally are less sensitive to interest rate changes but may decline in value if their interest rates do not rise as much, or as quickly, as interest rates in general. Conversely, floating rate securities will not generally increase in value if interest rates decline. The High Yield Fund, the Capital Income Fund and the Value Opportunities Fund may also invest in inverse floating rate debt instruments ("inverse floaters"). An inverse floater may exhibit greater price volatility than a fixed rate obligation of similar credit quality. The High Yield Fund, the Capital Income Fund and the Value Opportunities Fund may invest up to 5% of its total assets in any combination of mortgage-related or other asset-backed IO, PO or inverse floater securities. Additionally, each such Fund may invest, without limitation, in RIBs.

Warrants

The Funds may invest in warrants. Warrants are instruments that give the holder the right, but not the obligation, to buy an equity security at a specific price for a specific period of time. Changes in the value of a warrant do not necessarily

correspond to changes in the value of its underlying security. The price of a warrant may be more volatile than the price of its underlying security, and a warrant may offer greater potential for capital appreciation as well as capital loss. Warrants do not entitle a holder to dividends or voting rights with respect to the underlying security and do not represent any rights in the assets of the issuing company. A warrant ceases to have value if it is not exercised prior to its expiration date. These factors can make warrants more speculative than other types of investments.

When-Issued Securities, Delayed Delivery Securities and Forward Commitments

A Fund may purchase or sell securities that it is entitled to receive on a when-issued basis. A Fund may also purchase or sell securities on a delayed delivery basis or through a forward commitment. These transactions involve the purchase or sale of securities by a Fund at an established price with payment and delivery taking place in the future. The Fund enters into these transactions to obtain what is considered an advantageous price to the Fund at the time of entering into the transaction. When such purchases or sales are outstanding, the Fund will segregate or " earmark " liquid assets until the settlement date or otherwise cover its position in an amount sufficient to meet the Fund's obligation.

There can be no assurance that a security purchased on a when-issued basis will be issued or that a security purchased or sold on a delayed delivery basis or through a forward commitment will be delivered. Also, the value of securities in these transactions on the delivery date may be more or less than the price paid by the Fund to purchase the securities. The Fund will lose money if the value of the security in such a transaction declines below the purchase price and will not benefit if the value of the security appreciates above the sale price during the commitment period.

MANAGEMENT

The Trustees of the Trust consist of eight individuals, seven of whom are not “interested persons” of the Trust as defined in the 1940 Act (the “Independent Trustees”). The Trustees oversee the actions of the Funds’ Advisor and other service providers and decide upon matters of general policy. The Trustees also review the actions of the Trust’s officers, who conduct and supervise the daily business operations of the Funds.

Board and Committee Structure. The role of the Board, the Board’s Committees, and the individual Trustees is one of general oversight of the Funds, including oversight of the duties performed by the Advisor under the Investment Advisory Agreement for each Fund. The Board generally meets in regularly scheduled meetings four times a year, and may meet more often as required. During the fiscal year ended June 30, 2011, the Board held five meetings.

The Board has three standing Committees, the Audit Committee, the Nominating and Governance Committee, and the Valuation Committee, and has delegated certain responsibilities to those Committees.

Each Independent Trustee is a member of the Trust’s Audit Committee. The principal responsibilities of the Audit Committee are to: (i) approve, and recommend to the Board, the appointment, retention or termination of the Funds’ independent registered public accounting firm; (ii) review with the independent registered public accounting firm the scope, performance and anticipated cost of their audits; (iii) discuss with the independent registered public accounting firm certain matters relating to the Funds’ financial statements, including any adjustment to such financial statements recommended by the independent registered public accounting firm, or any other results of any audit; (iv) request and review the independent registered public accounting firm’s annual representations with respect to their independence, and discuss with the independent registered public accounting firm any relationships or services disclosed in the statement that may impact the independence of the Funds’ independent registered public accounting firm; and (v) consider the comments of the independent registered public accounting firm and management’s responses thereto with respect to the quality and adequacy of the Funds’ accounting and financial reporting policies and practices and internal controls. The Board of Trustees of the Trust has adopted a written charter for the Audit Committee. The Audit Committee held four meetings during the Trust’s last fiscal year.

Each Independent Trustee is also a member of the Trust’s Nominating and Governance Committee. This Committee reviews and nominates candidates to serve as Trustees. The Nominating and Governance Committee will consider shareholder proposals for candidates to serve as Trustees. Any such proposals should be sent to the Trust in care of the Nominating and Governance Committee chairman. The final recommendation of a prospective Independent Trustee rests solely with the Nominating and Governance Committee. This Committee held one meeting during the Trust’s last fiscal year. The Independent Trustees have retained independent legal counsel to assist them in connection with their duties.

All Trustees are members of the Trust’s Valuation Committee. The Valuation Committee may take action by vote of any two Committee members. The Valuation Committee meets whenever a proposed fair valuation of a security would impact a Fund’s NAV by a penny or more per share. The Valuation Committee met once during the Trust’s last fiscal year.

The Board is chaired by an Independent Trustee. The Board regularly reviews its Committee structure and membership and believes that its current structure is appropriate based on the size of the Board, the assets and number of Funds overseen by the Trustees, as well as the nature of the Funds’ business.

Biographical Information. Certain biographical and other information relating to the Trustees of the Trust is set forth below, including their years of birth, their principal occupations for at least the last five years, the length of time served, the total number of portfolios overseen for funds advised by the Advisor and public directorships and fund directorships held during the past five years.

Independent Trustees

Name and Year of Birth	Position Held with the Trust	Term of Office* and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During Past Five Years
Randall H. Breitenbach (born 1960)	Trustee ^(a)	Since 2001	Co-Founder, Director and CEO, BreitBurn Energy Company, LLC and President, BreitBurn Energy Partners, L.P. (1988 - present); Chairman Emeritus, Finance Committee, Stanford University PIC Endowment (1999 – present).	Seven	BreitBurn Energy Partners, L.P.; BreitBurn Energy Company, LLC.
Robert L. Burch III (born 1934)	Trustee	Since 2001	Managing Partner, A.W. Jones Co. (investments) (1984 - present); Chairman, Jonathan Mfg. Corp. (slide manufacturing) (1977 - 2004).	Seven	None
Alejandra C. Edwards, Ph.D. (born 1954)	Trustee	Since 2007	California State University – Long Beach: Associate Chair Economics (2001 - present); Graduate Advisor Economics (2000 - present); Professor of Economics (1994 - present).	Seven	None
Marcy Elkind, Ph.D. (born 1947)	Trustee	Since 2005	President, Elkind Economics, Inc. (1980 - present).	Seven	None
Robert Fitzgerald (born 1952)	Trustee ^(b)	Since 2005	Chief Financial Officer of National Retirement Partners, Inc. (2005 - 2007); Executive Vice President and Chief Financial Officer of PIMCO Advisors L.P. (1995 – 2001).	Seven	Independent Trustee, Brandes Investment Trust (5 portfolios).
John A.G. Gavin (born 1931)	Trustee Chairman of the Board	Since 2001 Since 2007	Senior Counselor, Hicks Holdings (private equity investment firm) (2001 - present); Chairman, Gamma Holdings (international capital and consulting) (1968 - present); U.S. Ambassador to Mexico (1981 - 1986).	Seven	Independent Trustee: Causeway Capital Management Trust (3 portfolios); TCW Strategic Income Fund, Inc. (1 portfolio); TCW Funds, Inc. (27 portfolios).
Donald Morrison, Ph.D. (born 1939)	Trustee	Since 2007	The William E. Leonhard Professor in the Anderson Graduate School of Management at the University of California, Los Angeles (1988 - present).	Seven	None

* Each Independent Trustee serves until his or her successor is elected and qualified or until his or her death or resignation or removal as provided in the Trust's Agreement and Declaration of Trust.

^(a) Chairman of the Nominating and Governance Committee.

^(b) Chairman of the Audit Committee.

Interested Trustee

Name and Year of Birth	Position Held with the Trust	Term of Office** and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During Past Five Years
George H. Davis, Jr.* (born 1961)	Trustee	Since 2007	Chief Executive Officer and Portfolio Manager of the Advisor (2001 – present).	Seven	None

* Mr. Davis is an “interested person,” as defined in the 1940 Act, of the Trust based on his position as Chief Executive Officer and Portfolio Manager of the Advisor.

** As Trustee, Mr. Davis serves until his successor is elected and qualified or until his death or resignation or removal as provided in the Trust’s Agreement and Declaration of Trust.

Certain biographical and other information relating to the officers of the Trust is set forth below, including their years of birth, their principal occupations for at least the last five years and the length of time served.

Name and Year of Birth	Position Held with the Trust	Term of Office* and Length of Time Served	Principal Occupation(s) During Past Five Years
Anna Marie Lopez (born 1967)	President	Since 2007	Chief Operating Officer of the Advisor (2007 – present); Chief Compliance Officer of the Advisor (2001 – 2007).
Mark McMahon (born 1968)	Vice President and Secretary	Since 2006	Managing Director, Mutual Fund Operations of the Advisor (2006 – present); Client Relations Manager of Boston Financial Data Services (1991 – 2006).
James Menvielle (born 1972)	Vice President and Treasurer	Since 2007	Chief Financial Officer of the Advisor (2006 – present); Controller of Metropolitan West Asset Management, LLC (1998 – 2006); Chief Financial Officer of MWAM Distributors, LLC (2004 – 2006).
Tina Kodama (born 1968)	Vice President and Chief Compliance Officer	Since 2007	Chief Compliance Officer of the Advisor (2007 – present); Director of Compliance of the Advisor (2006 – 2007); Vice President – Compliance of First Pacific Advisors, Inc. (2004 – 2006).

* Each officer is appointed by and serves at the pleasure of the Board of Trustees of the Trust.

Risk Oversight. The day-to-day operations of the Funds, including the management of risk, is performed by third party service providers, such as the Advisor, Distributor and Administrator. The Trustees are responsible for overseeing the Trust’s service providers and thus have general oversight responsibilities with respect to risk management performed by those service providers. Risk management seeks to identify and address risks, *i.e.*, events or circumstances that could have material adverse effects on the business, operations, shareholder services, investment performance or reputation of the Funds. The Trust and its service providers employ a variety of processes, procedures and controls to identify certain of those possible events or circumstances, to lessen the probability of their occurrence and/or to mitigate the effects of such events or circumstances if they do occur.

The Board, directly and through its Committees, receives and reviews information from the Advisor, other service providers, the Trust’s independent registered public accounting firm, Trust counsel and counsel to the Independent Trustees to assist it in its general oversight responsibilities. This information includes, but is not limited to, reports regarding the Funds’ investments, including Fund performance and investment practices, valuation of Fund portfolio securities, and compliance. The Board also reviews, and must approve any proposed changes to, a Fund’s investment objective, policies and restrictions, and reviews any areas of material non-compliance with the Funds’ investment policies and restrictions. The Audit Committee has general oversight responsibility for the Trust’s accounting policies, financial reporting and internal control system. The Board has appointed a Chief Compliance Officer who administers the Trust’s compliance program and regularly reports to the Board as to compliance matters. As part of its general compliance oversight, the Board reviews the annual compliance report issued by the Trust’s Chief Compliance Officer on the policies

and procedures of the Trust and its service providers, proposed changes to the policies and procedures and quarterly reports on any material compliance issues that arose during the period.

Not all risks that may affect the Funds can be identified nor can controls be developed to eliminate or mitigate their occurrence or effects. It may not be practical or cost effective to eliminate or mitigate certain risks, the processes and controls employed to address certain risks may be limited in their effectiveness, and some risks are simply beyond the reasonable control of the Funds, the Advisor or other service providers. Moreover, it is necessary to bear certain risks (such as investment-related risks) to achieve a Fund's goals. As a result of the foregoing and other factors, the Trustees' ability to manage risk is subject to substantial limitations.

Experience, Qualifications and Attributes. As noted above, the Nominating and Governance Committee is responsible for identifying, evaluating and recommending trustee candidates. The Nominating and Governance Committee reviews the background and experience of trustee candidates and the candidates' expected contributions to the Board. As of the date of this SAI, the Board has concluded, based on each Trustee's experience, qualifications and attributes, that each Board member should serve as a Trustee. Following is a brief summary of the information, in addition to the Trustees' combined contribution to the Board, that led to this conclusion. The summaries set forth below as to the qualifications, attributes and skills of the Trustees are furnished in response to disclosure requirements imposed by the SEC, do not constitute any representation or guarantee that the Board or any Trustee has any special expertise or experience, and do not impose any greater or additional responsibility or obligation on, or change any standard of care applicable to, any such person or the Board as a whole than otherwise would be the case.

Randall H. Breitenbach has served as a Trustee of the Trust since its inception in 2001. He currently serves as Chairman of the Nominating and Governance Committee, and formerly served as Audit Committee Chairman and Lead Independent Trustee prior to the Board's election of Mr. Gavin as an independent Chairman. Mr. Breitenbach is Co-Founder and President of BreitBurn Energy Partners, L.P. and Co-Founder, CEO and Chairman of BreitBurn Energy Company (1988-present). He also serves as Chairman Emeritus of the Stanford University PIC Endowment (1999-present). He received a B.S. and M.S. degree in petroleum engineering from Stanford University and an M.B.A. from Harvard Business School.

Robert L. Burch III has served as a Trustee of the Trust since its inception in 2001 and also served as a trustee of the predecessor trust since it was organized in 1984. Mr. Burch is a Managing Partner of A.W. Jones & Co., the first hedge fund, and also served as chairman of a slide manufacturing company. He received a B.A. from Princeton University and an M.B.A. from Harvard Business School.

George H. Davis, Jr. has served as a Trustee of the Trust since 2007. Mr. Davis is the Chief Executive Officer of the Advisor and also serves as a portfolio manager. Mr. Davis formerly served as a portfolio manager for Hotchkis and Wiley as a division of Merrill Lynch Asset Management, L.P. He received a B.A. in History and Economics and an M.B.A. from Stanford University.

Alejandra C. Edwards has served as a Trustee of the Trust since 2007. Ms. Edwards has served as a professor of economics since 1984. Prior to that, she served as a senior economist for The World Bank. She received a Bachelors Degree in economics from the Universidad Catolica de Chile, and an M.A. and Ph.D. in economics from the University of Chicago.

Marcy Elkind has served as a Trustee of the Trust since 2005. Ms. Elkind is an economist and is president of Elkind Economics, Inc. Ms. Elkind received an A.B. with highest honors in economics from the University of California, Berkeley, and a Ph.D. in economics from Stanford University.

