YIELDQUEST FUNDS TRUST

FUND	TICKER SYMBOL	
	INSTITUTIONAL CLASS	INVESTOR CLASS
YIELDQUEST CORE EQUITY FUND	YQCEX	YCEIX
YIELDQUEST TOTAL RETURN BOND FUND	YQTRX	YTRIX
YIELDQUEST TAX-EXEMPT BOND FUND	YQTEX	YTEIX
YIELDQUEST CORE BOND FUND	--	--
YIELDQUEST CORE TAX-EXEMPT BOND FUND	--	--

STATEMENT OF ADDITIONAL INFORMATION
March 1, 2010

This Statement of Additional Information ("SAI") is not a prospectus. It should be read in conjunction with the YieldQuest Funds' Prospectus dated March 1, 2010. This SAI incorporates by reference the annual report to shareholders of each of the YieldQuest Core Equity Fund, YieldQuest Total Return Bond Fund and YieldQuest Tax-Exempt Bond Fund for the fiscal year ended October 31, 2009 (the "Annual Report"). A free copy of the Prospectus or Annual Report can be obtained by writing the Funds' Transfer Agent, PNC Global Investment Servicing (U.S.) Inc. ("PNC"), 100 Freight Street, P.O. Box 9818, Pawtucket, RI 02860, or by calling 1-877-497-3634.

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DESCRIPTION OF THE TRUST AND THE FUNDS

The YieldQuest Core Equity Fund ("Equity Fund"), YieldQuest Total Return Bond Fund ("Total Return Fund"), YieldQuest Tax-Exempt Bond Fund ("Tax-Exempt Fund"), YieldQuest Core Bond Fund ("Core Bond Fund"), and YieldQuest Core Tax-Exempt Fund ("Core Tax-Exempt Fund") (each a "Fund" or collectively, the "Funds") have been organized as diversified series of YieldQuest Funds Trust (the "Trust"). The Equity Fund, Total Return Fund, and Tax-Exempt Fund were organized on June 27, 2005. The Core Bond Fund and Core Tax-Exempt Fund were organized on December 11, 2008. The Trust was organized as a business trust under the laws of the State of Delaware pursuant to a Certificate of Trust filed with the State of Delaware on May 9, 2005, and an Agreement and Declaration of Trust (the "Declaration of Trust") of even date therewith. The Trust is an open-end management investment company registered under the Investment Company Act of 1940, as amended (the "1940 Act"). The Declaration of Trust permits the Trustees to issue an unlimited number of shares of beneficial interest of separate series without par value. Each Fund is one of a series of funds authorized by the Trustees. Each Fund is authorized to offer two classes of shares. The investment advisor to each Fund is YieldQuest Advisors, LLC (the "Advisor"). The Equity Fund, Total Return Fund, and Tax-Exempt Fund commenced investment operations on November 1, 2005. The Core Bond Fund and Core Tax-Exempt Fund had not yet commenced investment operations as of the date of this SAI.

Each share of a series represents an equal proportionate interest in the assets and liabilities belonging to that series with each other share of that series and is entitled to such dividends and distributions out of income belonging to the series as are declared by the Trustees. Each share has the same voting and other rights and preferences as any other series of the Trust for matters that affect the Trust as a whole. The Funds may offer additional classes of shares in the future. The Funds do not issue share certificates. All shares are held in non-certificate form registered on the books of the Funds and its transfer agent for the account of the shareholder. The shares do not have cumulative voting rights or any preemptive or conversion rights, and the Trustees have the authority from time to time to divide or combine the shares of any series into a greater or lesser number of shares of that series so long as the proportionate beneficial interest in the assets belonging to that series, and the rights of shares of any other series, are in no way affected. In case of any liquidation of a series, the holders of shares of the series being liquidated will be entitled to receive as a class a distribution out of the assets, net of the liabilities, belonging to that series. Expenses attributable to any series are borne by that series. Any general expenses of the Trust not readily identifiable as belonging to a particular series (e.g., compensation paid to Trustees) are allocated by or under the direction of the Trustees in such manner as they determine to be fair and equitable. No shareholder is liable to further calls or to assessment by the Trust without his or her express consent.

Any Trustee of the Trust may be removed by vote of the shareholders holding not less than a majority of the outstanding shares of the Trust. The Trust does not hold an annual meeting of shareholders. When matters are submitted to shareholders for a vote, each shareholder is entitled to one vote for each whole share he owns and fractional votes for fractional shares he owns. All shares of the Funds have equal liquidation rights. The Declaration of Trust can be amended by the Trustees, except that any amendment that adversely effects the rights of shareholders must be approved by the shareholders affected. All shares of a Fund are subject to involuntary redemption if

the Trustees determine to liquidate the Fund. An involuntary redemption will create a capital gain or a capital loss, which may have tax consequences about which you should consult your tax advisor.

For information concerning the purchase and redemption of shares of the Funds, see "How to Buy Shares" and "How to Redeem Shares" in the Funds' Prospectus. For a description of the methods used to determine the share price and value of each Fund's assets, see "Determination of Net Asset Value" in the Funds' Prospectus and in this SAI.

Each Fund has authorized one or more brokers to receive on its behalf purchase and redemption orders. Such brokers are authorized to designate other intermediaries to receive purchase and redemption orders on the Funds' behalf. A Fund will be deemed to have received a purchase or redemption order when an authorized broker or, if applicable, a broker's authorized designee, receives the order. Customer orders will be priced at the net asset value next computed after they are received by an authorized broker or the broker's authorized designee and accepted by a Fund.

The performance of each Fund may be compared in publications to the performance of various indices and investments for which reliable performance data is available. The performance of each Fund may be compared in publications to averages, performance rankings, or other information prepared by recognized mutual fund statistical services. The annual report for a Fund's initial fiscal year will contain additional performance information and will be made available to investors upon request and without charge.

ADDITIONAL INFORMATION ABOUT FUND INVESTMENTS AND RISK CONSIDERATIONS

This section contains additional information regarding some of the investments the Funds may make and some of the techniques they may use.

A. Investment Companies Securities. Subject to the restrictions and limitations of the 1940 Act, each Fund may elect to pursue its investment objectives either by investing directly in securities or by investing in one or more underlying investment companies that have substantially similar investment objectives, policies and limitations as the Fund. **(1) ETFs**. Each Fund may invest in other mutual funds, money market funds, and exchange-traded funds ("ETFs") that hold a portfolio of securities which closely tracks the price performance and/or dividend yield of various indices, and other closed-end funds. Exchange-traded products also include PowerShares, WisdomTree, SPDRs, DIAMONDS, QQQQs, iShares, HOLDRs, Fidelity Select Portfolios, Select Sector SPDRs, Fortune e-50, Fortune 500, streetTRACKS and VIPERs. Each Fund may also invest in various sector and sub-sector ETFs. Additionally, the Funds may invest in new exchange traded shares as they become available. As a shareholder of an investment company, a Fund may indirectly bear service and other fees which are in addition to the fees the Fund pays its service providers.

(2) Closed End Funds. The structure of a closed-end fund poses additional risks than are involved when investing in most open-end funds. For example, closed-end funds generally list their shares for trading on a securities exchange and do not redeem their shares at the option of the shareholder. By comparison, mutual funds issue securities redeemable at net asset value at the

option of the shareholder and typically engage in a continuous offering of their shares. If a closed-end fund's underlying market rises and the fund's discount narrows or its premium widens, the price return of the closed-end fund — the actual return to the shareholder — will be greater than the fund's NAV return. Generally, demand for the type of asset class in which a closed-end fund invests will drive changes in and levels of premiums and discounts. Interest rate risk is one of two major factors that triggers changes in a closed-end fund's premium/discounts. When interest rates rise, bond prices (and consequently the net asset values of income funds — municipal-bond funds, preferred-stock funds, etc.) decline. Declining bond prices may cause a closed-end fund's price to decline faster as investors sell their shares in the open market. On the other hand, the opposite scenario also occurs. When rates fall and the net asset values of income-oriented closed-end funds rise, their prices tend to rise faster as investors buy in, resulting in narrower discounts and wider premiums. A second factor that may contribute to changes in premium/discount without necessarily a change in net asset value is low trading volumes and liquidity in the shares of the closed-end fund. Most closed-end funds trade actively, and their shares are liquid. Some closed-end funds, however, trade less actively, and may not be very liquid. The market price of a closed-end fund's shares may also be affected by its dividend or distribution levels (which are dependent, in part, on expenses), stability of dividends or distributions, general market and economic conditions and other factors beyond the control of a closed-end fund. Overall stock market risks may also affect the value of closed end funds. Factors such as domestic economic growth and market conditions and political events may affect the securities markets and from time to time can cause markets to fall substantially. During periods of extreme market volatility, closed-end funds may be subject to these market risks. For example, the price of a closed-end fund that holds a portfolio of fixed income securities generally may fall on the days that equity markets experience significant losses. The foregoing factors may result in the market price of the shares of the closed-end fund being greater than, less than or equal to net asset value.