Robert Fitzgerald has served as a Trustee of the Trust since 2005. He has served as Chairman of the Audit Committee since 2005 and the Board has determined that Mr. Fitzgerald is an "audit committee financial expert" as defined by the SEC. Mr. Fitzgerald formerly was chief financial officer of National Retirement Partners, Inc. and served as executive vice president and chief financial officer of PIMCO Advisors L.P. Prior to that he had also served as an audit partner in the financial services group of PricewaterhouseCoopers LLP. He also serves on another investment company board overseeing five portfolios. Mr. Fitzgerald received his B.B.A. in Accounting from Niagara University and is also a graduate of the Pacific Coast Banking School at the University of Washington.

John A.G. Gavin has served as a Trustee of the Trust since its inception in 2001 and also served as a trustee of the predecessor trust since it was organized in 1984. He has served as Chairman of the Board since 2007. He is senior counselor of a private equity investment firm and chairman of an international capital and consulting firm. Mr. Gavin formerly served as U.S. Ambassador to Mexico for more than five years. He also serves on the boards of three other investment companies overseeing 31 portfolios. He received his B.A. in Economic History of Latin America from Stanford University.

Donald Morrison has served as a Trustee of the Trust since 2007. Mr. Morrison is a professor in the Anderson Graduate School of Management at the University of California, Los Angeles, teaching management science and marketing. He was an editor of management journals and is the author or co-author of over 90 articles, with special emphasis on marketing research and applied statistics. Mr. Morrison received a B.S. in mechanical engineering from the Massachusetts Institute of Technology and a Ph.D. in operations research from Stanford University.

The address for all Trustees and officers of the Trust is c/o Hotchkis and Wiley Capital Management, LLC, 725 South Figueroa Street, 39th Floor, Los Angeles, CA 90017, attention: Trust Secretary.

Share Ownership. Information relating to each Trustee's share ownership in the Trust as of December 31, 2010 is set forth in the following chart.

Name	Aggregate Dollar Range of Equity Securities in the Trust	Aggregate Dollar Range of Equity Securities in All Registered Investment Companies Overseen by Trustee in Family of Investment Companies
<i>Interested Trustee:</i>		
George H. Davis, Jr.	Diversified Value Fund – over \$100,000 Large Cap Value Fund - over \$100,000 Mid-Cap Value Fund - over \$100,000 Small Cap Value Fund - over \$100,000 Value Opportunities Fund - over \$100,000 Capital Income Fund – over \$100,000 High Yield Fund – over \$100,000	over \$100,000
<i>Independent Trustees:</i>		
Randall H. Breitenbach	Diversified Value Fund - over \$100,000 Large Cap Value Fund - none Mid-Cap Value Fund - none Small Cap Value Fund - none Value Opportunities Fund - over \$100,000 Capital Income Fund – none High Yield Fund – none	over \$100,000
Robert L. Burch III	Diversified Value Fund - over \$100,000 Large Cap Value Fund - over \$100,000 Mid-Cap Value Fund - over \$100,000 Small Cap Value Fund - over \$100,000 Value Opportunities Fund - over \$100,000 Capital Income Fund – over \$100,000 High Yield Fund – over \$100,000	over \$100,000
Alejandra C. Edwards, Ph.D.	Diversified Value Fund -\$50,001 - \$100,000 Large Cap Value Fund - none Mid-Cap Value Fund - none Small Cap Value Fund - none Value Opportunities Fund – none Capital Income Fund – none High Yield Fund – none	\$50,001 - \$100,000

Name	Aggregate Dollar Range of Equity Securities in the Trust	Aggregate Dollar Range of Equity Securities in All Registered Investment Companies Overseen by Trustee in Family of Investment Companies
Marcy Elkind, Ph.D.	Diversified Value Fund - \$50,001 - \$100,000 Large Cap Value Fund - none Mid-Cap Value Fund - none Small Cap Value Fund - none Value Opportunities Fund – none Capital Income Fund – \$10,001 - \$50,000 High Yield Fund – none	over \$100,000
Robert Fitzgerald	Diversified Value Fund - none Large Cap Value Fund - over \$100,000 Mid-Cap Value Fund - none Small Cap Value Fund - none Value Opportunities Fund – none Capital Income Fund – none High Yield Fund – none	over \$100,000
John A.G. Gavin	Diversified Value Fund - \$10,001 - \$50,000 Large Cap Value Fund - none Mid-Cap Value Fund - none Small Cap Value Fund - \$10,001 - \$50,000 Value Opportunities Fund - over \$100,000 Capital Income Fund – none High Yield Fund – none	over \$100,000
Donald Morrison, Ph.D.	Diversified Value Fund - \$50,001 - \$100,000 Large Cap Value Fund - none Mid-Cap Value Fund - none Small Cap Value Fund - none Value Opportunities Fund – over \$100,000 Capital Income Fund – none High Yield Fund – none	over \$100,000

Compensation of Trustees

The Trust does not pay salaries to any of its officers or fees to its Trustee who is affiliated with the Advisor. Effective January 1, 2011, the Trust pays to each Independent Trustee, for service to the Trust, a \$55,000 annual retainer, which is paid in quarterly installments, and the Board Chair, the Audit Committee Chair and the Nominating and Governance Committee Chair receive additional annual compensation of \$30,000, \$25,000 and \$5,000, respectively. The Trust reimburses each Independent Trustee for his or her out-of-pocket expenses relating to attendance at Board and Committee meetings.

The following table sets forth the compensation earned by the Independent Trustees for the most recent fiscal year.

<i>Name</i>	<i>Position Held with the Trust</i>	<i>Compensation from the Trust</i>	<i>Pension or Retirement Benefits Accrued as Part of Trust Expense</i>	<i>Estimated Annual Benefits upon Retirement</i>	<i>Aggregate Compensation from Trust and Other Advisor Advised Funds*</i>
Randall H. Breitenbach	Trustee	\$57,500	None	None	\$57,500
Robert L. Burch III	Trustee	\$52,500	None	None	\$52,500
Alejandra C. Edwards, Ph.D.	Trustee	\$52,500	None	None	\$52,500
Marcy Elkind, Ph.D.	Trustee	\$52,500	None	None	\$52,500
Robert Fitzgerald	Trustee	\$72,500	None	None	\$72,500
John A.G. Gavin	Trustee	\$77,500	None	None	\$77,500
Donald Morrison, Ph.D.	Trustee	\$52,500	None	None	\$52,500

* For the fiscal year ended June 30, 2011, Trustees fees totaled \$417,500.

Investment Advisory Agreements

Hotchkis and Wiley Capital Management, LLC provides the Funds with management and investment advisory services and is located at 725 South Figueroa Street, 39th Floor, Los Angeles, California 90017-5439. The Advisor is a limited liability company, the primary members of which are HWCap Holdings, a limited liability company whose members are current and former employees of the Advisor, and Stephens - H&W, LLC, a limited liability company whose primary member is SF Holding Corp., which is a diversified holding company. The Advisor supervises and arranges the purchase and sale of securities held in the Funds' portfolios and manages the Funds. The Advisor also manages other investment company portfolios and separate investment advisory accounts.

The Advisor receives a fee, computed daily and payable monthly, at the annual rates presented below as applied to each Fund's daily net assets.

Diversified Value Fund, Large Cap Value Fund and Mid-Cap Value Fund

First \$5 billion in assets	0.75% of average net assets
Next \$5 billion in assets	0.65% of average net assets
Over \$10 billion in assets	0.60% of average net assets

Small Cap Value Fund and Value Opportunities Fund:

0.75% of average net assets.

Capital Income Fund:

0.65% of average net assets.

High Yield Fund:

0.55% of average net assets.

The Advisor has agreed to annual caps on expenses for the fiscal years ended June 30, 2011, 2010 and 2009. The Advisor has contractually agreed to pay all operating expenses in excess of the annual rates presented below as applied to each Fund's daily net assets through October 31, 2012.

	<i>Diversified Value Fund</i>	<i>Large Cap Value Fund</i>	<i>Mid-Cap Value Fund</i>	<i>Small Cap Value Fund</i>	<i>Value Opportunities Fund</i>	<i>Capital Income Fund</i>	<i>High Yield Fund</i>
Annual cap on expenses – Class I	0.95%	1.05%	1.15%	1.25%	1.25%	0.80%	0.70%
Annual cap on expenses – Class A	1.20%	1.30%	1.40%	1.50%	1.50%	1.05%	0.95%
Annual cap on expenses – Class C	1.95%	2.05%	2.15%	2.25%	2.25%	1.80%	1.70%
Annual cap on expenses – Class R	N/A	1.55%	1.65%	N/A	N/A	N/A	N/A

N/A: Not applicable.

For the periods indicated below, the Advisor earned and waived fees as follows:

	<i>Diversified Value Fund</i>	<i>Large Cap Value Fund</i>	<i>Mid-Cap Value Fund</i>	<i>Small Cap Value Fund</i>	<i>Value Opportunities Fund</i>	<i>Capital Income Fund</i>	<i>High Yield Fund</i>
Investment advisory fees earned for the fiscal year 2011	\$3,005,462	\$8,583,022	\$9,467,984	\$2,059,608	\$524,564	\$22,913*	\$1,153,308
Fees waived for the fiscal year 2011	\$677,543	\$152,620	\$0	\$0	\$0	\$79,371*	\$114,885
Net fees paid for the fiscal year 2011	\$2,327,919	\$8,430,402	\$9,467,984	\$2,059,608	\$524,564	\$0*	\$1,038,423
Investment advisory fees earned for the fiscal year 2010	\$3,288,359	\$9,095,534	\$10,062,084	\$1,593,068	\$337,562	N/A	\$368,578
Fees waived for the fiscal year 2010	\$687,703	\$427,944	\$0	\$0	\$0	N/A	\$127,023
Net fees paid for the fiscal year 2010	\$2,600,656	\$8,667,590	\$10,062,084	\$1,593,068	\$337,562	N/A	\$241,555
Investment advisory fees earned for the fiscal year 2009	\$5,062,781	\$11,735,555	\$10,089,910	\$1,632,421	\$275,485	N/A	\$36,485**
Fees waived for the fiscal year 2009***	\$1,061,837	\$459,838	\$165,657	\$9,236	\$26,679	N/A	\$87,551**
Net fees paid for the fiscal year 2009	\$4,000,944	\$11,275,717	\$9,924,253	\$1,623,185	\$248,806	N/A	\$0

* The Capital Income Fund commenced operations on December 31, 2010.

** The High Yield Fund commenced operations on March 31, 2009.

*** Includes investment advisory fee waivers for each of the Funds with respect to Class C shares.

The Advisor serves as investment adviser to each Fund pursuant to separate investment advisory agreements (the “Advisory Agreements”) with the Trust. Each of the Advisory Agreements provides that the Advisor shall not be liable to the Trust for any error of judgment by the Advisor or for any loss sustained by any of the Funds except in the case of a breach of fiduciary duty with respect to the receipt of compensation for services (in which case any award of damages will be limited as provided in the 1940 Act) or of willful misfeasance, bad faith, gross negligence or reckless disregard of duty.

Unless earlier terminated as described below, each Advisory Agreement will continue in effect for two years from the effective date and will remain in effect from year to year thereafter if approved annually (a) by the Board of Trustees of the Trust or by a majority of the outstanding shares of the applicable Fund and (b) by a majority of the Trustees of the Trust who are not parties to the Advisory Agreement or interested persons (as defined in the 1940 Act) of any such party. Each Advisory Agreement is not assignable and will automatically terminate in the event of its assignment. In addition, such contract may be terminated by the vote of a majority of the outstanding voting securities of the applicable Fund or by the Advisor without penalty on 60 days’ written notice to the other party. A discussion regarding the basis for the Board of Trustees’ approval of the annual continuation of the Advisory Agreements for the Funds (and the initial approval of the Advisory Agreement for the Capital Income Fund) is available in the Funds’ Annual Report to shareholders for the fiscal year ended June 30, 2011.

Portfolio Managers

Each Fund is managed by the investment team of the Advisor (“Investment Team”), including portfolio managers. The Investment Team also has responsibility for the day-to-day management of accounts other than the Funds. Information regarding these other accounts is set forth below. The number of accounts and assets is shown as of June 30, 2011.

<i>Portfolio Managers</i>	<i>Number of Other Accounts Managed and Assets by Account Type</i>			<i>Number of Accounts and Assets for Which Advisory Fee is Performance-Based</i>		
	<i>Registered Investment Companies</i>	<i>Other Pooled Investment Vehicles</i>	<i>Other Accounts</i>	<i>Registered Investment Companies</i>	<i>Other Pooled Investment Vehicles</i>	<i>Other Accounts</i>
Patricia McKenna Sheldon Lieberman George Davis Stan Majcher David Green Jim Miles Judd Peters Scott McBride Patrick Meegan	10 \$6.8 billion	2 \$116 million	62 \$7.4 billion	1 \$2.2 billion	0 \$0	3 \$262 million
Ray Kennedy Mark Hudoff	0 \$0	0 \$0	1 \$203 million	0 \$0	0 \$0	0 \$0

The Investment Team also manages institutional accounts and other mutual funds in several different investment strategies. The portfolios within an investment strategy are managed using a target portfolio; however, each portfolio may have different restrictions, cash flows, tax and other relevant considerations which may preclude a portfolio from participating in certain transactions for that investment strategy. Consequently, the performance of portfolios may vary due to these different considerations. The Investment Team may place transactions for one investment strategy that are directly or indirectly contrary to investment decisions made on behalf of another investment strategy. The Advisor may be restricted from purchasing more than a limited percentage of the outstanding shares of a company. If a company is a viable investment for more than one investment strategy, the Advisor has adopted policies and procedures reasonably designed to ensure that all of its clients are treated fairly and equitably.

Different types of accounts and investment strategies may have different fee structures. Additionally, certain accounts pay the Advisor performance-based fees, which may vary depending on how well the account performs compared to a benchmark. Because such fee arrangements have the potential to create an incentive for the Advisor to favor such accounts in making investment decisions and allocations, the Advisor has adopted policies and procedures reasonably designed to ensure that all of its clients are treated fairly and equitably, including in respect of allocation decisions, such as initial public offerings.

Since accounts are managed to a target portfolio by the Investment Team, adequate time and resources are consistently applied to all accounts in the same investment strategy.

The Investment Team, including portfolio managers, is compensated in various forms, which may include a base salary, an annual bonus, and equity ownership. Compensation is used to reward, attract and retain high quality investment professionals.

The Investment Team is evaluated and accountable at three levels. The first level is individual contribution to the research and decision-making process, including the quality and quantity of work achieved. The second level is teamwork, generally evaluated through contribution within sector teams. The third level pertains to overall portfolio and firm performance.

Fixed salaries and discretionary bonuses for investment professionals are determined by the Chief Executive Officer of the Advisor using tools which may include annual evaluations, compensation surveys, feedback from other employees and advice from members of the firm's Executive and Compensation Committees. The amount of the bonus is determined by the total amount of the firm's bonus pool available for the year, which is generally a function of revenues. No investment professional receives a bonus that is a pre-determined percentage of revenues or net income. Compensation is thus subjective rather than formulaic.

The majority of the portfolio managers own equity in the Advisor. The Advisor believes that the employee ownership structure of the firm will be a significant factor in ensuring a motivated and stable employee base going forward. The Advisor believes that the combination of competitive compensation levels and equity ownership provides the Advisor with a demonstrable advantage in the retention and motivation of employees. Portfolio managers who own equity in the Advisor receive their pro rata share of the Advisor's profits. Investment professionals may also receive contributions under the Advisor's profit sharing/401(k) plan.

Finally, the Advisor maintains a bank of unallocated equity to be used for those individuals whose contributions to the firm grow over time. If any owner should retire or leave the firm, the Advisor has the right to repurchase their ownership to place back in the equity bank. This should provide for smooth succession through the gradual rotation of the firm's ownership from one generation to the next.

The Advisor believes that its compensation structure/levels are more attractive than the industry norm, which is illustrated by the firm's lower-than-industry-norm investment personnel turnover.

Each portfolio manager beneficially owned shares of one or more Funds as of the end of each Fund's most recent fiscal year. A portfolio manager's beneficial ownership of a Fund is defined as the portfolio manager having the opportunity to share in any profit from transactions in the Fund, either directly or indirectly, as the result of any contract, understanding, arrangement and relationship or otherwise. Therefore, ownership of Fund shares by members of the portfolio manager's immediate family or by a trust of which the portfolio manager is a trustee could be considered ownership by the portfolio manager. The reporting of Fund share ownership in this SAI shall not be construed as an admission that the portfolio manager has any direct or indirect beneficial ownership in the Fund listed. The table below sets forth each portfolio manager's beneficial ownership of the Fund(s) under that portfolio manager's management as of June 30, 2011.

<i>Name of Portfolio Manager</i>	<i>Diversified Value Fund</i>	<i>Large Cap Value Fund</i>	<i>Mid-Cap Value Fund</i>	<i>Small Cap Value Fund</i>	<i>Value Opportunities Fund</i>	<i>Capital Income Fund</i>	<i>High Yield Fund</i>	<i>Total for all Funds</i>
George Davis	\$500,001 - \$1,000,000	Over \$1,000,000	\$500,001 - \$1,000,000	Over \$1,000,000	Over \$1,000,000	\$100,001 - \$500,000	\$500,001 - \$1,000,000	Over \$1,000,000
David Green	\$50,001 - \$100,000	\$50,001 - \$100,000	\$50,001 - \$100,000	\$500,001 - \$1,000,000	Over \$1,000,000	None	None	Over \$1,000,000
Mark Hudoff	None	None	None	\$0 - \$50,000	\$100,001 - \$500,000	\$500,001 - \$1,000,000	Over \$1,000,000	Over \$1,000,000
Ray Kennedy	None	None	None	None	None	None	Over \$1,000,000	Over \$1,000,000
Sheldon Lieberman	\$100,001 - \$500,000	\$100,001 - \$500,000	\$100,001 - \$500,000	\$50,001 - \$100,000	\$50,001 - \$100,000	None	\$50,001 - \$100,000	\$500,001 - \$1,000,000
Stan Majcher	None	\$100,001 - \$500,000	Over \$1,000,000	None	\$100,001 - \$500,000	None	Over \$1,000,000	Over \$1,000,000

<i>Name of Portfolio Manager</i>	<i>Diversified Value Fund</i>	<i>Large Cap Value Fund</i>	<i>Mid-Cap Value Fund</i>	<i>Small Cap Value Fund</i>	<i>Value Opportunities Fund</i>	<i>Capital Income Fund</i>	<i>High Yield Fund</i>	<i>Total for all Funds</i>
Scott McBride	\$100,001 - \$500,000	\$100,001 - \$500,000	None	None	\$100,001 - \$500,000	None	None	\$500,001 - \$1,000,000
Patricia McKenna	\$500,001 - \$1,000,000	\$100,001 - \$500,000	\$100,001 - \$500,000	\$100,001 - \$500,000	\$100,001 - \$500,000	None	\$100,001 - \$500,000	Over \$1,000,000
Patrick Meegan	None	None	None	\$50,001 - \$100,000	\$0 - \$50,000	Over \$1,000,000	None	Over \$1,000,000
Jim Miles	None	\$500,001 - \$1,000,000	\$100,001 - \$500,000	Over \$1,000,000	\$100,001 - \$500,000	None	None	Over \$1,000,000
Judd Peters	\$100,001 - \$500,000	\$100,001 - \$500,000	None	\$100,001 - \$500,000	\$100,001 - \$500,000	None	None	\$500,001 - \$1,000,000

Principal Underwriter and Administrator

Quasar Distributors, LLC, 615 East Michigan Street, Milwaukee, Wisconsin 53202, a Delaware limited liability company, is the principal underwriter and distributor for the shares of the Funds (“Quasar” or the “Distributor”). Quasar is a registered broker-dealer and member of the Financial Industry Regulatory Authority, Inc. (“FINRA”). The Distributor is affiliated with the Funds’ Transfer Agent, Fund Accountant and Administrator, U.S. Bancorp Fund Services, LLC.

The Funds’ shares are offered to the public on a continuous basis. The Distributor, as the principal underwriter of the shares, has certain obligations under the distribution agreement concerning the distribution of the shares. These obligations and the compensation the Distributor receives are described in the section titled, “Purchases of Shares.”

U.S. Bancorp Fund Services, LLC (the “Administrator” or “USBFS”), 615 East Michigan Street, Milwaukee, Wisconsin 53202, is the administrator for each Fund.

For the fiscal years ended June 30, 2011, 2010 and 2009, total administration fees paid by the Funds to USBFS were as follows:

	<i>Diversified Value Fund</i>	<i>Large Cap Value Fund</i>	<i>Mid-Cap Value Fund</i>	<i>Small Cap Value Fund</i>	<i>Value Opportunities Fund</i>	<i>Capital Income Fund</i>	<i>High Yield Fund</i>
Fiscal year ended June 30, 2011	\$182,308	\$514,657	\$560,897	\$120,641	\$30,414	\$1,375 ⁽¹⁾	\$91,335
Fiscal year ended June 30, 2010	\$224,728	\$621,670	\$687,520	\$108,834	\$23,049	N/A	\$27,829
Fiscal year ended June 30, 2009	\$334,096	\$789,530	\$675,912	\$103,590	\$17,492	N/A	\$6,856 ⁽²⁾

⁽¹⁾ The Capital Income Fund commenced operations on December 31, 2010, and USBFS agreed to waive a portion of its fees during the Capital Income Fund’s first year of operations.

⁽²⁾ The High Yield Fund commenced operations on March 31, 2009.

Code of Ethics

The Board of Trustees of the Trust has approved a Code of Ethics under Rule 17j-1 of the 1940 Act that covers the Trust and the Advisor (the “Code of Ethics”). The Code of Ethics permits personnel subject to the Codes to invest in securities, including securities that may be purchased or held by a Fund, subject to certain restrictions. The protective provisions of the Code of Ethics prohibit certain investments and limit these personnel from making investments during periods when a Fund is making such investments. The Code of Ethics is on public file with, and is available from, the Securities and Exchange Commission. The Board of Trustees has also approved a separate Code of Ethics for the Principal Executive Officer and Principal Financial Officer related to the Funds’ financial reporting.

Proxy Voting Policy

Generally, the Advisor will vote (by proxy or otherwise) in all matters for which a shareholder vote is solicited by, or with respect to, issuers of securities beneficially held in the Funds’ accounts in such manner as the Advisor deems appropriate in accordance with its written policies and procedures. These policies and procedures set forth guidelines for voting typical proxy proposals. However, each proxy issue will be considered individually in order that the Advisor may consider what would be in a Fund’s best interest. Further, where a proxy proposal raises a material conflict of interest between the interests of the Advisor and a Fund, the Advisor will vote according to its predetermined specific policy. The Advisor’s Compliance Department will review the vote to determine that the decision was based on the Fund’s best interest and was not the product of the conflict. See [Appendix A](#) for the Advisor’s Proxy Voting Policies and Procedures.

Information regarding how the Funds voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available without charge on the Funds' website at www.hwcm.com and on the Commission's website at <http://www.sec.gov>.

Portfolio Transactions and Brokerage

Transactions on U.S. stock exchanges, commodities markets and futures markets and other agency transactions involve the payment by a Fund of negotiated brokerage commissions. Such commissions vary among different brokers. A particular broker may charge different commissions according to such factors as the difficulty and size of the transaction. Transactions in foreign investments often involve the payment of fixed brokerage commissions, which may be higher than those in the United States. In the case of securities traded in the over-the-counter markets, the price paid by a Fund usually includes an undisclosed dealer commission or mark-up. In underwritten offerings, the price paid by a Fund includes a disclosed, fixed commission or discount retained by the underwriter or dealer.

It has for many years been a common practice in the investment advisory business for advisers of investment companies and other investors to receive brokerage and research services (as defined in the Securities Exchange Act of 1934, as amended, and the rules promulgated thereunder (the "1934 Act")) from broker-dealers that execute portfolio transactions for the clients of such advisers and from third parties with which such broker-dealers have arrangements. Consistent with this practice, the Advisor may receive brokerage and research services and other similar services from many broker-dealers with which the Advisor places the Funds' portfolio transactions. These services may include such matters as trade execution services, general economic and market reviews, industry and company reviews, evaluations of investments, recommendations as to the purchase and sale of investments, trade magazines, company financial data, market data, pricing services, quotation services, and news services utilized by the Advisor's investment professionals. Where the services referred to above are not used exclusively by the Advisor for brokerage or research purposes, the Advisor, based upon allocations of expected use, would bear that portion of the cost of these services which directly relates to their non-brokerage or non-research use. Some of these services may be of value to the Advisor in advising a variety of its clients (including the Funds), although not all of these services would necessarily be useful and of value in managing the Funds or any particular Fund. The management fee paid by each Fund is not reduced because the Advisor may receive these services even though the Advisor might otherwise be required to purchase some of these services for cash.

The Advisor places orders for the purchase and sale of portfolio investments for the Funds and buy and sell investments for the Funds through a substantial number of brokers and dealers. In so doing, the Advisor uses its best efforts to obtain for the Funds the most favorable price and execution available, except to the extent it may be permitted to pay higher brokerage commissions as described below. In seeking the most favorable price and execution, the Advisor, having in mind each Fund's best interests, considers all factors it deems relevant, including, by way of illustration, price, the size of the transaction, the nature of the market for the security or other investment, the amount of the commission, the timing of the transaction taking into account market prices and trends, the reputation, experience and financial stability of the broker-dealer involved and the quality of service rendered by the broker-dealer in other transactions.

As permitted by Section 28(e) of the 1934 Act, and by each Investment Advisory Agreement, the Advisor may cause a Fund to pay a broker-dealer which provides "brokerage and research services" (as defined in the 1934 Act) to the Advisor an amount of disclosed commission for effecting securities transactions on stock exchanges and other transactions for such Fund on an agency basis in excess of the commission which another broker-dealer would have charged for effecting that transaction. The Advisor's authority to cause the Funds to pay any such greater commissions is also subject to such policies as the Trustees may adopt from time to time. It is the position of the staff of the Commission that Section 28(e) does not apply to the payment of such greater commissions in "principal" transactions. Accordingly the Advisor will use its best efforts to obtain the most favorable price and execution available with respect to such transactions, as described above.

From time to time, the Advisor may purchase new issues of securities for clients, including the Funds, in a fixed price offering. In these situations, the broker may be a member of the selling group that will, in addition to selling securities, provide the Advisor with research services. FINRA has adopted rules expressly permitting these types of arrangements under certain circumstances. Generally, the broker will provide research "credits" in these situations at a rate that is higher than that which is available for typical secondary market transactions. These arrangements may not fall within the safe harbor of Section 28(e).

Foreign equity securities may be held by the Trust in the form of ADRs, EDRs, GDRs or other securities convertible into foreign equity securities. ADRs, EDRs and GDRs may be listed on stock exchanges, or traded in the Over the Counter markets in the United States or Europe, as the case may be. ADRs traded in the United States, like other securities traded in the United States, will be subject to negotiated commission rates. The Trust's ability and decisions to purchase or sell portfolio securities of foreign issuers may be affected by laws or regulations relating to the convertibility and repatriation of assets.

Because the shares of each Fund are redeemable on a daily basis in U.S. dollars, the Advisor intends to manage the Funds so as to give reasonable assurance that it will be able to obtain U.S. dollars to the extent necessary to meet anticipated redemptions. Under present conditions, it is not believed that these considerations will have significant effect on the Funds' portfolio strategies.

Securities held by a Fund may also be held by, or be appropriate investments for, other funds or investment advisory clients for which the Advisor acts as an adviser. Because of different objectives or other factors, a particular security may be bought for one or more clients of the Advisor when one or more clients of the Advisor are selling the same security. If purchases or sales of securities arise for consideration at or about the same time that would involve the Funds or other clients or funds for which the Advisor acts as adviser, transactions in such securities will be made, insofar as feasible, for the respective funds and clients in a manner deemed equitable to all. To the extent that transactions on behalf of more than one client of the Advisor during the same period may increase the demand for securities being purchased or the supply of securities being sold, there may be an adverse effect on price.

Aggregate brokerage commissions paid by each of the Funds for the three most recent fiscal years ended June 30 are shown in the table below.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Diversified Value Fund	\$ 320,415	\$ 362,803	\$ 1,398,376
Large Cap Value Fund	\$ 812,207	\$ 1,147,058	\$ 2,524,420
Mid-Cap Value Fund	\$ 1,603,077	\$ 2,093,223	\$ 2,715,660
Small Cap Value Fund	\$ 346,285	\$ 527,747	\$ 485,869
Value Opportunities Fund	\$ 160,017	\$ 154,123	\$ 129,481
Capital Income Fund*	\$ 1,220	N/A	N/A
High Yield Fund**	\$ 18,579	\$ 5,726	\$ 1,113

* The Capital Income Fund commenced operations on December 31, 2010.

** The High Yield Fund commenced operations on March 31, 2009.

Brokerage commissions for the Diversified Value Fund, Large Cap Value Fund and Mid-Cap Value Fund decreased from the fiscal year ended June 30, 2009 to the fiscal year ended June 30, 2010, due to the decrease in portfolio turnover rate for those funds. The increase in brokerage commissions for the High Yield Fund from the fiscal year ended June 30, 2010 to the fiscal year ended June 30, 2011 is primarily due to the increase in its net assets.