Another feature that distinguishes closed-end funds from open-end mutual funds is their ability to leverage a higher percentage of their assets (that is, use borrowed money to buy additional assets). Closed-end funds use several different methods to borrow money — issuing preferred stock, entering into reverse repurchase agreements and dollar rolls, borrowing under bank lines of credit, and so on. Leverage can provide higher yields and potentially higher returns for closed-end fund investors, but it also increases overall risk and the volatility of the investment. The maximum leverage ratio depends on how a closed-end fund leverages its assets — 33% if debt is used, 50% if preferred stock is used. Thus, a closed-end fund with $100 million in net assets may borrow an additional $50 million, so that the borrowed amount ($50 million) is 33% of the total assets ($150 million). Although closed-end funds rarely deleverage their assets completely, sometimes such funds may be forced to reduce leverage when the underlying market weakens dramatically, causing the fund's total assets to decline to a level where the leverage ratio exceeds the permitted maximum. A forced reduction in leverage can lead to a dividend reduction if the closed-end fund's earnings that had been produced by the previously leveraged assets decline.

Closed-end funds usually are offered only once at their initial public offering price and are not actively marketed, although most closed-end funds trade actively and their shares are liquid. The Funds will invest in closed-end funds that trade on a national or international exchange. Some closed-end funds trade less actively and may not be very liquid. To the extent that a Fund invests in a thinly-traded closed-end fund, the Fund may be subject to the risk that it can not close out of a

position at any time it desires. When a Fund attempts to trade a greater number of shares than the average daily volume of the closed-end fund, the selling pressure will cause the closed-end fund's price to fall and its discount to widen suddenly, causing a sharp decline in the value of the closed-end fund.

B. Equity Securities. Equity securities include common stocks, American Depositary Receipts ("ADRs"), as well as common stock equivalents such as rights and warrants. Convertible preferred stock is preferred stock that can be converted into common stock pursuant to its terms. Convertible debentures are debt instruments that can be converted into common stock pursuant to their terms. Warrants are options to purchase equity securities at a specified price valid for a specific time period. Rights are similar to warrants, but normally have shorter durations.

C. Fixed Income. Fixed income securities include corporate debt securities, high yield debt securities, convertible debt securities, municipal securities, U.S. government securities, mortgage-backed securities, asset-backed securities, zero coupon bonds, financial industry obligations, repurchase agreements, and participation interests in such securities. Preferred securities that make regular payments of income and/or dividends, and certain common stock equivalents may also be considered to be fixed income securities. Fixed income securities are generally considered to be interest rate sensitive, which means that their value will generally decrease when interest rates rise and increase when interest rates fall. Securities with shorter maturities, while offering lower yields, generally provide greater price stability than longer term securities and are less affected by changes in interest rates.

1. Corporate Debt Securities. Each Fund may invest in corporate debt securities. These are bonds, notes, debentures and investment certificates issued by corporations and other business organizations, including business trusts and equipment trusts, in order to finance their credit needs. Corporate debt securities include commercial paper which consists of short term (usually from 1 to 270 days) unsecured promissory notes issued by corporations in order to finance their current operations. The Advisor considers corporate debt securities to be of investment grade quality if they are rated at the time of purchase BBB- and Baa3 or higher by two out of the following three rating organizations: Standard & Poor's Ratings Group ("S&P"), Fitch Ratings ("Fitch"), or Moody's Investors Service, Inc. ("Moody's"), or, if unrated, determined by the Advisor to be of comparable quality. In determining the investment rating of a particular security, the Advisor typically adopts the higher rating of any two of S&P, Fitch and Moody's. Investment grade debt securities generally have adequate to strong protection of principal and interest payments. In the lower end of this category, credit quality may be more susceptible to potential future changes in circumstances and the securities have speculative elements. If the rating of a portfolio security by any two of S&P, Fitch or Moody's drops below investment grade, the Advisor will dispose of the security as soon as practicable (depending on market conditions) unless the Advisor determines based on its own credit analysis that the security provides the opportunity of meeting a Fund's objective without presenting excessive risk.

2. High Yield Debt Securities ("Junk Bonds"). Subject to the limitation on investments in illiquid securities, each Fund may invest in securities that are below investment grade. The widespread expansion of government, consumer and corporate debt within the U.S. economy has made the corporate sector, especially cyclically sensitive industries, more vulnerable to economic downturns or increased interest rates. An economic downturn could severely disrupt the market for

high yield securities and adversely affect the value of outstanding securities and the ability of the issuers to repay principal and interest.

The prices of high yield securities have been found to be more sensitive to interest rate changes than higher-rated investments, and more sensitive to adverse economic changes or individual corporate developments. Also, during an economic downturn or substantial period of rising interest rates, highly leveraged issuers may experience financial stress which would adversely affect their ability to service their principal and interest payment obligations, to meet projected business goals, and to obtain additional financing. If the issuer of a security owned by a Fund defaulted, the Fund could incur additional expenses to seek recovery. In addition, periods of economic uncertainty and changes can be expected to result in increased volatility of market prices of high yield securities and a Fund's net asset value. Furthermore, in the case of high yield securities structured as zero coupon or pay-in-kind securities, their market prices are affected to a greater extent by interest rate changes and thereby tend to be more volatile than securities which pay interest periodically and in cash. High yield securities also present risks based on payment expectations. For example, high yield securities may contain redemption or call provisions. If an issuer exercises these provisions in a declining interest rate market, the Fund would have to replace the security with a lower yielding security, resulting in a decreased return for investors. Conversely, a high yield securities value will decrease in a rising interest rate market, as will the value of the Fund's assets. If the Fund experiences unexpected net redemptions, this may force it to sell its high yield securities without regard to their investment merits, thereby decreasing the asset base upon which the Fund's expenses can be spread and possibly reducing the Fund's rate of return.

In addition, to the extent that there is no established retail secondary market, there may be thin trading of high yield securities, and this may have an impact on a Fund's ability to accurately value high yield securities and the Fund's assets and on the Fund's ability to dispose of the securities. Adverse publicity and investor perception, whether or not based on fundamental analysis, may decrease the values and liquidity of high yield securities especially in a thinly traded market.

There are also special tax considerations associated with investing in high yield securities structured as zero coupon or pay-in-kind securities. For example, each Fund reports the interest on these securities as income even though it receives no cash interest until the security's maturity or payment date. Also, the shareholders are taxed on this interest even if the Fund does not distribute cash to them. Therefore, in order to pay taxes on this interest, shareholders may have to redeem some of their shares to pay the tax or the Fund may sell some of its assets to distribute cash to shareholders. These actions are likely to reduce the Fund's assets and may thereby increase its expense ratio and decrease its rate of return.

Finally, there are risks involved in applying credit ratings as method for evaluating high yield securities. For example, credit ratings evaluate the safety of principal and interest payments, not market value risk of high yield securities. Also, since credit rating agencies may fail to timely change the credit ratings to reflect subsequent events, each Fund (in conjunction with the Advisor) will continuously monitor the issuers of high yield securities to determine if the issuers will have sufficient cash flow and profits to meet required principal and interest payments, and to assure the securities' liquidity so the Fund can meet redemption requests.

A description of the rating categories is contained in Appendix A.

3. Convertible Securities. Each Fund may invest in convertible securities. Convertible securities are securities that may be exchanged or converted into a predetermined number of the issuer's underlying common shares, the common shares of another company or that are indexed to an unmanaged market index at the option of the holder during a specified time period. Convertible securities may take the form of convertible preferred stock, convertible bonds or debentures, stock purchase warrants, zero-coupon bonds or liquid-yield option notes, Eurodollar convertible securities, convertible securities of foreign issuers, stock index notes, or a combination of the features of these securities. Prior to conversion, convertible securities have the same general characteristics as non-convertible debt securities and provide a stable stream of income with generally higher yields than those of equity securities of the same or similar issuers. When the market price of a common stock underlying a convertible security increases, the price of the convertible security increasingly reflects the value of the underlying common stock and may rise accordingly. As the market price of the underlying common stock declines, convertible securities tend to trade increasingly on a yield basis and thus may not depreciate to the same extent as the underlying common stock. Convertible securities are ranked senior to common stock on an issuer's capital structure and they are usually of higher quality and normally entail less risk than the issuer's common stock, although the extent to which risk is reduced depends in large measure to the degree to which convertible securities sell above their value as fixed income securities.