The value of the Funds' aggregate holdings of the securities of their regular broker or dealer (as defined in Rule 10b-1 under the 1940 Act) as of June 30, 2011, were as follows:

<u>Fund</u>	<u>Regular Broker-Dealer</u>	<u>Debt-Equity</u>	<u>Value</u>
Diversified Value Fund	Bank of America Corporation	Equity	\$11,510,433
Diversified Value Fund	Citigroup, Inc.	Equity	\$10,925,253
Diversified Value Fund	JPMorgan Chase & Company	Equity	\$15,000,416
Diversified Value Fund	Prudential Financial, Inc.	Equity	\$1,958,572
Diversified Value Fund	Wells Fargo & Company	Equity	\$15,136,518
Large Cap Value Fund	Bank of America Corporation	Equity	\$30,292,223
Large Cap Value Fund	Citigroup, Inc.	Equity	\$28,734,432
Large Cap Value Fund	JPMorgan Chase & Company	Equity	\$42,057,662
Large Cap Value Fund	Wells Fargo & Company	Equity	\$39,449,301
Value Opportunities Fund	JPMorgan Chase & Company	Equity	\$3,840,172
Value Opportunities Fund	Wells Fargo & Company	Equity	\$2,474,892
Capital Income Fund	Bank of America Corporation	Equity	\$48,794
Capital Income Fund	Citigroup, Inc.	Equity	\$49,090
Capital Income Fund	JPMorgan Chase & Company	Equity	\$268,321
Capital Income Fund	Wells Fargo & Company	Equity	\$199,709
High Yield Fund	Bank of America Corporation	Equity	\$1,547,482
High Yield Fund	Citigroup, Inc.	Equity	\$4,201,523

Portfolio Turnover

Portfolio turnover measures the percentage of a fund's total portfolio market value that was purchased or sold during the period. A fund's turnover rate provides an indication of how transaction costs (which are not included in a fund's expenses), may affect a fund's performance. Also, funds with a high turnover may be more likely to distribute capital gains that may be taxable to shareholders.

The Funds' portfolio turnover rates for the fiscal years ending June 30, 2011 and 2010 are stated below. Portfolio turnover rates could change significantly in response to turbulent market conditions.

	<i>Fiscal Year Ended June 30,</i>	
	<u>2011</u>	<u>2010</u>
Diversified Value Fund	63%	43%
Large Cap Value Fund	43%	47%
Mid-Cap Value Fund	62%	67%
Small Cap Value Fund	54%	93%
Value Opportunities Fund	137%	166%
Capital Income Fund*	39%	N/A
High Yield Fund	139%	175%

* The Capital Income Fund commenced operations on December 31, 2010.

Disclosure of Portfolio Holdings

The Trust has adopted, and the Board of Trustees has approved, policies and procedures reasonably designed to ensure that non-public disclosure of the Funds' portfolio holdings is in the best interests of Fund shareholders, or at least will do no harm to Fund shareholders. No information concerning the Funds' portfolio holdings may be disclosed except as provided below:

Regulatory Filings

The Funds' portfolio holdings are made public, as required by law, in the Funds' annual and semi-annual reports. These reports are filed with the Commission, mailed to shareholders and posted to the Funds' website generally within 60 days after the end of the relevant fiscal period. In addition, the Funds' portfolio holdings for the fiscal quarters not covered by the annual and semi-annual reports are filed with the Commission and posted to the Funds' website generally within 60 days after the end of each quarter.

Portfolio Holdings on the Funds' Website and in Marketing Materials

The Funds' complete portfolio holdings as of each month-end generally will be available on the last business day of the following month. Each Fund's month-end Top 10 holdings reports and monthly attribution reports, which show the top five and bottom five contributors to performance, generally will be available by the eighth business day after month-end. Quarterly commentary for each Fund, which may discuss a Fund's sectors, industries and individual holdings, generally is available approximately two weeks after the end of each calendar quarter. Aggregate month-end portfolio characteristics, such as industry and sector classification, aggregate book value, market cap and price-to-earnings ratios of the Funds, generally are available by the eighth business day after month-end. This information may be obtained through the Funds' website or by calling 800-796-5606.

This information will, at a minimum, remain on the Funds' website until the Funds file a list of their holdings with the Commission for the relevant periods.

Disclosure of Holdings to Analytical Companies

The Funds' portfolio holdings generally are sent to certain analytical companies (Morningstar, Bloomberg, Lipper, etc.) on the day after a complete set of holdings is available on the Funds' website.

Disclosure of Holdings to Service Providers and Other Parties

The Funds' portfolio holdings are disclosed to service providers on an on-going basis in the performance of their contractual duties. These providers include, but are not limited to, the Funds' custodian, fund accountant, fund administrator, printing companies, public accounting firm and attorneys. Holdings are disclosed to service providers that perform operational services for all of the accounts managed by the Advisor, including the Funds, which include back office services, portfolio accounting and performance systems services, proxy voting services and analytical and trading

systems (such as FactSet, Bloomberg and Charles River). Employees of the Advisor also may have frequent access to portfolio holdings. The frequency of disclosure to these parties varies and may be as frequently as intra-day with no lag.

Various broker/dealers and other parties involved in the trading and settlement process have access to Fund portfolio information when a Fund is buying and selling Fund securities.

Non-public disclosure of the Funds' portfolio holdings will only be made to service providers and other parties who are under a duty of confidentiality to the Funds, whether by explicit written agreement or by virtue of their duties to the Funds. The Trust and/or the Advisor will make reasonable efforts to obtain written confidentiality agreements and prohibition on trading based on knowledge of the Funds' portfolio holdings with the service providers and other parties who receive the Funds' portfolio holdings information prior to the holdings being made public. Employees of the Advisor are subject to the Trust's and the Advisor's Code of Ethics, but the improper use of Fund portfolio holdings by other parties is possible, notwithstanding contractual and confidentiality obligations.

After aggregate month-end portfolio characteristics are available by the eighth business day after month-end on the Funds' website, the Funds may provide supplemental portfolio attribution and characteristics information for that month that are not publicly available on the Funds' website to investment consultants, financial intermediaries, shareholders or others who require such information for legitimate business purposes. Requests for supplemental portfolio attribution and characteristics information can be standing requests or made by calling 800-796-5606. The Funds reserve the right to refuse to fulfill a request if they deem that providing supplemental portfolio attribution and characteristics information would be contrary to the best interest of the Funds. Such decisions are made by the President of the Trust or the Trust's Chief Compliance Officer.

Portfolio holdings may be disclosed to governmental and self-regulatory authorities pursuant to applicable laws or regulations, or a judicial, regulatory or other similar demand or request.

Disclosure of Individual Portfolio Holdings

Employees of the Advisor may discuss specific Fund portfolio holdings with the public and/or the media. The Advisor maintains policies and procedures regarding pre-approval prior to discussing a specific security. In addition, the confirmation of whether a stock is held in a Fund and the specific weighting must follow the public disclosure procedures as described above.

Other Clients of the Advisor

Various non-Fund portfolios of other clients of the Advisor may hold securities substantially similar to those held by the Funds, since the Advisor maintains a "target portfolio" for each of its investment strategies which often utilizes similar securities for various client portfolios (including the Funds') managed with a particular investment strategy. These clients generally have access to current portfolio holding information for their accounts and do not owe the Funds or the Advisor a duty of confidentiality with respect to disclosure of their portfolio holdings. The Advisor has implemented separate policies and procedures with respect to appropriate disclosure of the Advisor's representative or target portfolios, including to the Advisor's clients and their agents.

Board of Trustees Oversight of Disclosure of Fund Portfolio Holdings

Exceptions to the Funds' portfolio holdings disclosure policies may be granted only by the Trust's President or Chief Compliance Officer upon a determination that the release of information (1) would be appropriate for legitimate business purposes and (2) is not anticipated to adversely affect Fund shareholders. Any such disclosure of Fund portfolio holdings shall be disclosed to the Board of Trustees at its next regular meeting.

There is no assurance that the Funds' policies on portfolio holdings disclosure will protect the Funds from potential misuse of holdings information by individuals in possession of that information.

In approving the Disclosure of Fund Portfolio Holdings Policy, the Board of Trustees determined that disclosure prior to Fund holdings being made public to the parties mentioned above did no harm to Fund shareholders. Potential conflicts of interest between the Funds, the Advisor or affiliates of the Advisor, were considered. In addition, in no event shall the Advisor, its affiliates or employees, or the Funds receive any direct or indirect compensation in connection with the disclosure of the Funds' portfolio holdings.

Marketing and Support Payments

The Funds' Advisor, out of its own resources and without additional cost to the Funds or their shareholders, may provide additional cash payments or other compensation to certain financial intermediaries who sell shares of the Funds. Such payments are in addition to upfront sales commissions paid by the Advisor and Rule 12b-1 fees and service fees paid by the Funds, and may be divided into categories as follows:

Support Payments. Payments may be made by the Advisor to certain financial intermediaries in connection with the eligibility of the Funds to be offered in certain programs and/or in connection with meetings between Fund representatives and financial intermediaries and their sales representatives. Such meetings may be held for various purposes, including providing education and training about the Funds and other general financial topics to assist financial intermediaries' sales representatives in making informed recommendations to, and decisions on behalf of, their clients.

As of December 31, 2010, the Advisor has agreements with five firms to pay such Support Payments, which are structured as a percentage of sales and/or as a percentage of assets.

Support Payments to these dealers for calendar year 2010 were 0.01% of 2010 average total Funds assets, and in dollars were:

Merrill Lynch	\$ 96,718
Morgan Stanley	\$ 4,622
Raymond James	\$ 15,000
UBS Financial Services	\$ 278
Wells Fargo Advisors	\$ 233,945
Total	<u>\$ 350,563</u>

Entertainment, Conferences and Events. The Advisor also may pay cash or non-cash compensation to sales representatives of financial intermediaries in the form of (i) occasional gifts; (ii) occasional meals, tickets or other entertainment; and/or (iii) sponsorship support for the financial intermediary's client seminars and cooperative advertising. In addition, the Advisor pays for exhibit space or sponsorships at regional or national events of financial intermediaries.

Certain Service Fees. Certain service fees charged by financial intermediaries, such as sub-administration, sub-transfer agency and other shareholder services fees, which exceed the amounts payable pursuant to the Funds' Sub-Transfer Agency Policy and the 12b-1 Plan (as described in this SAI), are paid by the Advisor. The total amount of such service fees paid by the Advisor for calendar year 2010 was approximately \$697,000, which was 0.02% of 2010 average total Funds assets.

The prospect of receiving, or the receipt of, additional payments or other compensation as described above by financial intermediaries may provide such intermediaries and/or their salespersons with an incentive to favor sales of shares of the Funds, and other mutual funds whose affiliates make similar compensation available, over sale of shares of mutual funds (or non-mutual fund investments) not making such payments. You may wish to take such payment arrangements into account when considering and evaluating any recommendations relating to Fund shares.

Sub-Transfer Agency Expenses

Fund shares are sold through administrators, broker-dealers, fund supermarkets, 401(k) recordkeepers and other institutions ("intermediaries") that provide accounting, record keeping, and/or other services to investors and that have a services agreement or selling agreement with the Funds' Distributor and/or the Advisor to make Fund shares available to their clients.

Each intermediary renders sub-transfer agency services similar to the Funds' transfer agency services, which generally consist of:

- Processing all purchase, redemption and exchange orders;
- Generating and delivering confirmations;
- Sending account statements;
- Sending prospectuses, statements of additional information, financial reports, proxy materials, and other Fund communications;

- Handling routine investor inquiries;
- Tax reporting;
- Maintaining records of account activity; and
- Distributing dividends, distributions and redemption proceeds.

In addition, some of the sub-transfer agency fees are for maintaining the records of individual participants in 401(k) or other defined contribution plans. The Board of Trustees has approved payments to these intermediaries from Fund assets for providing these sub-transfer agency services based on charges for similar services if such services were provided directly by the Funds' transfer agent.

Sub-transfer agency fees for non-401(k) accounts.

The Funds will pay the lesser of (i) the fee actually charged by the intermediary, or (ii) 0.15% (or \$18 per account).

Sub-transfer agency fees for 401(k) accounts.

The Funds will pay the lesser of (i) the fee actually charged by the intermediary, or (ii) 0.25% (or \$30 per account).

The Funds treat any intermediary fees exceeding the above sub-transfer agency charges as distribution charges. For Class I, the Advisor pays these distribution charges out of its own resources. For other classes, distribution charges are paid with Rule 12b-1 fees, and the Advisor pays any distribution charges above the amount able to be paid under the Rule 12b-1 Plan.

PURCHASE OF SHARES

Initial Sales Charge Alternative — Class A Shares

Class A Shares — Purchases Subject to an Initial Sales Charge. For purchases of Class A shares subject to an initial sales charge, the Distributor reallows a portion of the initial sales charge to dealers (which is alike for all dealers), as shown in the table below. (The term "dealer" includes any broker, dealer, bank (including bank trust departments), registered investment adviser, financial planner and any other financial institution having a selling agreement or any other similar agreement with the Distributor.) The difference between the total amount invested and the sum of (a) the net proceeds to the Fund and (b) the dealer reallowance, is the amount of the initial sales charge retained by the Distributor (also known as the "underwriter concession"). In addition to the underwriter concession retained by the Distributor, the Distributor retains the entire initial sales charge on accounts with no authorized dealer of record. Because of rounding in the computation of offering price, the portion of the sales charge retained by the Distributor may vary and the total sales charge may be more or less than the sales charge calculated using the sales charge expressed as a percentage of the offering price or as a percentage of the net amount invested as listed in the following tables.

Diversified Value, Large Cap Value, Mid-Cap Value, Small Cap Value and Value Opportunities Funds

<u>Your Investment</u>	<u>Sales Charge as a % of Offering Price</u>	<u>Sales Charge as a % of Your Investment*</u>	<u>Dealer Compensation as a % of Offering Price</u>	<u>Underwriter Concession</u>
Less than \$25,000	5.25%	5.54%	5.00%	0.25%
\$25,000 but less than \$50,000	4.75%	4.99%	4.50%	0.25%
\$50,000 but less than \$100,000	4.00%	4.17%	3.75%	0.25%
\$100,000 but less than \$250,000	3.00%	3.09%	2.75%	0.25%
\$250,000 but less than \$1,000,000	2.00%	2.04%	1.80%	0.20%
\$1,000,000 and over	0.00%	0.00%	0.00%**	0.00%

* Rounded to the nearest one-hundredth percent.

** The Advisor pays up to 0.75% of the Offering Price as compensation to dealers.

Capital Income Fund

<u>Your Investment</u>	<u>Sales Charge as a % of Offering Price</u>	<u>Sales Charge as a % of Your Investment*</u>	<u>Dealer Compensation as a % of Offering Price</u>	<u>Underwriter Concession</u>
Less than \$50,000	4.75%	4.99%	4.50%	0.25%
\$50,000 but less than \$100,000	4.25%	4.44%	4.00%	0.25%
\$100,000 but less than \$250,000	3.50%	3.63%	3.25%	0.25%
\$250,000 but less than \$500,000	2.50%	2.56%	2.25%	0.25%
\$500,000 but less than \$1,000,000	2.00%	2.04%	1.75%	0.25%
\$1,000,000 and over	0.00%	0.00%	0.00%**	0.00%

* Rounded to the nearest one-hundredth percent.

** The Advisor pays up to 0.75% of the Offering Price as compensation to dealers.

High Yield Fund

<u>Your Investment</u>	<u>Sales Charge as a % of Offering Price</u>	<u>Sales Charge as a % of Your Investment*</u>	<u>Dealer Compensation as a % of Offering Price</u>	<u>Underwriter Concession</u>
Less than \$100,000	3.75%	3.90%	3.50%	0.25%
\$100,000 but less than \$250,000	3.25%	3.36%	3.00%	0.25%
\$250,000 but less than \$500,000	2.25%	2.30%	2.00%	0.25%
\$500,000 but less than \$1,000,000	1.75%	1.78%	1.50%	0.25%
\$1,000,000 and over	0.00%	0.00%	0.00%**	0.00%

* Rounded to the nearest one-hundredth percent.

** The Advisor pays up to 0.75% of the Offering Price as compensation to dealers.

Class A Shares — Purchases Subject to a Contingent Deferred Sales Charge (but not an Initial Sales Charge). Shareholders who invest \$1,000,000 or more in Class A shares do not pay an initial sales charge. The Advisor pays up to 0.75% as a commission to dealers who initiate and are responsible for purchases of Class A shares of \$1,000,000 or more as follows:

<u>Dealer Compensation as a % of Offering Price</u>	<u>Cumulative Purchase Amount</u>
0.75%	\$1,000,000 to \$2,000,000, plus
0.50%	Over \$2,000,000 to \$3,000,000, plus
0.30%	Over \$3,000,000 to \$50,000,000, plus
0.20%	Over \$50,000,000 to \$100,000,000, plus
0.10%	Over \$100,000,000

If the shareholder redeems the shares within one year after purchase, a deferred sales charge of 0.75% may be charged and paid to the Distributor. Because the Advisor finances the up-front commission paid to dealers who are responsible for purchases of Class A shares of \$1,000,000 or more, the Distributor reimburses the Advisor the 0.75% deferred sales charge paid by shareholders redeeming within one year after purchase.

Class A Sales Charge Information – The Distributor of the Funds received the following sales charges from investors on sales of Class A shares:

	<u>Gross Sales Charges Collected</u>	<u>Sales Charges Paid to Quasar*</u>	<u>CDSCs Received on Redemptions of Load- Waived Shares**</u>
Diversified Value Fund			
Fiscal year ended 6/30/11	\$ 8,362	\$ 383	\$ —
Fiscal year ended 6/30/10	\$ 6,075	\$ 355	\$ —
Fiscal year ended 6/30/09	\$ 4,891	\$ 325	\$ 19
Large Cap Value Fund			
Fiscal year ended 6/30/11	\$ 29,424	\$ 1,749	\$ 67
Fiscal year ended 6/30/10	\$ 16,455	\$ 928	\$ 759
Fiscal year ended 6/30/09	\$ 13,311	\$ 674	\$ 4,777

	<i>Gross Sales Charges Collected</i>		<i>Sales Charges Paid to Quasar*</i>		<i>CDSCs Received on Redemptions of Load- Waived Shares**</i>
<hr/>					
Mid-Cap Value Fund					
Fiscal year ended 6/30/11	\$	56,556	\$	3,963	\$ 103
Fiscal year ended 6/30/10	\$	56,817	\$	3,839	\$ 715
Fiscal year ended 6/30/09	\$	33,979	\$	3,957	\$ 9,055
Small Cap Value Fund					
Fiscal year ended 6/30/11	\$	72,437	\$	4,442	\$ —
Fiscal year ended 6/30/10	\$	35,719	\$	2,354	\$ 144
Fiscal year ended 6/30/09	\$	1,617	\$	342	\$ 434
Value Opportunities Fund					
Fiscal year ended 6/30/11	\$	119,959	\$	6,561	\$ —
Fiscal year ended 6/30/10	\$	13,929	\$	799	\$ —
Fiscal year ended 6/30/09	\$	1,323	\$	88	\$ —
Capital Income Fund					
Period from 2/28/11 to 6/30/11***	\$	—	\$	—	\$ —
High Yield Fund					
Fiscal year ended 6/30/11	\$	40,521	\$	2,994	\$ —
Fiscal year ended 6/30/10	\$	33,678	\$	2,748	\$ —
Period from 5/29/09 to 6/30/09****	\$	263	\$	13	\$ —

* Quasar retains all underwriting concessions and the front-end sales charge on accounts with no dealer of record.

** The Distributor reimburses this amount to the Advisor since the Advisor finances the up-front commissions paid to dealers.

*** The Capital Income Fund – Class A commenced operations on February 28, 2011.

**** The High Yield Fund – Class A commenced operations on May 29, 2009.

Class A Shares Conversion – Shareholders may be able to convert Class A shares to Class I shares of the same Fund, if they satisfy the eligibility requirements for Class I shares. Please contact your financial intermediary for additional information on how to convert your shares into another share class. For federal income tax purposes, a conversion between share classes of the same Fund is considered a non-taxable event.

Deferred Sales Charge Alternative — Class C Shares

Though shareholders do not pay an initial sales charge at the time of purchase of Class C shares, the Distributor compensates selling dealers by paying 1.00% of the purchase price for Class C shares. If Class C shares are redeemed within one year after purchase, shareholders are charged a CDSC of 1.00%. Shares acquired through reinvestment of dividend and distributions are not subject to a CDSC. Proceeds from the CDSC and the 1.00% Distribution Plan payments made in the first year after purchase are paid to the Distributor and are used in whole or in part by the Distributor to pay the Advisor for financing of the 1.00% up-front commission to dealers who sell Class C shares. Financial intermediaries will generally become eligible to receive some or all of the Distribution Plan payments one year after purchase. The combination of the CDSC and the ongoing Distribution Plan fee facilitates the ability of a Fund to sell Class C shares without a sales charge being deducted at the time of purchase. See “Distribution Plan” below. Imposition of the CDSC and the Distribution Plan fee on Class C shares is limited by the FINRA asset-based sales charge rule. See “Limitations on the Payment of Deferred Sales Charges” below.

Class C shares convert automatically into Class A shares approximately eight years after purchase. Class A shares are subject to lower annual expenses than Class C shares. The conversion of Class C shares to Class A shares is not a taxable event for Federal income tax purposes.

Class C Sales Charge Information – Sales charges received by the Distributor of the Funds from shareholders of Class C shares were as follows:

	<u>CDSCs Received*</u>
Diversified Value Fund	
Fiscal year ended 6/30/11	\$ 386
Fiscal year ended 6/30/10	\$ 770
Fiscal year ended 6/30/09	\$ 20,772
Large Cap Value Fund	
Fiscal year ended 6/30/11	\$ 2,077
Fiscal year ended 6/30/10	\$ 1,465
Fiscal year ended 6/30/09	\$ 5,874
Mid-Cap Value Fund	
Fiscal year ended 6/30/11	\$ 4,736
Fiscal year ended 6/30/10	\$ 4,130
Fiscal year ended 6/30/09	\$ 6,289
Small Cap Value Fund	
Fiscal year ended 6/30/11	\$ 5,719
Fiscal year ended 6/30/10	\$ 3,714
Fiscal year ended 6/30/09	\$ 800
Value Opportunities Fund	
Fiscal year ended 6/30/11	\$ 8,205
Fiscal year ended 6/30/10	\$ 1,098
Fiscal year ended 6/30/09	\$ 1,776

* The Distributor reimburses this amount to the Advisor since the Advisor finances the up-front commissions paid to dealers.

Class R Shares

The Large Cap Value Fund and the Mid-Cap Value Fund offer Class R shares as described in the Prospectus. Class R shares are available only to certain retirement plans. Class R shares are not subject to an initial sales charge or a CDSC but are subject to ongoing annual distribution and service fees of 0.50%. Distribution and service fees are used to support a Fund's marketing and distribution efforts, such as compensating financial intermediaries, advertising and promotion, and are also used to compensate securities dealers and other financial intermediaries for shareholder servicing activities. If Class R shares are held over time, these fees may exceed the maximum sales charge that an investor would have paid as a shareholder of Class A or Class C shares.

Distribution Plan

The distribution plan for the Class A, Class C and Class R shares (the "Distribution Plan") provides that each Fund pays a distribution and service fee relating to the shares of the relevant class, accrued daily and paid monthly, at the annual rate of up to 0.25% of the average daily net assets of the Class A shares of the relevant Fund, at the annual rate of up to 1.00% of the average daily net assets of the Class C shares of the relevant Fund, and at the annual rate of up to 0.50% of the average daily net assets of the Class R shares of the Large Cap Value Fund and the Mid-Cap Value Fund only, in order to compensate the distribution coordinator, as appointed by the Board of Trustees from time to time (the "Distribution Coordinator", and selected securities dealers or other financial intermediaries in connection with providing shareholder and distribution services, and bearing certain distribution-related expenses of the Fund, including payments to securities dealers and other intermediaries for selling Class A, Class C and Class R shares of that Fund. Each of those classes has exclusive voting rights with respect to the Distribution Plan adopted with respect to such class pursuant to which distribution and service fees are paid.

The Distribution Plan as it relates to Class C and Class R shares is designed to permit an investor to purchase Class C and Class R shares through securities dealers and other financial intermediaries without the assessment of an initial sales charge and at the same time permit the Distribution Coordinator to compensate securities dealers and other financial intermediaries in connection with the sale of the Class C and Class R shares. In this regard, the purpose and function of the ongoing distribution fees and the CDSC are the same as those of the initial sales charge with respect to the Class A

shares of the Funds in that the ongoing distribution fees and deferred sales charges provide for the financing of the distribution of the Funds' Class C and Class R shares.

The Funds' Distribution Plan is subject to the provisions of Rule 12b-1 under the 1940 Act. In their consideration of the Distribution Plan, the Trustees must consider all factors they deem relevant, including information as to the benefits of the Distribution Plan to each Fund and its shareholders. The Distribution Plan further provides that, so long as the Distribution Plan remains in effect, the selection and nomination of Independent Trustees shall be committed to the discretion of the Independent Trustees then in office. In approving the Distribution Plan in accordance with Rule 12b-1, the Independent Trustees concluded that there is a reasonable likelihood that the Distribution Plan will benefit the Funds and their shareholders. Specifically, the Trustees have concluded that the Plan is reasonably likely to benefit the Funds and their shareholders because the Distribution Plan authorizes the relationships with selling agents that have previously developed distribution channels and relationships with the retail customers that the Funds are designed to serve. The Trustees believe that these relationships and distribution channels provide potential for increased Fund assets and ultimately corresponding economic efficiencies (*i.e.*, lower per-share transaction costs and fixed expenses) that are generated by increased assets under management. The Distribution Plan can be terminated as to a class of a Fund at any time, without penalty, by the vote of a majority of the Independent Trustees or by the vote of the holders of a majority of the outstanding related class of voting securities of the Fund. The Distribution Plan cannot be amended to increase materially the amount to be spent by a Fund without the approval of the related class of shareholders, and all material amendments are required to be approved by the vote of the Trustees, including a majority of the Independent Trustees who have no direct or indirect financial interest in the Distribution Plan, cast in person at a meeting called for that purpose. Rule 12b-1 further requires that a Fund preserve copies of the Distribution Plan and any report made pursuant to such Plan for a period of not less than six years from the date of the Distribution Plan or such report, the first two years in an easily accessible place.

Among other things, the Distribution Plan provides that the Distribution Coordinator shall provide and the Trustees shall review quarterly reports of the disbursement of the distribution and service fees paid under the Plan. Payments under the Distribution Plan are based on a percentage of average daily net assets attributable to the shares regardless of the amount of expenses incurred and, accordingly, distribution-related revenues from the Distribution Plan may be more or less than distribution-related expenses. Information with respect to the distribution-related revenues and expenses is presented to the Trustees for their consideration in connection with their deliberations as to the continuance of the Distribution Plan.

For the fiscal year ended June 30, 2011, the Funds paid the following amounts under the Distribution Plan:

	<u>Diversified Value Fund</u>	<u>Large Cap Value Fund</u>	<u>Mid-Cap Value Fund</u>	<u>Small Cap Value Fund</u>	<u>Value Opportunities Fund</u>	<u>Capital Income Fund*</u>	<u>High Yield Fund</u>
Distribution and service fees – Class A	\$146,063	\$1,339,719	\$608,470	\$132,786	\$71,961	\$58	\$97,733
Distribution and service fees – Class C	\$156,870	\$398,745	\$352,356	\$79,200	\$96,186	N/A	N/A
Distribution and service fees – Class R	N/A	\$77,887	\$31,075	N/A	N/A	N/A	N/A

* The Capital Income Fund commenced operations on December 31, 2010.

These payments were made to dealers for compensation to their representatives and for advertising, sales promotion, marketing expenses and shareholder services such as account maintenance. A portion of the distribution fees with respect to Class A and Class R Shares may be used to reimburse the Advisor for advances made on Class A shares and for certain service fees paid by the Advisor. The Funds made the following payments under the Distribution Plan for the fiscal year ended June 30, 2011:

	<u>Diversified Value Fund</u>	<u>Large Cap Value Fund</u>	<u>Mid-Cap Value Fund</u>	<u>Small Cap Value Fund</u>	<u>Value Opportunities Fund</u>	<u>Capital Income Fund*</u>	<u>High Yield Fund</u>
Compensation to broker-dealers	\$302,933	\$1,816,351	\$991,901	\$211,986	\$168,147	\$47	\$97,733
Other uses	\$—	\$—	\$—	\$—	\$—	\$11	\$—

* The Capital Income Fund commenced operations on December 31, 2010.

Limitations on the Payment of Deferred Sales Charges

The maximum sales charge rule in the Conduct Rules of FINRA imposes a limitation on certain asset-based sales charges such as the distribution fee paid by Class C and Class R shares and the CDSC borne by the Class C shares, but not the service fee. The maximum sales charge rule is applied separately to each class. The maximum sales charge rule

limits the aggregate of distribution fee payments and CDSCs payable by a Fund charging a service fee to (1) 6.25% of eligible gross sales of Class C and Class R shares, computed separately (defined to exclude shares issued pursuant to dividend reinvestments and exchanges), plus (2) interest on the unpaid balance for the respective class, computed separately, at the prime rate plus 1% (the unpaid balance being the maximum amount payable minus amounts received from the payment of the distribution fee and the CDSC).

Anti-Money Laundering

The Trust has established an Anti-Money Laundering Compliance Program (the "Program") as required by the USA PATRIOT Act. The Trust's Program provides for the development of internal practices, procedures and controls; designation of an anti-money laundering compliance officer; an ongoing training program; and an independent testing function to determine the effectiveness of the Program.

Procedures to implement the Program include determining that the Trust's Distributor and Transfer Agent have established proper anti-money laundering procedures; checking shareholder names against designated government lists, including that of the Office of Foreign Asset Control ("OFAC"); and a complete and thorough review of all new account applications. The Trust will not transact business with any person or entity whose identity cannot be adequately verified under the provisions of the Program.