4. Municipal Securities. The Tax-Exempt Fund and Core Tax-Exempt Fund, directly or indirectly, invest primarily in municipal securities. These are long- and short-term debt obligations issued by or on behalf of states, territories and possessions of the United States, the District of Columbia and their political subdivisions, agencies, instrumentalities and authorities, as well as other qualifying issuers (including the U.S. Virgin Islands, Puerto Rico and Guam), the income from which is exempt from regular federal income tax and exempt from state tax in the state of issuance. Municipal securities are issued to obtain funds to construct, repair or improve various public facilities such as airports, bridges, highways, hospitals, housing, schools, streets and water and sewer works, to pay general operating expenses or to refinance outstanding debts. They also may be issued to finance various private activities, including the lending of funds to public or private institutions for construction of housing, educational or medical facilities or the financing of privately owned or operated facilities.

The two principal classifications of municipal securities are "general obligation" and "revenue" bonds.

(i) *General Obligation Bonds*. General obligation bonds are supported by the issuer's power to exact property or other taxes. The issuer must impose and collect taxes sufficient to pay principal and interest on the bonds. However, the issuer's authority to impose additional taxes may be limited by its charter or state law.

(ii) *Revenue Bonds*. Revenue bonds are payable solely from specific revenues received by the issuer such as specific taxes, assessments, tolls or fees. Bondholders may not collect from the municipality's general taxes or revenues. For example, a municipality may issue bonds to build a toll road and pledge the tolls to repay the bonds. Therefore, a shortfall in the tolls normally would result in default on the bonds.

(iii) *Private Activity Bonds*. Private activity bonds are special revenue bonds used to finance private entities. For example, a municipality may issue bonds to finance a new factory to improve its local economy. The municipality would lend the proceeds from its bonds to the company using the factory, and the company would agree to make loan payments sufficient to repay the bonds. The bonds would be payable solely from the company's loan payments, not from any other revenues of the municipality. Therefore, any default on the loan normally would result in default on the bonds. The interest on many types of private activity bonds is subject to federal alternative minimum tax ("AMT"). However, issues are available in the marketplace that are not subject to AMT due to qualifying tax rules.

(iv) *Municipal Leases*. Municipalities may enter into leases for equipment or facilities. In order to comply with state public financing laws, these leases are typically subject to annual appropriation. In other words, a municipality may end a lease, without penalty, by not providing for the lease payments in its annual budget. After the lease ends, the lessor can resell the equipment or facility but may lose money on the sale. A Fund may invest in securities supported by pools of municipal leases. The most common type of lease backed securities are certificates of participation (COPs). However, the Tax-Exempt Fund may also invest directly in individual leases.

(v) *Municipal Notes*. Municipal notes are short-term tax-exempt securities. Many municipalities issue such notes to fund their current operations before collecting taxes or other municipal revenues. Municipalities may also issue notes to fund capital projects prior to issuing long-term bonds. The issuers typically repay the notes at the end of their fiscal year, either with taxes, other revenues or proceeds from newly issued notes or bonds. Municipal notes may include tax anticipation notes, revenue anticipation notes, bond anticipation notes, construction loan notes and tax-exempt commercial paper. Tax-exempt commercial paper typically represents short term, unsecured, negotiable promissory notes. Each Fund may invest in other municipal securities such as variable rate demand instruments.

(vi) *Tax Increment Financing Bonds*. Tax increment financing ("TIF") bonds are payable from increases in taxes or other revenues attributable to projects financed by the bonds. For example, a municipality may issue TIF bonds to redevelop a commercial area. The TIF bonds would be payable solely from any increase in sales taxes collected from merchants in the area. The bonds could default if merchants' sales, and related tax collections, failed to increase as anticipated.

(vii) *Residual Interest Bonds*. Residual Interest Bonds ("RIBs") are created by brokers by depositing municipal bonds in a trust. The trust in turn issues a variable rate security and RIBs. The interest rate on the short-term component is reset by an index or auction process normally every seven to 35 days, while the RIB holder receives the balance of the income from the underlying municipal bond less an auction fee. Therefore, rising short-term interest rates result in lower income for the RIB, and vice versa. An investment in RIBs typically will involve greater risk than an investment in a fixed rate bond. RIBs have interest rates that bear an inverse relationship to the interest rate on another security or the value of an index. Because increases in the interest rate on the other security or index reduce the residual interest paid on a RIB, the value of a RIB is generally more volatile than that of a fixed rate bond. RIBs have interest rate adjustment formulas that

generally reduce or, in the extreme, eliminate the interest paid to the Funds when short-term interest rates rise, and increase the interest paid to the Funds when short-term interest rates fall. RIBs have varying degrees of liquidity that approximate the liquidity of the underlying bond(s), and the market price for these securities is volatile. RIBs can be very volatile and may be less liquid than other municipal bonds of comparable maturity. These securities will generally underperform the market of fixed rate bonds in a rising interest rate environment, but tend to outperform the market of fixed rate bonds when interest rates decline or remain relatively stable. Although volatile, RIBs typically offer the potential for yields exceeding the yields available on fixed rate bonds with comparable credit quality, coupon, call provisions and maturity.

In a transaction in which a Fund purchases a RIB from a trust, and the underlying municipal bond is 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.

In order to be tax-exempt, municipal securities must meet certain legal requirements. Failure to meet such requirements may cause the interest received and distributed by the a Fund to shareholders to be taxable. Changes or proposed changes in federal tax laws may also cause the prices of municipal securities to fall.

The Advisor considers municipal securities to be of investment grade quality if they are rated at the time of purchase BBB- and Baa3 or higher by any two of the following three rating organizations: S&P, Fitch or Moody's, or if unrated, determined by the Advisor to be of comparable quality. Investment grade municipal securities generally have adequate to strong protection of principal and interest payments. In the lower end of this category, credit quality may be more susceptible to potential future changes in circumstances and the securities have speculative elements. If the rating of a municipal security by any two of S&P, Fitch or Moody's drops below investment grade, the Advisor will dispose of the security as soon as practicable, unless the Advisor determines based on its own credit analysis that the security provides the opportunity of meeting a Fund's objective without presenting excessive risk.

5. U.S. Government Securities. U.S. government securities may be backed by the credit of the government as a whole or only by the issuing agency. U.S. Treasury bonds, notes, and bills and some agency securities, such as those issued by the Federal Housing Administration and the Government National Mortgage Association ("GNMA"), are backed by the full faith and credit of the U.S. government as to payment of principal and interest and are the highest quality government securities. Other securities issued by U.S. government agencies or instrumentalities, such as securities issued by the Federal Home Loan Banks and the Federal Home Loan Mortgage Corporation, are supported only by the credit of the agency that issued them, and not by the U.S. government. Securities issued by the Federal Farm Credit System, the Federal Land Banks, and the Federal National Mortgage Association ("FNMA") are supported by the agency's right to borrow

money from the U.S. Treasury under certain circumstances, but are not backed by the full faith and credit of the U.S. government.

Each Fund may also invest in Treasury Inflation-Protected Securities ("TIPS"). TIPS are special type of treasury note or bond that was created in order to offer bond investors protection from inflation. The value of the TIPS are automatically adjusted to the inflation rate as measured by the Consumer Price Index ("CPI"). If the CPI goes up by half a percent the value of the bond would go up by half a percent. If the CPI falls, the value of the bond does not fall because the government guarantees that your original investment will stay the same. TIPS decline in value when real interest rates rise. In certain interest rate environments, such as when real interest rates are rising faster than nominal interest rates, TIPS may experience greater losses than other fixed income securities with similar duration.

6. Mortgage-Backed Securities. Mortgage-backed securities represent an interest in a pool of mortgages. These securities, including securities issued by FNMA and GNMA, provide investors with payments consisting of both interest and principal as the mortgages in the underlying mortgage pools are repaid. Unscheduled or early payments on the underlying mortgages may shorten the securities' effective maturities. The average life of securities representing interests in pools of mortgage loans is likely to be substantially less than the original maturity of the mortgage pools as a result of prepayments or foreclosures of such mortgages. Prepayments are passed through to the registered holder with the regular monthly payments of principal and interest, and have the effect of reducing future payments. To the extent the mortgages underlying a security representing an interest in a pool of mortgages are prepaid, a Fund may experience a loss (if the price at which the respective security was acquired by the Fund was at a premium over par, which represents the price at which the security will be sold upon prepayment). In addition, prepayments of such securities held by a Fund will reduce the share price of the Fund to the extent the market value of the securities at the time of prepayment exceeds their par value. Furthermore, the prices of mortgage-backed securities can be significantly affected by changes in interest rates. Prepayments may occur with greater frequency in periods of declining mortgage rates because, among other reasons, it may be possible for mortgagors to refinance their outstanding mortgages at lower interest rates. In such periods, it is likely that any prepayment proceeds would be reinvested by the Fund at lower rates of return.