REDEMPTION OF SHARES

Each Fund is required to redeem for cash all shares of the Fund upon receipt of a written request in proper form. The redemption price is the net asset value per share next determined after the initial receipt of proper notice of redemption. Shareholders liquidating their holdings will receive upon redemption all dividends reinvested through the date of redemption.

The right to redeem shares or to receive payment with respect to any such redemption may be suspended for more than seven days only for any period during which trading on the New York Stock Exchange (the "NYSE") is restricted as determined by the Commission or during which the NYSE is closed (other than customary weekend and holiday closings), for any period during which an emergency exists, as defined by the Commission, as a result of which disposal of portfolio securities or determination of the net asset value of a Fund is not reasonably practicable, and for such other periods as the Commission may by order permit for the protection of shareholders of the Funds.

The value of shares of a Fund at the time of redemption may be more or less than the shareholder's cost, depending in part on the market value of the securities held by that Fund at such time.

In electing a telephone redemption, the investor authorizes the Funds and the Transfer Agent to act on telephone instructions from any person representing himself to be the investor, and reasonably believed by the Funds or the Transfer Agent to be genuine. Neither the Funds nor the Transfer Agent may be liable for any loss, cost or expense for acting on instructions (whether in writing or by telephone) believed by the party receiving such instructions to be genuine and in accordance with the procedures described in the Prospectus. Since this account feature involves a risk of loss from unauthorized or fraudulent transactions, the Transfer Agent will take certain precautions to protect your account from fraud. Telephone redemption may be refused if the caller is unable to provide: the account number, the name and address registered on the account and the social security number registered on the account. The Funds or the Transfer Agent may temporarily suspend telephone transactions at any time.

For shareholders redeeming directly with the Transfer Agent, payments will be mailed within seven days of receipt of a proper notice of redemption. At various times a Fund may be requested to redeem shares for which it has not yet received good payment (e.g., shares purchased with any manner of payment other than federal funds). A Fund may delay or cause to be delayed the mailing of a redemption check until such time as good payment has been collected for the purchase of such Fund shares, which usually will not exceed 12 days. In the event that a shareholder account held directly with the Transfer Agent contains a fractional share balance, such fractional share balance may be automatically redeemed by that Fund.

PRICING OF SHARES

Determination of Net Asset Value

The net asset value of the shares of all classes of each Fund is determined once daily Monday through Friday as of the close of regular trading on the NYSE on each day the NYSE is open for trading based on prices at the time of the close of regular trading. Regular trading on the NYSE generally closes at 4:00 p.m., Eastern time. Any assets or liabilities initially expressed in terms of non-U.S. dollar currencies are translated into U.S. dollars at the prevailing market rates as quoted by one or more banks or dealers on the day of valuation.

Net asset value per share of a class of a Fund is computed by dividing the value of the securities held by that Fund plus any cash or other assets (including interest and dividends accrued but not yet received) attributable to that class, minus all liabilities (including accrued expenses) attributable to that class, by the total number of shares outstanding in that class at such time, rounded to the nearest cent. Due to the fact that different expenses are charged to the Class I, Class A, Class C and Class R shares of a Fund, the NAV of the classes of a Fund may vary. For purposes of determining the NAV, security transactions are normally recorded one business day after the trade date. Expenses, including the fees payable to the Advisor, are accrued daily.

For each Fund, the per share net asset value of Class A, Class C and Class R shares generally will be lower than the per share net asset value of Class I shares, reflecting the daily expense accruals of the distribution and service fees applicable with respect to Class A, Class C and Class R shares. Moreover, the per share net asset value of the Class C and Class R shares of a Fund generally will be lower than the per share net asset value of Class A shares of that Fund, reflecting the daily expense accruals of the higher distribution and service fees applicable with respect to Class C and Class R shares of the Fund. In addition, the per share net asset value of Class C shares generally will be lower than the per share net asset value of Class R shares due to the daily expense accruals of the higher distribution and service fees applicable to Class C shares. It is expected, however, that the per share net asset value of all classes of each Fund will tend to converge (although not necessarily meet) immediately after the payment of dividends which will differ by approximately the amount of the expense accrual differentials between the classes.

Portfolio securities are valued by an independent pricing agent to the extent possible. In determining the net asset value of each Fund's shares, equity securities that are listed on a securities exchange (whether domestic or foreign) or The Nasdaq Stock Market ("NSM") (including the Nasdaq National Market and the Nasdaq Small Cap Market) are valued at the last reported sale price (or official closing price) on that day as of the close of the NYSE (which is generally 4:00 p.m. New York time), or, in the absence of recorded sales, at the average of readily available closing bid and asked prices on such exchange or NSM. Unlisted equity securities that are not included in NSM are valued at the last sale price, or if the last sale price is unavailable, at the average of the quoted bid and asked prices in the over-the-counter market.

Fixed income securities, including those to be purchased under firm commitment agreements (other than obligations having a maturity of 60 days or less), are normally valued on the basis of quotes obtained from brokers and dealers or independent pricing agents, which take into account appropriate factors such as institutionalized trading in similar groups of securities, yield, quality, coupon rate, maturity, type of issue, trading characteristics and other market data. Fixed-income securities for which quotations or prices are not readily available are valued at their fair value as determined by the Advisor under guidelines established by the Board of Trustees, with reference to fixed-income securities whose prices are more readily obtainable or to an appropriate matrix utilizing similar factors. As a broader market does not exist, the proceeds received upon the disposal of such securities may differ from their recorded value. Short-term investments which mature in less than 60 days are valued at amortized cost (unless the Board of Trustees determines that this method does not represent fair value), if their original maturity was 60 days or less or by amortizing the value as of the 61st day prior to maturity, if their original term to maturity exceeded 60 days.

Options, futures contracts and options thereon which are traded on exchanges are valued at their last sale price as of the close of the exchanges or, if no sales are reported on a particular business day, the mean between the highest bid and lowest ask quotations across the exchanges on which the option is traded will be used. If the normal market close for any futures contract is after 4:00 P.M. Eastern time (i.e., S&P 500 futures contracts), the last sale price at or before 4:00 P.M. Eastern time will be used to price the contract. Non-exchange traded options will be valued at the mean between the last bid and ask quotations.

Trading in securities listed on foreign securities exchanges or over-the-counter markets is normally completed before the close of regular trading on the NYSE. In addition, foreign securities trading may not take place on all business days in New York and may occur on days on which the NYSE is not open. In addition, foreign currency exchange rates are

generally determined prior to the close of trading on the NYSE. Events affecting the values of foreign securities and currencies will not be reflected in the determination of net asset value unless the Board of Trustees determines that the particular event would materially affect net asset value, in which case an adjustment will be made. Investments quoted in foreign currency are valued daily in U.S. dollars on the basis of the foreign currency exchange rate prevailing at the time of valuation. Foreign currency exchange transactions conducted on a spot basis are valued at the spot rate prevailing in the foreign exchange market.

Securities and other assets for which market quotations are not readily available are valued at their fair value as determined by the Advisor under guidelines established by and under the general supervision and responsibility of the Board of Trustees. The Board has approved the use of Interactive Data's proprietary fair value pricing model to assist in determining current valuation for foreign securities traded in markets that close prior to the NYSE. When fair value pricing is employed, the value of the portfolio security used to calculate the Funds' net asset values may differ from quoted or official closing prices.

Each investor in each Fund may add to or reduce his or its investment in that Fund on each day the NYSE is open for trading. The value of each investor's interest in each Fund will be determined as of the close of regular trading on the NYSE by multiplying the net asset value of that Fund by the percentage, effective for that day, that represents that investor's share of the aggregate interests in the Fund. Any additions or withdrawals to be effected on that day will then be effected. The investor's percentage of the aggregate beneficial interests in that Fund will then be recomputed as the percentage equal to the fraction (i) the numerator of which is the value of such investor's investment in the Fund as of the time of determination on such day plus or minus, as the case may be, the amount of any additions to or withdrawals from the investor's investment in the Fund effected on such day, and (ii) the denominator of which is the aggregate net asset value of the Fund as of such time on such day plus or minus, as the case may be, the amount of the net additions to or withdrawals from the aggregate investments in the Fund by all investors in the Fund. The percentage so determined will then be applied to determine the value of the investor's interest in the Fund after the close of regular trading on the NYSE on the next determination of net asset value of that Fund.

DIVIDENDS AND TAX STATUS

The following is intended to be a general summary of certain federal income tax consequences of investing in one or more Funds. It is not intended to be a complete discussion of all such tax consequences, nor does it purport to deal with all types of investors and should not be construed as tax advice. **Investors are therefore advised to consult with their own tax advisors before making an investment in a Fund.**

Each Fund intends to continue to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"). Qualification as a regulated investment company requires, among other things, that (1) at least 90% of each Fund's annual gross income be derived from payments with respect to securities loans, interest, dividends and gains from the sale or other disposition of stock, securities, or foreign currencies or other income (including, but not limited to, gains from options, futures or forward contracts) in connection with its business of investing in such stock, securities, or currencies; and (2) each Fund diversify its holdings so that, at the end of each quarter of the taxable year, (i) at least 50% of the market value of the Fund's total assets is represented by cash and cash items, U.S. government securities, securities of other regulated investment companies, and other securities limited in respect of any one issuer to an amount not greater in value than 5% of the Fund's total assets and 10% of the outstanding voting securities of such issuer, and (ii) not more than 25% of the value of its assets is invested in the securities of any one issuer (other than U.S. government securities or the securities of other regulated investment companies) or of two or more issuers controlled by the Fund that are engaged in the same, similar or related trades or businesses.

As a regulated investment company, in any fiscal year in which a Fund distributes at least 90% of its net investment income (*i.e.*, the Fund's investment company taxable income, as that term is defined in the Code, without regard to the deduction for dividends paid), such Fund (but not its shareholders) will generally be relieved of paying U.S. federal income taxes on its net investment income and net capital gain (*i.e.*, the Fund's net long-term capital gain in excess of the sum of net short-term capital loss and capital loss carryovers from prior years, if any) that it distributes to shareholders. However, a Fund will be subject to federal income tax (currently imposed at a maximum rate of 35%) on any undistributed net investment income and net capital gain.

Amounts not distributed on a timely basis in accordance with a calendar year distribution requirement are subject to a nondeductible 4% excise tax payable by the Fund. To prevent imposition of this excise tax, the Fund must distribute to its shareholders, during each calendar year, at least 98% of its ordinary income for that calendar year, at least 98% of the excess of its capital gains over its capital losses for the one-year period ending October 31 in such calendar year, and all

undistributed ordinary income and capital gains from preceding year(s), if any. The Funds intend to meet these distribution requirements in order to avoid this excise tax liability.

If in any taxable year a Fund fails to qualify as a regulated investment company under the Code, the Fund will be taxed in the same manner as an ordinary corporation and distributions to its shareholders will not be deductible by the Fund in computing its taxable income. In addition, in the event of a failure to qualify as a regulated investment company, the Fund's distributions, to the extent derived from its current or accumulated earnings and profits, will constitute dividends which although generally eligible for the dividends received deduction available to corporate shareholders, will be taxable to shareholders as ordinary income, even though such distributions might otherwise, at least in part, have been treated as long-term capital gain in such shareholders' hands. Furthermore, in such event, non-corporate shareholders of the Fund generally would be able to treat such distributions as "qualified dividend income" eligible for reduced rates of federal income taxation.

A Fund's transactions in certain forward and futures contracts, forward foreign currency exchange contracts (Section 1256 contracts) and certain listed options will be subject to special provisions of the Code that, among other things, may affect the character of gain or loss realized by the Fund (*i.e.*, may affect whether gain or loss is ordinary or capital), accelerate recognition of income to the Fund, defer Fund losses, and affect the determination of whether capital gain and loss is characterized as long-term or short-term capital gain or loss. These rules could therefore affect the character, amount and timing of distributions to shareholders. For example, at the end of each year, certain investments held by a Fund must be "marked to market" for federal income tax purposes; that is, they are treated as having been sold at their fair market value, which may cause the Fund to recognize income without receiving cash with which to make distributions in amounts necessary to satisfy the distribution requirement for avoiding income and excise taxes.

A shareholder's sale of shares of a Fund will be a taxable transaction if such person is subject to U.S. federal income tax. Shareholders will generally recognize gain or loss in an amount equal to the difference between their adjusted tax basis in the shares sold and the amount received in exchange therefor. If such shares are held as a capital asset, the gain or loss will be a capital gain or loss. Any loss realized on a sale, redemption or exchange of shares of a Fund by a shareholder will be disallowed to the extent that shares disposed of are reacquired within a 61-day period beginning 30 days before and ending 30 days after the disposition of shares. In such a case, the basis of the shares reacquired will be adjusted to reflect the disallowed loss. Shares received in connection with the payment of a dividend by a Fund will generally constitute a reacquisition of shares for purposes of this loss disallowance rule. Any loss realized upon a taxable disposition of shares held for six months or less will be treated as a long-term capital loss to the extent of any distributions of net capital gain received with respect to such shares.

The per share dividends on Class C shares will be lower than the per share dividends on Class I, Class A and Class R shares of the same Fund, as a result of the distribution and service fees applicable to the Class C shares. Similarly, the per share dividends on Class A and Class R shares will be lower than the per share dividends on Class I shares as a result of the distribution and service fees applicable with respect to the Class A and Class R shares. The per share distributions of net capital gains, if any, will be paid in the same amount for each class of the same Fund.

Each Fund may be required to withhold for U.S. federal income tax purposes, a portion of all taxable distributions payable to shareholders who fail to provide the Fund with their correct taxpayer identification number or who fail to make required certifications, or if the Fund or a shareholder has been notified by the Internal Revenue Service that they are required to backup withhold. Any amounts withheld may be credited against such shareholder's U.S. federal income tax liability.

A portion of a Fund's ordinary income distributions may be taxable to non-corporate shareholders at a reduced rate, if that Fund receives "qualifying dividend income" from its investments. The Funds intend to compute the percentage of a shareholder's ordinary income distributions that may qualify for the reduced tax rate, at least annually, if applicable.

As of June 30, 2011, the net capital loss carryovers for the Fund were as follows:

Diversified Value Fund	\$ (753,434,140)
Large Cap Value Fund	\$(1,117,291,671)
Mid-Cap Value Fund	\$ (353,982,325)
Small Cap Value Fund	\$ (10,875,844)
Value Opportunities Fund	—
Capital income Fund	—
High Yield Fund	—

GENERAL INFORMATION

Description of Shares

The Agreement and Declaration of Trust permits the Trustees to establish and designate separate portfolios or funds of the Trust holding the assets of the Trust, the beneficial interests in each of which are represented by a separate series of shares. The Trustees are permitted to issue an unlimited number of full and fractional shares of beneficial interest and to divide or combine the shares into a greater or lesser number of shares without thereby changing the proportionate beneficial interest in the particular Fund. Each share represents an interest in a Fund proportionately equal to the interest of each other share, except that the Class A, Class C and Class R shares are subject to distribution and service fees payable under the Distribution Plan. Upon the Trust's liquidation, all shareholders would share pro rata in the net assets of the Fund in question available for distribution to shareholders. The Board of Trustees may create additional classes of shares if deemed in the best interest of shareholders. The Board of Trustees has created seven series of shares, and may create additional series in the future, which have separate assets and liabilities.