CMOs. In addition, the Funds may invest in collateralized mortgage obligations ("CMOs"). CMOs are securities collateralized by mortgages or mortgage-backed securities. CMOs are issued with a variety of classes or series, which have different maturities and are often retired in sequence. CMOs may be issued by governmental or non-governmental entities such as banks and other mortgage lenders. Non-government securities may offer a higher yield but also may be subject to greater price fluctuation than government securities. Investments in CMOs are subject to the same risks as direct investments in the underlying mortgage and mortgage-backed securities. In addition, in the event of a bankruptcy or other default of an entity who issued the CMO held by a Fund, the Fund could experience both delays in liquidating its position and losses. Certain types of CMOs pay no interest for a period of time and therefore present risks similar to zero coupon bonds.

CMOs divide the cash flow generated from the underlying mortgages or mortgage pass-through securities into different groups referred to as "tranches," which are then retired sequentially over time in order of priority. CMOs are structured as trusts or corporations established for the purpose of issuing such CMOs and often have no assets other than those underlying the securities and any credit support provided. CMOs may involve additional risks other than those found in other types of mortgage-related obligations. CMOs may exhibit more price volatility and interest rate risks than other types of mortgage-related obligations. During periods of rising interest rates, CMOs may lose their liquidity as CMO market makers may choose not to repurchase, or may offer prices, based on current market conditions, that are unacceptable to a Fund based on the Advisor's analysis of the market value of the security. Each class of CMOs, often referred to as a "tranche," is issued at a specific adjustable or fixed interest rate and must be fully retired no later than its final distribution date. Principal prepayments on the mortgage assets underlying the CMOs may cause some or all of the classes of CMOs to be retired substantially earlier than their final distribution dates.

The principal and interest on the mortgage assets may be allocated among the several classes of CMOs in various ways. In certain structures (known as "sequential pay" CMOs), payment of principal, including any principal prepayments, on the mortgage assets generally are applied to the CMO classes in the order of their respective final distribution dates. Thus, no payment of principal will be made on any class of sequential pay CMOs until all other classes having an earlier final distribution date have been paid in full. Additional structures of CMOs include, among others, "parallel pay" CMOs. Parallel pay CMOs are those that are structured to apply principal payments and prepayments of the mortgage assets to two or more classes concurrently on a proportionate or disproportionate basis. These simultaneous payments are taken into account in calculating the final distribution date of each class.

7. Asset-Backed Securities. Asset-backed securities are undivided fractional interests in pools of consumer loans (unrelated to mortgage loans) or other assets (such as equipment leases) held in a trust. Payments of principal and interest are passed through to certificate holders and are typically supported by some form of credit enhancement, such as a letter of credit, surety bond, limited guaranty or senior subordination. The degree of credit enhancement varies, but generally amounts to only a fraction of the asset-backed or receivable-backed security's par value until exhausted. If the credit enhancement is exhausted, certificateholders may experience losses or delays in payment if the required payments of principal and interest are not made to the trust with respect to the underlying loans. The value of these securities also may change because of changes in the market's perception of the creditworthiness of the servicing agent for the loan pool, the originator of the loans or the financial institution providing the credit enhancement. Asset-backed and receivable-backed securities are ultimately dependent upon payment of loans by individuals or businesses, and the certificateholder generally has no recourse against the entity that originated the loans. The underlying loans are subject to prepayments which shorten the securities' weighted average life and may lower their return. As prepayments flow through at par, total returns would be affected by the prepayments: if a security were trading at a premium, its total return would be lowered by prepayments, and if a security were trading at a discount, its total return would be increased by prepayments.

8. Zero Coupon and Pay in Kind Bonds. Corporate debt securities and municipal obligations include so-called “zero coupon” bonds and “pay-in-kind” bonds. Zero coupon bonds do not make regular interest payments. Instead they are sold at a deep discount from their face value. Each Fund will accrue income on such bonds for tax and accounting purposes, in accordance with applicable law. This income will be distributed to shareholders. Because no cash is received at the time such income is accrued, the Fund may be required to liquidate other portfolio securities to satisfy its distribution obligations. Because a zero coupon bond does not pay current income, its price can be very volatile when interest rates change. In calculating its dividend, the Funds take into account as income a portion of the difference between a zero coupon bond’s purchase price and its face value.

The Federal Reserve creates Separate Trading of Registered Interest and Principal of Securities (“STRIPS”) by separating the coupon payments and the principal payment from an outstanding Treasury security and selling them as individual securities. A broker-dealer creates a derivative zero by depositing a Treasury security with a custodian for safekeeping and then selling the coupon payments and principal payment that will be generated by this security separately. Examples are Certificates of Accrual on Treasury Securities (CATs), Treasury Investment Growth Receipts (TIGRs) and generic Treasury Receipts (TRs). These derivative zero coupon obligations are not considered to be government securities unless they are part of the STRIPS program. Original issue zeros are zero coupon securities issued directly by the U.S. government, a government agency or by a corporation.

Pay-in-kind bonds allow the issuer, at its option, to make current interest payments on the bonds either in cash or in additional bonds. The value of zero coupon bonds and pay-in-kind bonds is subject to greater fluctuation in response to changes in market interest rates than bonds which make regular payments of interest. Both of these types of bonds allow an issuer to avoid the need to generate cash to meet current interest payments. Accordingly, such bonds may involve greater credit risks than bonds which make regular payment of interest. Even though zero coupon bonds and pay-in-kind bonds do not pay current interest in cash, the applicable Fund is required to accrue interest income on such investments and to distribute such amounts at least annually to shareholders. Thus, a Fund could be required at times to liquidate other investments in order to satisfy its dividend requirements. There is no limit on the amount of zero coupon bonds that a Fund may purchase; however no Fund will invest more than 5% of its net assets in pay-in-kind bonds.

9. Financial Service Industry Obligations. Financial service industry obligations include among others, the following:

(i) *Certificates of Deposit*. Certificates of deposit (“CDs”) are negotiable certificates evidencing the indebtedness of a commercial bank or a savings and loan association to repay funds deposited with it for a definite period of time (usually from 14 days to 10 years) at a stated or variable interest rate. However, each Fund may also invest in CDs that require a third party, such as a dealer or bank, to repurchase the CD for its face value upon demand. A Fund treats such CDs as short-term securities, even though their stated maturity may extend beyond one year.

(ii) *Time Deposits*. Time deposits are non-negotiable deposits maintained in a banking institution or a savings and loan association for a specified period of time at a stated interest rate. Time deposits are considered to be illiquid prior to their maturity.

(iii) *Bankers' Acceptances*. Bankers' acceptances are credit instruments evidencing the obligation of a bank to pay a draft which has been drawn on it by a customer, which instruments reflect the obligation both of the bank and of the drawer to pay the face amount of the instrument upon maturity.

10. Auction Rate Securities. Auction rate securities are debt instruments with long-term nominal maturities for which the interest rate is reset at specific shorter frequencies (typically every 7 - 35 days) through a "dutch" auction process. A dutch auction is a competitive bidding process used to determine rates on each auction date. In a dutch auction, a broker-dealer submits bids, on behalf of current and prospective investors, to the auction agent. The winning bid rate is the rate at which the auction "clears," meaning the lowest possible interest rate at which all the securities can be sold at par. This "clearing rate" is paid on the entire issue for the upcoming period and includes current holders of the auction rate securities. Investors who bid a minimum rate above the clearing rate receive no securities, while those whose minimum bid rates were at or below the clearing rate receive the clearing rate for the next period. Auction rate securities may be in the form of preferred shares, and may be issued by municipalities and/or closed-end funds.

While the auction rate process is designed to permit the holder to sell the auction rate securities in an auction at par value at specified intervals, there is the risk that an auction will fail due to insufficient demand for the securities. Auction rate securities may be subject to changes in interest rates, including decreased interest rates. Failed auctions may impair the liquidity of auction rate securities.

11. Repurchase Agreements. Each Fund may invest in repurchase agreements fully collateralized by obligations issued by the U.S. Government or by agencies of the U.S. Government ("U.S. Government Obligations"). A repurchase agreement is a short term investment in which the purchaser (i.e., a Fund) acquires ownership of a U.S. Government Obligation (which may be of any maturity) and the seller agrees to repurchase the obligation at a future time at a set price, thereby determining the yield during the purchaser's holding period (usually not more than 7 days from the date of purchase). The repurchase price exceeds the sale price, reflecting a Fund's return on the transaction. This return is unrelated to the interest rate on the underlying security. Any repurchase transaction in which a Fund engages will require full collateralization of the seller's obligation during the entire term of the repurchase agreement. In the event of a bankruptcy or other default of the seller, a Fund could experience both delays in liquidating the underlying security and losses in value. However, the Funds intend to enter into repurchase agreements only with the Trust's custodian, other banks with assets of $1 billion or more and registered securities dealers determined by the Advisor to be creditworthy.

The Trust's custodian will take possession of a Fund's securities subject to repurchase agreements. The Advisor or custodian will monitor the value of the underlying security each day to ensure that the value of the security always equals or exceeds the repurchase price. Repurchase agreements are also subject to credit risks.

12. Preferred Stock. Preferred stock has a preference in liquidation (and, generally dividends) over common stock but is subordinated in liquidation to debt. As a general rule the market value of preferred stocks with fixed dividend rates and no conversion rights varies inversely with interest rates and perceived credit risk, with the price determined by the dividend rate. Some preferred stocks are convertible into other securities, (for example, common stock) at a fixed price and ratio or upon the occurrence of certain events. The market price of convertible preferred stocks generally reflects an element of conversion value. Because many preferred stocks lack a fixed maturity date, these securities generally fluctuate substantially in value when interest rates change; such fluctuations often exceed those of long term bonds of the same issuer. Some preferred stocks pay an adjustable dividend that may be based on an index, formula, auction procedure or other dividend rate reset mechanism. In the absence of credit deterioration, adjustable rate preferred stocks tend to have more stable market values than fixed rate preferred stocks. All preferred stocks are also subject to the same types of credit risks of the issuer as corporate bonds. However, overall stock market risks may also affect the value of preferred stock. Factors such as domestic economic growth and market conditions, interest rate levels and political events may affect the securities markets and from time to time can cause markets to fall substantially. During periods of extreme market volatility, preferred stock may be subject to these market risks. For example, the price of preferred stock generally may fall on the days that equity markets experience significant losses. In addition, because preferred stock is junior to debt securities and other obligations of an issuer, deterioration in the credit rating of the issuer will cause greater changes in the value of a preferred stock than in a more senior debt security with similar yield characteristics. Preferred stocks may be rated by Standard S&P or Moody's. Moody's rating with respect to preferred stocks does not purport to indicate the future status of payments of dividends.

D. Short Sales. Each Fund may make short sales as part of its 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. Short sales expose a Fund to the risk that it 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 Fund. A Fund's investment performance may also suffer if the Fund is required to close out a short position earlier than it had intended. This would occur if the securities lender requires the Fund to deliver the securities the Fund borrowed at the commencement of the short sale, and the Fund was unable to borrow the securities from another securities lender or otherwise obtain the security by other means. A Fund making a short sale must segregate assets determined to be liquid by the Advisor in accordance with procedures established by the Board of Trustees or otherwise cover its position in a permissible manner. This means that those other assets may not be available to meet the Fund's needs for immediate cash or other liquidity. In addition, a Fund may be subject to expenses related to short sales that are not typically associated with investing in securities directly, such as costs of borrowing and margin account maintenance costs associated with the Fund's open short positions. These expenses negatively impact the performance of the Fund. For example, when a Fund short sells an interest-bearing security, such as a bond, it is obligated to pay the interest on the security it has sold. This cost is partially offset by the interest earned by the Fund on the investment of the cash generated by the short sale. Similarly, when a Fund sells short an equity security that pays a dividend, it is obligated to pay the dividend on the security it has sold. However, a dividend paid on a security sold short generally reduces the market value of the shorted security and thus, increases

the Fund's unrealized gain or reduces the Fund's unrealized loss on its short sale transaction. To the extent that the interest rate and/or dividend that a Fund is obligated to pay is greater than the interest earned by the Fund on investments, the Fund's performance will be negatively impacted. These types of short sales expenses are sometimes referred to as the "negative cost of carry," and will tend to cause a Fund to lose money on a short sale even in instances where the price of the underlying security sold short does not change over the duration of the short sale. Each Fund may make short-sales with respect to no more than 20% of its total assets.

E. Foreign Securities

1. General. Each Fund may invest in other investment companies that hold a portfolio of foreign securities. Investing in securities of foreign companies and countries involves certain considerations and risks that are not typically associated with investing in U.S. government securities and securities of domestic companies. There may be less publicly available information about a foreign issuer than a domestic one, and foreign companies are not generally subject to uniform accounting, auditing and financial standards and requirements comparable to those applicable to U.S. companies. There may also be less government supervision and regulation of foreign securities exchanges, brokers and listed companies than exists in the United States. Interest and dividends paid by foreign issuers may be subject to withholding and other foreign taxes, which may decrease the net return on such investments as compared to dividends and interest paid to the Fund by domestic companies or the U.S. government. There may be the possibility of expropriations, seizure or nationalization of foreign deposits, confiscatory taxation, political, economic or social instability or diplomatic developments that could affect assets of the Fund held in foreign countries. Finally, the establishment of exchange controls or other foreign governmental laws or restrictions could adversely affect the payment of obligations.

To the extent a Fund's currency exchange transactions do not fully protect the Fund against adverse changes in currency exchange rates, decreases in the value of currencies of the foreign countries in which the Fund will invest relative to the U.S. dollar will result in a corresponding decrease in the U.S. dollar value of the Fund's assets denominated in those currencies (and possibly a corresponding increase in the amount of securities required to be liquidated to meet distribution requirements). Conversely, increases in the value of currencies of the foreign countries in which the Fund invests relative to the U.S. dollar will result in a corresponding increase in the U.S. dollar value of the Fund's assets (and possibly a corresponding decrease in the amount of securities to be liquidated).

Securities trading on overseas markets present time zone arbitrage opportunities when events effecting portfolio security values occur after the close of the overseas market, bur prior to the close of the U.S. market. Fair valuation of a Fund's portfolio securities can serve to reduce arbitrage opportunities available to short term traders, but there is no assurance that fair value pricing policies will prevent dilution of a Fund's net asset value ("NAV") by short term traders.

2. Emerging Markets Securities. Each Fund may purchase emerging market securities, including through ETFs and closed-end funds that invest in emerging market securities. To the extent a Fund invests in foreign ETFs, the Fund could be subject to greater risks because the

Fund's performance may depend on issues other than the performance of a particular closed-end fund.

Investing in emerging market securities imposes risks different from, or greater than, risks of investing 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 markets 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.

3. Sovereign Debt. Sovereign debt differs from debt obligations issued by private entities in that, generally, remedies for defaults must be pursued in the courts of the defaulting party. Legal recourse is therefore limited. Political conditions, especially a sovereign entity's willingness to meet the terms of its debt obligations, are of considerable significance. Also, there can be no assurance that the holders of commercial bank loans to the same sovereign entity may not contest payments to the holders of sovereign debt in the event of default under commercial bank loan agreements.

A sovereign debtor's willingness or ability to repay principal and pay interest in a timely manner may be affected by a variety of factors, including among others, its cash flow situation, the extent of its foreign reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the sovereign debtor's policy toward principal international lenders and the political constraints to which a sovereign debtor may be subject. A country whose exports are concentrated in a few commodities could be vulnerable to a decline in the international price of such commodities. Increased protectionism on the part of a country's trading partners, or political changes in those countries, could also adversely affect its exports. Such events could diminish a country's trade account surplus, if any, or the credit standing of a particular local government or agency. Another factor bearing on the ability of a country to repay sovereign debt is the level of the country's international

reserves. Fluctuations in the level of these reserves can affect the amount of foreign exchange readily available for external debt payments and, thus, could have a bearing on the capacity of the country to make payments on its sovereign debt.

With respect to sovereign debt of emerging market issuers, investors should be aware that certain emerging market countries are among the largest debtors to commercial banks and foreign governments. At times, certain emerging market countries have declared moratoria on the payment of principal and interest on external debt.

Certain emerging market countries have experienced difficulty in servicing their sovereign debt on a timely basis which led to defaults on certain obligations and the restructuring of certain indebtedness. Restructuring arrangements have included, among other things, reducing and rescheduling interest and principal payments by negotiating new or amended credit agreements or converting outstanding principal and unpaid interest to Brady Bonds, and obtaining new credit to finance interest payments. Holders of sovereign debt, including the Funds, may be requested to participate in the rescheduling of such debt and to extend further loans to sovereign debtors, and the interests of holders of sovereign debt could be adversely affected in the course of restructuring arrangements or by certain other factors referred to below. Furthermore, some of the participants in the secondary market for sovereign debt may also be directly involved in negotiating the terms of these arrangements and may therefore have access to information not available to other market participants, such as the Funds. Obligations arising from past restructuring agreements may affect the economic performance and political and social stability of certain issuers of sovereign debt. There is no bankruptcy proceeding by which sovereign debt on which a sovereign has defaulted may be collected in whole or in part.

Foreign investment in certain sovereign debt is restricted or controlled to varying degrees. These restrictions or controls may at times limit or preclude foreign investment in such sovereign debt and increase the costs and expenses of the Fund. Certain countries in which the Fund may invest require governmental approval prior to investments by foreign persons, limit the amount of investment by foreign persons in a particular issuer, limit the investment by foreign persons only to a specific class of securities of an issuer that may have less advantageous rights than the classes available for purchase by domiciliaries of the countries, or impose additional taxes on foreign investors. Certain issuers may require governmental approval for the repatriation of investment income, capital or the proceeds of sales of securities by foreign investors. In addition, if a deterioration occurs in a country's balance of payments, the country could impose temporary restrictions on foreign capital remittances. The Fund could be adversely affected by delays in, or a refusal to grant, any required governmental approval for repatriation of capital, as well as by the application to the Fund of any restrictions on investments. Investing in local markets may require the Fund to adopt special procedures, seek local government approvals or take other actions, each of which may involve additional costs to the Fund.