The Agreement and Declaration of Trust provides that the Trustees will not be liable for errors of judgment or mistakes of fact or law, but nothing in the Agreement and Declaration of Trust protects a Trustee against any liability to which he or she would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office. The Agreement and Declaration of Trust also provides that the Trust shall indemnify any shareholder for any loss arising out of a claim or demand relating to such person being or having been a shareholder.

Ten shareholders holding the lesser of \$25,000 worth or one percent of the Trust's shares may advise the Trustees in writing that they wish to communicate with other shareholders for the purpose of requesting a meeting to remove a Trustee. The Trustees will then, if requested by the applicants, mail at the applicants' expense the applicants' communication to all other shareholders.

The Trust or any Fund may be terminated if approved by the vote of a majority of the Trustees. If not so terminated, the Trust will continue indefinitely.

Rule 18f-2 under the 1940 Act provides that as to any investment company which has two or more series outstanding and as to any matter required to be submitted to shareholder vote, such matter is not deemed to have been effectively acted upon unless approved by the holders of a "majority" (as defined in the Rule) of the voting securities of each series affected by the matter. Such separate voting requirements do not apply to the election of Trustees or the ratification of the selection of accountants. The Rule contains special provisions for cases in which an advisory contract is approved by one or more, but not all, series. A change in investment policy may go into effect as to one or more series whose holders so approve the change even though the required vote is not obtained as to the holders of other affected series.

Common expenses incurred by the Trust are allocated among the Funds based upon relative net assets or evenly among the Funds, depending on the nature of the expenditure.

Except for any amendment that is required to be approved by shareholders by the 1940 Act or by this registration statement, the Trustees may, without shareholder vote, restate, amend or otherwise supplement the Agreement and Declaration of Trust. Shareholders do not have preemptive or conversion rights. Shares, when issued pursuant to a Prospectus of a Fund, are fully paid and non-assessable.

Issuance of Fund Shares for Securities

Investors may purchase Fund shares for consideration consisting of securities rather than cash when, in the judgment of the Advisor, the securities: (a) meet the investment objective and policies of the Fund, (b) are liquid and not subject to restrictions on resale, and (c) have a value that is readily ascertainable via listing on or trading in a recognized United States or international exchange or market.

Redemption in-Kind

If the Board of Trustees determines that it would be detrimental to the best interests of the remaining shareholders of the Fund to make payment wholly in cash, a Fund may pay the redemption price in part by a distribution in-kind of readily marketable securities from the portfolio of the Fund, in lieu of cash. The Trust has elected to be governed by Rule 18f-1 under the 1940 Act pursuant to which each Fund is obligated to redeem shares solely in cash up to the lesser of \$250,000

or one percent of the net asset value of the Fund during any 90-day period for any one shareholder. Should redemptions by any shareholder exceed such limitation the Fund will have the option of redeeming the excess in cash or in kind. If shares are redeemed in-kind, the redeeming shareholder would incur brokerage costs in converting the assets into cash.

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP, 350 South Grand Avenue, Los Angeles, California 90071, has been selected as the independent registered public accounting firm of the Funds. The independent registered public accounting firm is responsible for auditing the annual financial statements of the Funds.

Custodian

Brown Brothers Harriman & Co., 40 Water Street, Boston, Massachusetts 02109, acts as custodian of each Fund's assets (the "Custodian"). The Custodian is responsible for safeguarding and controlling a Fund's cash and securities, handling the receipt and delivery of securities and collecting interest and dividends on the Fund's investments.

Transfer Agent

U.S. Bancorp Fund Services, LLC ("Transfer Agent"), 615 East Michigan Street, Milwaukee, Wisconsin 53202, acts as the Funds' transfer agent pursuant to a transfer agency agreement and as the Funds' fund accountant pursuant to a separate agreement. The Transfer Agent is responsible for the issuance, transfer and redemption of shares and the opening, maintenance and servicing of shareholder accounts.

Legal Counsel for the Trust

Paul Hastings LLP, 55 Second Street, 24th Floor, San Francisco, California 94105, is counsel for the Trust.

Legal Counsel for the Independent Trustees

Vedder Price P.C., 222 North LaSalle Street, Chicago, Illinois 60601, is counsel for the Independent Trustees.

Reports to Shareholders

The fiscal year of each Fund ends on June 30 of each year. Each Fund sends to its shareholders at least semi-annually reports showing the Fund's portfolio and other information. An annual report containing financial statements audited by the independent registered public accounting firm is sent to shareholders each year. After the end of each year, shareholders will receive federal income tax information regarding dividends and capital gains distributions. Only one copy of these reports is sent to the same household, unless a shareholder instructs otherwise.

Shareholder Inquiries

Shareholder inquiries may be addressed to a Fund at the address or telephone number set forth on the cover page of this SAI.

Additional Information

The Prospectus and this SAI do not contain all the information set forth in the Registration Statement and the exhibits relating thereto, which the Trust has filed with the Commission, Washington, D.C., under the Securities Act and the 1940 Act, to which reference is hereby made.

Hotchkis and Wiley Capital Management, LLC has granted the Trust the right to use the "Hotchkis and Wiley" name and has reserved the right to withdraw its consent to the use of such name by the Trust at any time or to grant the use of such name to any other company.

Principal Holders

All Trustees and officers as a group owned less than 1% of the outstanding shares of the Large Cap Value, Mid-Cap Value, Small Cap Value, Diversified Value and High Yield Funds, and 5.7% of the Value Opportunities Fund and 9.5% of the Capital Income Fund as of July 31, 2011. In addition, to the knowledge of the Trust, the following entities owned 5% or more of the outstanding shares of a class of a Fund as of August 1, 2011:

Name of Fund

Name of Principal Holder

Parent Company (Jurisdiction)

Diversified Value Fund	<u>Class I</u>	<u>Class A</u>	<u>Class C</u>	
Prudential Investment Management Services*, *** 3 Gateway Center, Floor 14 Newark, NJ 07102-4000	71.20%			
National Financial Services Corporation* 200 Liberty Street, Floor 5 New York, NY 10281-5503	10.60%	54.63%		
Wells Fargo Bank N.A.* 1525 West Harris Boulevard Charlotte, NC 28262-8522	9.22%			
LPL Financial Corporation* 9785 Towne Centre Drive San Diego, CA 92121-1968		15.76%	8.78%	
Brown Brothers Harriman & Company* 525 Washington Boulevard Jersey City, NJ 07310-1606		5.83%		
Merrill Lynch Pierce Fenner & Smith Inc.* 4800 Deer Lake Drive East, Floor 3 Jacksonville, FL 32246-6484			39.63%	
Wells Fargo Advisors LLC* 1 North Jefferson Avenue Saint Louis, MO 63103-2287			15.17%	
Morgan Stanley Smith Barney LLC* 787 7 th Avenue, 4 th Floor Annex New York, NY 10019-6018			6.28%	
Pershing LLC* P.O. Box 2052 Jersey City, NJ 07303-2052			5.28%	
Large Cap Value Fund	<u>Class I</u>	<u>Class A</u>	<u>Class C</u>	<u>Class R</u>
Edward D. Jones & Company*, *** 201 Progress Parkway Maryland Heights, MO 63043-3003	53.53%			
Charles Schwab & Co. Inc.* 101 Montgomery Street San Francisco, CA 94104-4151	12.26%	7.41%		

Large Cap Value Fund	<u>Class I</u>	<u>Class A</u>	<u>Class C</u>	<u>Class R</u>
National Financial Services Corp.* 200 Liberty Street, Floor 5 New York, NY 10281-5503	9.84%	24.39%	6.21%	
Hartford Life Insurance Co.* 1 Griffin Road North Windsor, CT 06095-1512		21.44%		54.77%
Merrill Lynch Pierce Fenner & Smith Inc.* 4800 Deer Lake Drive East, Floor 3 Jacksonville, FL 32246-6484		11.23%	47.74%	29.71%
Nationwide Financial Services Inc.* 1 Nationwide Plaza Columbus, OH 43215-2239		5.18%		
Wells Fargo Advisors LLC* 1 North Jefferson Avenue Saint Louis, MO 63103-2287			10.50%	7.45%
Pershing LLC* P.O. Box 2052 Jersey City, NJ 07303-2052			6.82%	
LPL Financial Corporation* 9785 Towne Centre Drive San Diego, CA 92121-1968			5.51%	
Mid-Cap Value Fund	<u>Class I</u>	<u>Class A</u>	<u>Class C</u>	<u>Class R</u>
National Financial Services Corp.*,*** 200 Liberty Street, Floor 5 New York, NY 10281-5503	32.90%	38.13%	9.28%	5.73%
Edward D. Jones & Company* 201 Progress Parkway Maryland Heights, MO 63043-3003	24.05%			
Prudential Investment Management Services* 3 Gateway Center, Floor 14 Newark, NJ 07102-4000	15.17%			
Charles Schwab & Co. Inc.* 101 Montgomery Street San Francisco, CA 94104-4151	12.41%	6.48%		
Merrill Lynch Pierce Fenner & Smith Inc.* 4800 Deer Lake Drive East, Floor 3 Jacksonville, FL 32246-6484		13.58%	37.18%	58.45%
Hartford Life Insurance Co.* 1 Griffin Road North Windsor, CT 06095-1512		6.70%		6.02%
TD Ameritrade Inc.* P.O Box 17748 Denver, Co 80217-0748		5.11%		

Mid-Cap Value Fund	<u>Class I</u>	<u>Class A</u>	<u>Class C</u>	<u>Class R</u>
Wells Fargo Advisors LLC* 1 North Jefferson Avenue Saint Louis, MO 63103-2287			17.47%	
Morgan Stanley Smith Barney LLC* 787 7 th Avenue, 4 th Floor Annex New York, NY 10019-6018			6.59%	
Pershing LLC* P.O. Box 2052 Jersey City, NJ 07303-2052			6.16%	
Wilmington Trust FBO McFarlene Manufacturing Savings and Profit Sharing Plan** P.O. Box 52129 Phoenix, AZ 85072-2129				7.93%
Frontier Trust Company FBO Moreno Trenching 401(k) Plan** P.O. Box 10758 Fargo, ND 58106-0758				6.54%
Small Cap Value Fund	<u>Class I</u>	<u>Class A</u>	<u>Class C</u>	
Merrill Lynch Pierce Fenner & Smith Inc. *, *** 4800 Deer Lake Drive East, Floor 3 Jacksonville, FL 32246-6484	54.93%	14.63%	35.76%	
Prudential Retirement FBO The City of Seattle** 700 5 th Avenue, Suite 5500 P.O. Box 34028	11.98%			
Edward D. Jones & Company* 201 Progress Parkway Maryland Heights, MO 63043-3003	5.82%			
LPL Financial Corporation* 9785 Towne Centre Drive San Diego, CA 92121-1968		18.79%		
Charles Schwab & Co. Inc.* 101 Montgomery Street San Francisco, CA 94104-4151		17.33%		
TD Ameritrade Inc.* P.O. Box 17748 Denver, Co 80217-0748		14.05%		
National Financial Services Corp.* 200 Liberty Street, Floor 5 New York, NY 10281-5503		6.57%	15.58%	
Pershing LLC* P.O. Box 2052 Jersey City, NJ 07303-2052			13.24%	

Small Cap Value Fund	<u>Class I</u>	<u>Class A</u>	<u>Class C</u>
Wells Fargo Advisors LLC* 1 North Jefferson Avenue Saint Louis, MO 63103-2287			12.31%
Value Opportunities Fund	<u>Class I</u>	<u>Class A</u>	<u>Class C</u>
Merrill Lynch Pierce Fenner & Smith Inc.* 4800 Deer Lake Drive East, Floor 3 Jacksonville, FL 32246-6484	22.42%	11.19%	44.09%
David E. Green** 725 South Figueroa Street, Floor 39 Los Angeles, CA 90017-5439	20.88%		
TD Ameritrade Inc.* P.O. Box 17748 Denver, CO 80217-0748	9.05%	12.54%	
Prudential Investment Management Services* 3 Gateway Center, Floor 14 Newark, NJ 07102-4000	8.68%		
National Financial Services Corp.* 200 Liberty Street, Floor 5 New York, NY 10281-5503	8.32%	8.06%	
Stephens Inc.* 111 Center Street, Floor 4 Little Rock, AR 72201-4401	5.19%		
Charles Schwab & Co. Inc.* 101 Montgomery Street San Francisco, CA 94104-4151		24.18%	
LPL Financial Corporation* 9785 Towne Centre Drive San Diego, CA 92121-1968		8.54%	
Pershing LLC* P.O. Box 2052 Jersey City, NJ 07303-2052		6.00%	
Wells Fargo Advisors LLC* 1 North Jefferson Avenue Saint Louis, MO 63103-2287			13.38%
Capital Income Fund	<u>Class I</u>	<u>Class A</u>	
Hotchkis and Wiley Capital Management, LLC**, *** 725 South Figueroa Street, Floor 39 Los Angeles, CA 90017-54339	47.15%	76.38%	
Vanguard Brokerage Services* P.O. Box 1170 Valley Forge, PA 19482-1170	13.47%		

Capital Income Fund	<u>Class I</u>	<u>Class A</u>
Stephens Inc.* 111 Center Street, Floor 4 Little Rock, AR 72201-4401	10.44%	
Mark T. Hudoff and Hresula Cheakalos Living Trust** 725 Figueroa Street, Floor 39 Los Angeles, CA 90017-5439	6.76%	
LPL Financial Corporation* 9785 Towne Centre Drive San Diego, CA 92121-1968		14.90%
Charles Schwab & Co. Inc.* 101 Montgomery Street San Francisco, CA 94104-4151		8.73%
High Yield Fund	<u>Class I</u>	<u>Class A</u>
Merrill Lynch Pierce Fenner & Smith Inc. *, *** 4800 Deer Lake Drive East, Floor 3 Jacksonville, FL 32246-6484	43.60%	
Charles Schwab & Co. Inc.* 101 Montgomery Street San Francisco, CA 94104-4151	15.31%	13.78%
Stephens Inc.* 111 Center Street, Floor 4 Little Rock, AR 72201-4401	6.74%	5.94%
National Financial Services Corp.* 200 Liberty Street, Floor 5 New York, NY 10281-5503	6.38%	6.89%
SEI Private Trust Company* One Freedom Valley Drive Oak, PA 19456-9989	5.82%	9.36%
Kennedy Living Trust** 725 South Figueroa Street, Floor 39 Los Angeles, CA 90017-54339	5.55%	
LPL Financial Corporation* 9785 Towne Centre Drive San Diego, CA 92121-1968		41.67%
MAC & Company* P.O. Box 3198 Pittsburgh, PA 15230-3198		11.80%
Pershing LLC* P.O. Box 2052 Jersey City, NJ 07303-2052		5.11%

* Owner of record.