F. Strategic Transactions and Derivatives. Each Fund may utilize various investment strategies as described below for a variety of purposes, such as hedging various market risks or enhancing potential gain and for investment purposes. These strategies may be executed through the use of derivative contracts. There is no limit on each Fund's use of derivative hedging transactions

to the extent that such derivative transaction is not otherwise deemed an illiquid security pursuant to relevant guidelines.

In the course of pursuing these investment strategies, a Fund may purchase and sell exchange-listed and over-the-counter ("OTC") put and call options on securities, equity indices and other instruments, and purchase and sell futures contracts and options thereon (collectively, "Strategic Transactions"). In addition, Strategic Transactions may also include new techniques, instruments or strategies that are permitted as regulatory changes occur. Strategic Transactions may be used without limit (subject to certain limits imposed by the 1940 Act) to attempt to protect against possible changes in the market value of securities held in or to be purchased for a Fund's portfolio resulting from securities markets or currency exchange rate fluctuations, to protect the Fund's unrealized gains in the value of its portfolio securities, to facilitate the sale of such securities for investment purposes, to manage the effective maturity or duration of the Fund's portfolio, or to establish a position in the derivatives markets as a substitute for purchasing or selling particular securities. Some Strategic Transactions may also be used to enhance potential gain. Any or all of these investment techniques may be used at any time and in any combination, and there is no particular strategy that dictates the use of one technique rather than another, as use of any Strategic Transaction is a function of numerous variables including market conditions. The ability of a Fund to utilize these Strategic Transactions successfully will depend on the Advisor's ability to predict pertinent market movements, which cannot be assured. Each Fund will comply with applicable regulatory requirements when implementing these strategies, techniques and instruments. Strategic Transactions will not be used to alter fundamental investment purposes and characteristics of a Fund, and a Fund will segregate assets (or as provided by applicable regulations, enter into certain offsetting positions) to cover its obligations under options and futures to limit leveraging of the Fund.

Strategic Transactions, including derivative contracts, have risks associated with them including possible default by the other party to the transaction, illiquidity and, to the extent the Advisor's view as to certain market movements is incorrect, the risk that the use of such Strategic Transactions could result in losses greater than if they had not been used. Use of put and call options may result in losses to a Fund, force the sale or purchase of portfolio securities at inopportune times or for prices higher than (in the case of put options) or lower than (in the case of call options) current market values, limit the amount of appreciation a Fund can realize on its investments or cause a Fund to hold a security it might otherwise sell. The use of options and futures transactions entails certain other risks. In particular, the variable degree of correlation between price movements of futures contracts and price movements in the related portfolio position of a Fund creates the possibility that losses on the hedging instrument may be greater than gains in the value of the Fund's position. In addition, futures and options markets may not be liquid in all circumstances. As a result, in certain markets, a Fund might not be able to close out a transaction without incurring substantial losses, if at all. Although the use of futures and options transactions for hedging should tend to minimize the risk of loss due to a decline in the value of the hedged position, at the same time they tend to limit any potential gain which might result from an increase in value of such position. Finally, the daily variation margin requirements for futures contracts would create a greater ongoing potential financial risk than would purchases of options, where the exposure is limited to the cost of the initial premium. Losses resulting from the use of Strategic Transactions would reduce net asset value, and possibly income, and such losses can be greater than if the Strategic Transactions had not been utilized.

1. Options on Securities Indices. Each Fund may purchase and sell call and put options on securities indices and, in so doing, can achieve many of the same objectives it would achieve through the sale or purchase of options on individual securities or other instruments. Options on securities indices are similar to options on a security or other instrument except that, rather than settling by physical delivery of the underlying instrument, they settle by cash settlement, i.e., an option on an index gives the holder the right to receive, upon exercise of the option, an amount of cash if the closing level of the index upon which the option is based exceeds, in the case of a call, or is less than, in the case of a put, the exercise price of the option. This amount of cash is equal to the excess of the closing price of the index over the exercise price of the option, which also may be multiplied by a formula value. The seller of the option is obligated, in return for the premium received, to make delivery of this amount. The gain or loss on an option on an index depends on price movements in the instruments making up the market, market segment, industry or other composite on which the underlying index is based, rather than price movements in individual securities, as is the case with respect to options on securities.

2. General Characteristics of Options. Put options and call options typically have similar structural characteristics and operational mechanics regardless of the underlying instrument on which they are purchased or sold. Thus, the following general discussion relates to each of the particular types of options discussed in greater detail below. In addition, many Strategic Transactions involving options require segregation of a Fund's assets in special accounts, as described below under "Use of Segregated and Other Special Accounts."

A put option gives the purchaser of the option, upon payment of a premium, the right to sell, and the writer the obligation to buy, the underlying security, index or other instrument at the exercise price. For instance, a Fund's purchase of a put option on a security might be designed to protect its holdings in the underlying instrument (or, in some cases, a similar instrument) against a substantial decline in the market value by giving the Fund the right to sell such instrument at the option exercise price. A call option, upon payment of a premium, gives the purchaser of the option the right to buy, and the seller the obligation to sell, the underlying instrument at the exercise price. A Fund's purchase of a call option on a security, financial future, index or other instrument might be intended to protect the Fund against an increase in the price of the underlying instrument that it intends to purchase in the future by fixing the price at which it may purchase such instrument. Each Fund is authorized to purchase and sell exchange listed options. However, the Funds may not purchase or sell OTC options, which are considered illiquid by the Securities and Exchange Commission ("SEC") staff. Exchange-listed options are issued by a regulated intermediary such as the Options Clearing Corporation ("OCC"), which guarantees the performance of the obligations of the parties to such options. The discussion below uses the OCC as an example, but is also applicable to other financial intermediaries.

With certain exceptions, OCC-issued and exchange-listed options generally settle by physical delivery of the underlying security or currency, although in the future cash settlement may become available. Index options are cash settled for the net amount, if any, by which the option is "in-the-money" (i.e., where the value of the underlying instrument exceeds, in the case of a call option, or is less than, in the case of a put option, the exercise price of the option) at the time the option is exercised. Frequently, rather than taking or making delivery of the underlying

instrument through the process of exercising the option, listed options are closed by entering into offsetting purchase or sale transactions that do not result in ownership of the new option.

A Fund's ability to close out its position as a purchaser or seller of an OCC or exchange listed put or call option is dependent, in part, upon the liquidity of the option market. Among the possible reasons for the absence of a liquid option market on an exchange are: (i) insufficient trading interest in certain options; (ii) restrictions on transactions imposed by an exchange; (iii) trading halts, suspensions or other restrictions imposed with respect to particular classes or series of options or underlying securities including reaching daily price limits; (iv) interruption of the normal operations of the OCC or an exchange; (v) inadequacy of the facilities of an exchange or OCC to handle current trading volume; or (vi) a decision by one or more exchanges to discontinue the trading of options (or a particular class or series of options), in which event the relevant market for that option on that exchange would cease to exist, although outstanding options on that exchange would generally continue to be exercisable in accordance with their terms.

The hours of trading for listed options may not coincide with the hours during which the underlying financial instruments are traded. To the extent that the option markets close before the markets for the underlying financial instruments, significant price and rate movements can take place in the underlying markets that cannot be reflected in the option markets.

If a Fund sells a call option, the premium that it receives may serve as a partial hedge, to the extent of the option premium, against a decrease in the value of the underlying securities or instruments in its portfolio or will increase its income. The sale of put options can also provide income.

A Fund may purchase and sell call options on equity securities (including convertible securities) that are traded on U.S. and foreign securities exchanges, and on securities indices and futures contracts. All calls sold by a Fund must be "covered" (i.e., the Fund must own the securities or futures contract subject to the call) or must meet the asset segregation requirements described below as long as the call is outstanding. Even though the Fund will receive the option premium to help protect it against loss, a call sold by a Fund exposes it during the term of the option to possible loss of opportunity to realize appreciation in the market price of the underlying security or instrument and may require it to hold a security or instrument which it might otherwise have sold.

A Fund may purchase and sell put options on equity securities (including convertible securities) and on securities indices. A Fund will not sell put options if, as a result, more than 50% of the Fund's total assets would be required to be segregated to cover its potential obligations under such put options other than those with respect to futures and options thereon. In selling put options, there is a risk that a Fund may be required to buy the underlying security at a disadvantageous price above the market price.

3. General Characteristics of Futures Contracts. Each Fund may enter into futures contracts or purchase or sell put and call options on such futures as a hedge against anticipated interest rate or equity market changes, and for duration management, risk management and return enhancement purposes. Futures are generally bought and sold on the commodities exchanges where they are listed with payment of initial and variation margin as described below.

The sale of a futures contract creates a firm obligation by a Fund, as seller, to deliver to the buyer the specific type of financial instrument called for in the contract at a specific future time for a specified price (or, with respect to index futures and Eurodollar instruments, the net cash amount). Options on futures contracts are similar to options on securities except that an option on a futures contract gives the purchaser the right in return for the premium paid to assume a position in a futures contract and obligates the seller to deliver such position.

A Fund's use of futures and options thereon will in all cases be consistent with applicable regulatory requirements and in particular the rules and regulations of the Commodity Futures Trading Commission and will be entered into for bona fide hedging, risk management (including duration management) or other portfolio and return enhancement management purposes. Typically, maintaining a futures contract or selling an option thereon requires the Fund to deposit with a financial intermediary as security for its obligations an amount of cash or other specified assets (initial margin) which initially is typically 1% to 10% of the face amount of the contract (but may be higher in some circumstances). Additional cash or assets (variation margin) may be required to be deposited thereafter on a daily basis as the mark to market value of the contract fluctuates. The purchase of an option on financial futures involves payment of a premium for the option without any further obligation on the part of a Fund. If a Fund exercises an option on a futures contract it will be obligated to post initial margin (and potential subsequent variation margin) for the resulting futures position just as it would for any position. Futures contracts and options thereon are generally settled by entering into an offsetting transaction but there can be no assurance that the position can be offset prior to settlement at an advantageous price, nor that delivery will occur.

4. Use of Segregated and Other Special Accounts. Many Strategic Transactions, in addition to other requirements, require that a Fund segregate cash or liquid assets with its custodian to the extent Fund obligations are not otherwise "covered" through ownership of the underlying security or financial instrument. In general, either the full amount of any obligation by a Fund to pay or deliver securities or assets must be covered at all times by the securities or instruments required to be delivered, or, subject to any regulatory restrictions, an amount of cash or liquid assets at least equal to the current amount of the obligation must be segregated with the custodian. With respect to forwards and futures contracts that are not contractually required to "cash-settle," a Fund may cover its open positions by setting aside liquid assets equal to the contracts' full, notional value. However, with respect to forwards and futures contracts that are required to "cash-settle," a Fund will set aside liquid assets in an amount equal to its daily marked-to-market (net) obligation (or net liability) rather than the notional value. By setting aside assets equal only to its net obligation under the cash-settled Strategic Transaction, a Fund will have the ability to employ leverage to a greater extent that if the Fund were required to segregate assets equal to the full notional value of such contracts. The segregated assets cannot be sold or transferred unless equivalent assets are substituted in their place or it is no longer necessary to segregate them. For example, a call option written by a Fund will require it to hold the securities subject to the call (or securities convertible into the needed securities without additional consideration) or to segregate cash or liquid assets sufficient to purchase and deliver the securities if the call is exercised. A call option sold by a Fund on an index will require it to own portfolio securities which correlate with the index or to segregate cash or liquid assets equal to the excess of the index value over the exercise price on a current basis. A put option written by a Fund requires the Fund to segregate cash or liquid assets equal to the exercise price.

OCC-issued and exchange-listed index options will generally provide for cash settlement. As a result, when a Fund sells these instruments it will only segregate an amount of cash or liquid assets equal to its accrued net obligations, as there is no requirement for payment or delivery of amounts in excess of the net amount. These amounts will equal 100% of the exercise price in the case of a non cash-settled put, the same as an OCC guaranteed listed option sold by the Fund, or the in-the-money amount plus any sell-back formula amount in the case of a cash-settled put or call. In addition, when a Fund sells a call option on an index at a time when the in-the-money amount exceeds the exercise price, the Fund will segregate, until the option expires or is closed out, cash or cash equivalents equal in value to such excess. OCC issued and exchange listed options sold by a Fund other than those above generally settle with physical delivery, or with an election of either physical delivery or cash settlement and the Fund will segregate an amount of cash or liquid assets equal to the full value of the option.

In the case of a futures contract or an option thereon, a Fund must deposit initial margin and possible daily variation margin in addition to segregating cash or liquid assets sufficient to meet its obligation to purchase or provide securities, or to pay the amount owed at the expiration of an index-based futures contract. Such liquid assets may consist of cash, cash equivalents, liquid debt or equity securities or other acceptable assets.

Strategic Transactions may be covered by other means when consistent with applicable regulatory policies. A Fund may also enter into offsetting transactions so that its combined position, coupled with any segregated assets, equals its net outstanding obligation in related options and Strategic Transactions. For example, a Fund could purchase a put option if the strike price of that option is the same or higher than the strike price of a put option sold by the Fund. Moreover, instead of segregating cash or liquid assets, if a Fund held a futures or forward contract, it could purchase a put option on the same futures or forward contract with a strike price as high or higher than the price of the contract held. Other Strategic Transactions may also be offset in combinations. If the offsetting transaction terminates at the time of or after the primary transaction no segregation is required, but if it terminates prior to such time, cash or liquid assets equal to any remaining obligation would need to be segregated.

5. "Swap" Derivative Transactions. Each Fund may enter into interest rate, credit default, securities index, commodity, or security and currency exchange rate swap agreements or swap options ("swaptions") for the purpose of attempting to obtain, enhance, or preserve a particular desired return or spread at a lower cost to that Fund than if that Fund had invested directly in an instrument that yielded that desired return or spread. Each Fund also may enter into swaps in order to protect against an increase in the price of, or the currency exchange rate applicable to, securities that the Fund anticipates purchasing at a later date. Swap agreements are two-party contracts entered into primarily by institutional investors for periods ranging from a few weeks to several years. 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 amount or value of the underlying asset used in computing the particular interest rate, return, or other amount to be exchanged) in a particular foreign currency, or in a "basket" of securities representing a particular index. Swap agreements

may include (i) interest rate caps, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates exceed a specified rate, or "cap;" (ii) interest rate floors, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates fall below a specified level, or "floor;" and (iii) interest rate collars, under which a party sells a cap and purchases a floor, or vice versa, in an attempt to protect itself against interest rate movements exceeding given minimum or maximum levels or "collar" amounts.

Credit default swaps ("CDS") are bilateral financial contacts that transfer the credit risk of a third party reference entity or group of entities from one party to another. A buyer of a CDS receives credit protection or sheds credit risk, whereas the seller of a CDS is selling credit protection or assuming credit risk. The seller typically receives a predetermined periodic payment from the other party in consideration for guaranteeing to make a specific payment to the buyer should the third party reference entity suffer a default event. If a default event occurs, the seller would be required to pay the par value of a referenced debt obligation to the counterparty in exchange for a default debt obligation. CDS are marked-to-market daily based on the mean of bid and asked quotes as obtained from multiple dealers, and changes in value, as well as the accrual of the periodic coupon payments, are recorded as "unrealized gain or loss on credit default swap agreements." Gains or losses on swap agreements are realized upon termination of the swap contract and the periodic coupon payments. In addition to being exposed to the credit risk of the underlying reference entity, CDS are subject to counterparty risk, market risk and interest rate risk. CDS utilized by the Funds may not perform as expected or in a manner similar to the high-yield bond markets. A Fund will enter into CDS only with counterparties that the Advisor reasonably believes are capable of performing under the CDS.

In a swaption, which is an option to enter into an interest rate swap, in exchange for an option premium, the Fund gains the right but not the obligation to enter into a specified swap agreement with the issuer on a specified future date. Unlike ordinary swaps, a swaption not only hedges the buyer against downside risk, it also lets the buyer take advantage of any upside benefits.

The "notional amount" of the swap agreement is the agreed upon amount or value of the underlying asset used for calculating the obligations that the parties to a swap agreement have agreed to exchange. Under most swap agreements entered into by a Fund, the obligations of the parties would be exchanged on a "net basis." Consequently, a Fund's obligation (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 notional values of the positions held by each party to the agreement ("net amount") and not the notional amount differences themselves. A Fund's obligation under a swap agreement will be accrued daily (offset against amounts owed to that Fund) and any accrued but unpaid net amounts owed to a swap counterparty will be covered by designating liquid assets on that Fund's books and records.

Whether a Fund's use of swap agreements and swaptions will be successful in furthering its investment objective will depend, in part, on the Advisor's ability to predict correctly whether certain types of investments are likely to produce greater returns than other investments and the changes in the future values, indexes, or rates covered by the swap agreement. Swap agreements may be considered to be illiquid. Moreover, a 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 counterparty. A Fund will enter into swap agreements only with counterparties that the Advisor reasonably believes are capable of performing under the swap agreements. If there is a default by the other party to such a transaction, a Fund will have to rely on its contractual remedies (which may be limited by bankruptcy, insolvency or similar laws) pursuant to the agreements related to the transaction. Certain restrictions imposed on each Fund by the Internal Revenue Code of 1986 ("IRC") may limit a Fund's ability to use swap agreements. The swaps market is largely unregulated.