** Beneficial owner.

*** Entity was the owner of record (although not necessarily the beneficial owner) of 25% or more of the outstanding shares of the Fund, and therefore may be presumed to "control" the Fund, as that term is defined by the 1940 Act. As a control person of the Fund, such entity may, by voting its shares of the Fund, be able to determine the outcome of a shareholder vote on matters requiring shareholder approval.

FINANCIAL STATEMENTS

The audited financial statements of the Funds are incorporated in this SAI by reference to the Funds' June 30, 2011 Annual Report. You may request a copy of the Annual Report at no charge by calling 1-866-HW-FUNDS (1-866-493-8637).

APPENDIX A – PROXY VOTING POLICIES AND PROCEDURES

HOTCHKIS AND WILEY CAPITAL MANAGEMENT

PURPOSE

The purpose of these Proxy Voting Policies and Procedures is to memorialize the procedures and policies adopted by Hotchkis and Wiley Capital Management, LLC (“HWCM”) to enable it to comply with its accepted responsibilities and the requirements of Rule 206(4)-6 under the Investment Advisers Act of 1940, as amended (“Advisers Act”).

POLICY

HWCM acts as discretionary investment adviser for various clients, including clients governed by the Employee Retirement Income Security Act of 1974 (“ERISA”). Unless a client (including a “named fiduciary” under ERISA) specifically reserves the right to vote its own proxies, HWCM will vote all proxies in sufficient time prior to their deadlines as part of its full discretionary authority over the assets.

When voting proxies for clients, HWCM’s primary concern is that all decisions be made solely in the best interest of the shareholder (for ERISA accounts, plan beneficiaries and participants, in accordance with the letter and spirit of ERISA). HWCM will act in a manner it deems prudent and diligent and which is intended to enhance the economic value of the assets of the account.

GUIDELINES

Each proxy issue will be considered individually. The following guidelines are a partial list to be used in voting on proposals often contained in proxy statements, but will not be used as rigid rules. The voting policies below are subject to modification in certain circumstances and will be reexamined from time to time. With respect to matters that do not fit in the categories stated below, HWCM will exercise its best judgment as a fiduciary to vote in the manner which will most enhance shareholder value.

Management Proposals

The majority of votes presented to shareholders are proposals made by management, which have been approved and recommended by its board of directors. Generally, in the absence of any unusual or non-routine information, the following items are likely to be supported:

- Ratification of appointment of independent registered public accounting firm
- General updating/corrective amendments to charter
- Increase in common share authorization for a stock split or share dividend
- Stock option plans that are incentive based and not excessive
- Election of directors

The following items will always require company specific and case-by-case review and analysis when submitted by management to a shareholder vote:

- Directors’ liability and indemnity proposals
- Executive compensation plans
- Mergers, acquisitions, and other restructurings submitted to a shareholder vote
- Anti-takeover and related provisions

Shareholder Proposals

Under ERISA standards, it is inappropriate to use (vote) plan assets to carry out social agendas or purposes. Thus, shareholder proposals are examined closely for their relationship to the best interest of beneficiaries, and economic impact. In general, HWCM will vote in accordance with the recommendation of the company's board of directors on all shareholder proposals. However, HWCM will support shareholder proposals that are consistent with HWCM's proxy voting guidelines for board-approved proposals.

Generally, shareholder proposals related to the following items are supported:

- Confidential voting
- Bylaw and charter amendments only with shareholder approval
- Majority of independent directors in a board

Generally, shareholder proposals related to the following items are not supported:

- Limitations on the tenure of directors
- Declassification of the board
- Cumulative voting
- Restrictions related to social, political, or special interest issues that impact the ability of the company to do business or be competitive and that have a significant financial or vested interest impact.
- Reports which are costly to provide or expenditures which are of a non-business nature or would provide no pertinent information from the perspective of shareholders.

Conflict of Interest

Due to the nature of HWCM's business and its small size, it is unlikely that conflicts of interest will arise in voting proxies of public companies. However, if a potential conflict of interest did arise it would typically be a proxy for a company that is also HWCM's client. In this event, the Compliance Department will review these votes to make sure that HWCM's proposed votes are consistent with the established guidelines and not prompted by any conflict of interest.

HWCM may receive proxies for companies which are clients of Stephens Inc. ("Stephens"), a full service broker-dealer and investment bank and an affiliate of HWCM. Stephens does not directly or indirectly participate in HWCM's policies or decisions with respect to proxy voting.

HWCM employees may own the same securities held by client accounts. The employees vote their securities independently from HWCM's proxy voting policy.

PROCEDURES

HWCM's Portfolio Services Department is responsible for ensuring that all proxies received by HWCM are voted in a timely manner and voted consistently across all portfolios. If HWCM is authorized to exercise proxy voting rights for a client account, HWCM will vote the proxies for securities beneficially held by the custodian for the client portfolio as of the record date of the shareholder meetings (settlement date). Securities not held by the custodian as of the record date (e.g., due to an unsettled purchase or securities lending) will not be voted by HWCM. Although many proxy proposals can be voted in accordance with our established guidelines, we recognize that some proposals require special consideration, which may dictate that we make an exception to our broad guidelines.

HWCM subscribes to an independent third party proxy research firm which provides analysis and recommendation for company proxies. On specific items where the board-approved recommendation and the research firm's recommendation do not agree, HWCM will generally approve the board-approved recommendation if it is consistent with our established guidelines. The HWCM analyst responsible for research for the company makes a determination on how to vote the proxies using our established guidelines.

Whenever HWCM is proposing to vote against the board-approved recommendations or against its established guidelines, the Compliance Department will review these votes to make sure that HWCM's proposed vote is not prompted by any conflict of interest.

RECORD KEEPING

In accordance with Rule 204-2 under the Advisers Act, HWCM will maintain for the time periods set forth in the Rule (i) these proxy voting procedures and policies, and all amendments thereto; (ii) all proxy statements received regarding client securities (provided however, that HWCM may rely on the proxy statement filed on EDGAR as its records); (iii) a record of all votes cast on behalf of clients; (iv) records of all client requests for proxy voting information; (v) any documents prepared by HWCM that were material to making a decision how to vote or that memorialized the basis for the decision; and (vi) all records relating to requests made by clients regarding conflicts of interest in voting the proxy.

HWCM will describe in its Part II of Form ADV (or other brochure fulfilling the requirement of Rule 204-3) its proxy voting policies and procedures and advise clients how they may obtain information about how HWCM voted their securities. Clients may obtain information about how their securities were voted or a copy of our Proxy Voting Policies and Procedures free of charge by written request addressed to HWCM.

APPENDIX B — DESCRIPTION OF RATINGS

Moody's Investors Service, Inc.

LONG-TERM OBLIGATION RATINGS:

"Aaa" — Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.

"Aa" — Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.

"A" — Obligations rated A are considered upper-medium grade and are subject to low credit risk.

"Baa" — Obligations rated Baa are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.

"Ba" — Obligations rated Ba are judged to have speculative elements and are subject to substantial credit risk.

"B" — Obligations rated B are considered speculative and are subject to high credit risk.

"Caa" — Obligations rated Caa are judged to be of poor standing and are subject to very high credit risk.

"Ca" — Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.

"C" — Obligations rated C are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

Moody's applies numerical modifiers "1," "2" and "3" in each generic rating classification from Aa through Caa. The modifier "1" indicates that the obligation ranks in the higher end of its generic rating category; the modifier "2" indicates a mid-range ranking; and the modifier "3" indicates a ranking in the lower end of that generic rating category.

SHORT-TERM RATINGS:

Moody's short-term ratings are opinions of the ability of issuers to honor short-term financial obligations. Ratings may be assigned to issuers, short-term programs or to individual short-term debt instruments. Such obligations generally have an original maturity not exceeding thirteen months, unless explicitly noted.

"P-1" — Issuers (or supporting institutions) rated "Prime-1" have a superior ability to repay short-term debt obligations.

"P-2" — Issuers (or supporting institutions) rated "Prime-2" have a strong ability to repay short-term debt obligations.

"P-3" — Issuers (or supporting institutions) rated "Prime-3" have an acceptable ability to repay short-term debt obligations.

"NP" — Issuers (or supporting institutions) rated "Not Prime" do not fall within any of the Prime rating categories.

Source: www.moody.com

Standard & Poor's (S&P)

LONG-TERM ISSUE CREDIT RATINGS:

"AAA" — An obligation rated 'AAA' has the highest rating assigned by S&P. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

"AA" — An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.

“A” — An obligation rated ‘A’ is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor’s capacity to meet its financial commitment on the obligation is still strong.

“BBB” — An obligation rated ‘BBB’ exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

An obligation rated ‘BB’, ‘B’, ‘CCC’, ‘CC’, and ‘C’ are regarded as having significant speculative characteristics. ‘BB’ indicates the least degree of speculation and ‘C’ the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

“BB” — An obligation rated ‘BB’ is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor’s inadequate capacity to meet its financial commitment on the obligation.

“B” — An obligation rated ‘B’ is more vulnerable to nonpayment than obligations rated ‘BB’, but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor’s capacity or willingness to meet its financial commitment on the obligation.

“CCC” — An obligation rated ‘CCC’ is currently vulnerable to nonpayment, and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.

“CC” — An obligation rated ‘CC’ is currently highly vulnerable to nonpayment.

“C” — A ‘C’ rating is assigned to obligations that are currently highly vulnerable to nonpayment, obligations that have payment arrearages allowed by the terms of the documents, or obligations of an issuer that is the subject of a bankruptcy petition or similar action which have not experienced a payment default. Among others, the ‘C’ rating may be assigned to subordinated debt, preferred stock or other obligations on which cash payments have been suspended in accordance with the instrument’s terms.

“D” — An obligation rated ‘D’ is in payment default. The ‘D’ rating category is used when payments on an obligation 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 or the taking of a similar action if payments on an obligation are jeopardized.

Plus (+) Minus (–) — The ratings from ‘AA’ to ‘CCC’ may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

“NR” — This indicates that no rating has been requested, that there is insufficient information on which to base a rating, or that S&P does not rate a particular obligation as a matter of policy.

SHORT-TERM ISSUE CREDIT RATINGS:

“A-1” — A short-term obligation rated ‘A-1’ is rated in the highest category by S&P. The obligor’s capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor’s capacity to meet its financial commitment on these obligations is extremely strong.

“A-2” — A short-term obligation rated ‘A-2’ is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor’s capacity to meet its financial commitment on the obligation is satisfactory.

“A-3” — A short-term obligation rated ‘A-3’ exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

“B” — A short-term obligation rated ‘B’ is regarded as having significant speculative characteristics. Ratings of ‘B-1’, ‘B-2’, and ‘B-3’ may be assigned to indicate finer distinctions within the ‘B’ category. The obligor currently has the capacity to meet its financial commitment on the obligation; however, it faces major ongoing uncertainties which could lead to the obligor’s inadequate capacity to meet its financial commitment on the debt.

“C” — A short-term obligation rated ‘C’ is currently vulnerable to nonpayment and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation.

“D” — A short-term obligation rated ‘D’ is in payment default. The ‘D’ rating category is used when payments on an obligation 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 or the taking of a similar action if payments on a debt are jeopardized.

Source: www.standardandpoors.com

Fitch Ratings

LONG-TERM CREDIT RATINGS:

“AAA” — Highest credit quality. ‘AAA’ ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

“AA” — Very high credit quality. ‘AA’ ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

“A” — High credit quality. ‘A’ ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

“BBB” — Good credit quality. ‘BBB’ ratings indicate that there are currently expectations of low credit risk. The capacity for payment of financial commitments is considered adequate but adverse changes in circumstances and in economic conditions are more likely to impair this capacity. This is the lowest investment-grade category.

“BB” — Speculative. ‘BB’ ratings indicate that there is a possibility of credit risk developing, particularly as the result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met. Securities rated in this category are not investment grade.

“B” — Highly speculative. For issuers and performing obligations, ‘B’ ratings indicate that significant credit risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment. For individual obligations, may indicate distressed or defaulted obligations with potential for extremely high recoveries. Such obligations would possess a Recovery Rating of ‘RR1’ (outstanding).

“CCC” — For issuers and performing obligations, default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic conditions. For individual obligations, may indicate distressed or defaulted obligations with potential for average to superior levels of recovery. Differences in credit quality may be denoted by plus/minus distinctions. Such obligations typically would possess a Recovery Rating of ‘RR2’ (superior), or ‘RR3’ (good) or ‘RR4’ (average).

“CC” — For issuers and performing obligations, default of some kind appears probable. For individual obligations, may indicate distressed or defaulted obligations with a Recovery Rating of ‘RR4’ (average) or ‘RR5’ (below average).

“C” — For issuers and performing obligations, default is imminent. For individual obligations, may indicate distressed or defaulted obligations with potential for below-average to poor recoveries. Such obligations would possess a Recovery Rating of ‘RR6’ (poor).

“RD” — Indicates an entity that has failed to make due payments (within the applicable grace period) on some but not all material financial obligations, but continues to honor other classes of obligations. .

“D” — Indicates an entity or sovereign that has defaulted on all of its financial obligations. Default generally is defined as one of the following:

- Failure of an obligor to make timely payment of principal and/or interest under the contractual terms of any financial obligation;
- The bankruptcy filings, administration, receivership, liquidation or other winding-up or cessation of business of an obligor;
- The distressed or other coercive exchange of an obligation, where creditors were offered securities with diminished structural or economic terms compared with the existing obligation.

The modifiers “+” or “-” may be appended to a rating to denote relative status within major rating categories. Such suffixes are not added to the ‘AAA’ Long-term rating category, to categories below ‘CCC’, or to Short-term ratings

other than 'F1'. (The +/- modifiers are only used to denote issues within the CCC category, whereas issuers are only rated CCC without the use of modifiers.)

SHORT-TERM CREDIT RATINGS:

“F1” — Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments; may have an added “+” to denote any exceptionally strong credit feature.

“F2” — Good credit quality. A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.

“F3” — Fair credit quality. The capacity for timely payment of financial commitments is adequate; however, near-term adverse changes could result in a reduction to non-investment grade.

“B” — Speculative. Minimal capacity for timely payment of financial commitments, plus vulnerability to near-term adverse changes in financial and economic conditions.

“C” — High default risk. Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon a sustained, favorable business and economic environment.

“D” — Indicates an entity or sovereign that has defaulted on all of its financial obligations

Source: www.fitchratings.com