The use of equity swaps and swaptions is a highly specialized activity, which involves investment techniques and risks different from those associated with ordinary portfolio securities transactions.

6. Commodity Futures Contracts. Each Fund may trade in commodity futures contracts (and related options). Commodities refers to real assets such as energy, agriculture, livestock, industrial metals, and precious metals. A commodity futures contract is an agreement between two parties whereby one party agrees to buy an asset, such as gold, from the other party at a later date at a price and quantity agreed-upon when the contract is made. The buyer of the futures contracts is not entitled to ownership of the underlying commodity until and unless they decide to accept delivery at expiration of the contract. In practice, delivery of the underlying commodity to satisfy a futures contract rarely occurs because most futures traders use the liquidity of the central marketplace to sell their futures contract before expiration.

Commodity futures contracts are traded on futures exchanges which offer a central marketplace at which to transact futures contracts, a clearing corporation to process trades, a standardization of expiration dates and contract sizes, and the availability of a secondary market. As discussed above, futures markets may specify the terms and conditions of delivery as well as the maximum permissible price movement during a trading session. Despite the daily price limits that may be imposed by a futures exchange, the price volatility of commodity futures contracts has been historically greater than that for traditional securities such as stocks and bonds. To the extent that a Fund invests in commodity futures contracts, the assets of the Fund, and therefore the prices of Fund shares, may be subject to greater volatility.

Additionally, the commodity futures exchanges have position limit rules that limit the amount of futures contracts that any one party may hold in a particular commodity at any point in time. These position limit rules are designed to prevent any one participant from controlling a significant portion of the market. The futures clearinghouse marks every futures contract to market at the end of each trading day, to ensure that the outstanding futures obligations are limited by the maximum daily permissible price movement. This process of marking-to-market is designed to prevent losses from accumulating in any futures account. Therefore, if a Fund's futures positions have declined in value, the Fund may be required to post additional margin to cover this decline. Alternatively, if a Fund's futures positions have increased in value, this increase will be credited to the Fund's account.

As in the financial futures markets, there are hedgers and speculators in the commodity futures markets. However, unlike financial instruments, there are costs of physical

storage associated with purchasing the underlying commodity. These storage costs include the time value of money invested in the physical commodity plus the actual costs of storing the commodity less any benefits from ownership of the physical commodity that are not obtained by the holder of a futures contract (this is sometimes referred to as the "convenience yield"). To the extent that these storage costs change for an underlying commodity while a Fund is long futures contracts on that commodity, the value of the futures contract may change proportionately.

7. Foreign Currency Derivatives. Each Fund may purchase and sell foreign currency on a spot basis, and may use currency-related derivative instruments such as options on foreign currencies, futures on foreign currencies, options on futures on foreign currencies and forward currency contracts (i.e., an obligation to purchase or sell a specific currency at a specified future date, which may be any fixed number of days from the contract date agreed upon by the parties, at a price set at the time the contract is entered into). Each Fund may engage in transactions in currency-related derivative instruments as a means to protect against some or all of the effects of adverse changes in foreign currency exchange rates on its investment portfolio.

For example, a Fund might use currency-related derivative instruments to "lock in" a U.S. dollar price for a portfolio investment, thereby enabling that Fund to protect itself against a possible loss resulting from an adverse change in the relationship between the U.S. dollar and the subject foreign currency during the period between the date the security is purchased or sold and the date on which payment is made or received. A Fund also might use currency-related derivative instruments when the Advisor believes that one currency may experience a substantial movement against another currency, including the U.S. dollar, and it may use currency-related derivative instruments to sell or buy the amount of the former foreign currency, approximating the value of some or all of that Fund's portfolio securities denominated in such foreign currency. Alternatively, where appropriate, a Fund may use currency-related derivative instruments to hedge all or part of its foreign currency exposure through the use of a basket of currencies or a proxy currency where such currency or currencies act as an effective proxy for other currencies. The use of this basket hedging technique may be more efficient and economical than using separate currency-related derivative instruments for each currency exposure held by a Fund. Furthermore, currency-related derivative instruments may be used for short hedges - for example, a Fund may sell a forward currency contract to lock in the U.S. dollar equivalent of the proceeds from the anticipated sale of a security denominated in a foreign currency.

The use of currency-related derivative instruments by a Fund involves a number of risks. The value of currency-related derivative instruments depends on the value of the underlying currency relative to the U.S. dollar. Because foreign currency transactions occurring in the interbank market might involve substantially larger amounts than those involved in the use of such derivative instruments, the Fund could be disadvantaged by having to deal in the odd lot market (generally consisting of transactions of less than $1 million) for the underlying foreign currencies at prices that are less favorable than for round lots (generally consisting of transactions of greater than $1 million).

There is no systematic reporting of last sale information for foreign currencies or any regulatory requirement that quotations available through dealers or other market sources be firm or revised on a timely basis. Quotation information generally is representative of very large

transactions in the interbank market and thus might not reflect odd-lot transactions where rates might be less favorable. The interbank market in foreign currencies is a global, round-the-clock market. To the extent the U.S. options or futures markets are closed while the markets for the underlying currencies remain open, significant price and rate movements might take place in the underlying markets that cannot be reflected in the markets for the derivative instruments until they re-open.

Settlement of transactions in currency-related derivative instruments might be required to take place within the country issuing the underlying currency. Thus, a Fund might be required to accept or make delivery of the underlying foreign currency in accordance with any U.S. or foreign regulations regarding the maintenance of foreign banking arrangements by U.S. residents and might be required to pay any fees, taxes and charges associated with such delivery assessed in the issuing country.

When a Fund engages in a transaction in a currency-related derivative instrument, it relies on the counterparty to make or take delivery of the underlying currency at the maturity of the contract or otherwise complete the contract. In other words, a Fund will be subject to the risk that a loss may be sustained by the Fund as a result of the failure of the counterparty to comply with the terms of the transaction. The counterparty risk for exchange-traded instruments is generally less than for privately negotiated or OTC currency instruments, since generally a clearing agency, which is the issuer or counterparty to each instrument, provides a guarantee of performance. For privately negotiated instruments, there is no similar clearing agency guarantee. In all transactions, a Fund will bear the risk that the counterparty will default, and this could result in a loss of the expected benefit of the transaction and possibly other losses to the Fund. Each Fund will enter into transactions in currency-related derivative instruments only with counterparties that the Advisor reasonably believes are capable of performing under the contract.

The precise matching of currency-related derivative instrument amounts and the value of the portfolio securities involved generally will not be possible because the value of such securities, measured in the foreign currency, will change after the currency-related derivative instrument position has been established. Thus, a Fund might need to purchase or sell foreign currencies in the spot (cash) market. The projection of short-term currency market movements is extremely difficult, and the successful execution of a short-term hedging strategy is highly uncertain.

Permissible foreign currency options will include options traded primarily in the OTC market. Although options on foreign currencies are traded primarily in the OTC market, a Fund will normally purchase or sell OTC options on foreign currency only when the Advisor reasonably believes a liquid secondary market will exist for a particular option at any specific time.

There will be a cost to a Fund of engaging in transactions in currency-related derivative instruments that will vary with factors such as the contract or currency involved, the length of the contract period, and the market conditions then prevailing. A Fund may have to pay a fee or commission for using these instruments or, in cases where the instruments are entered into on a principal basis, foreign exchange dealers or other counterparties will realize a profit based on the difference ("spread") between the prices at which they are buying and selling various currencies. Thus, for example, 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.

When required by the guidelines issued by the SEC, each Fund will designate liquid assets on its books and records to cover potential obligations under currency-related derivative instruments. To the extent a Fund's assets are so set aside, they cannot be sold while the corresponding currency position is open, unless they are replaced with similar assets. As a result, if a large portion of a Fund's assets is so set aside, this could impede portfolio management or that Fund's ability to meet redemption requests or other current obligations.

The Advisor's decision to engage in a transaction in a particular currency-related derivative instrument will reflect the Advisor's judgment that the transaction will provide value to that Fund and its shareholders and is consistent with that Fund's objectives and policies. In making such a judgment, the Advisor will analyze the benefits and risks of the transaction and weigh them in the context of that Fund's entire portfolio and objectives. The effectiveness of any transaction in a currency-related derivative instrument is dependent on a variety of factors, including the Advisor's skill in analyzing and predicting currency values and upon a correlation between price movements of the currency instrument and the underlying security. There might be imperfect correlation, or even no correlation, between price movements of an instrument and price movements of investments being hedged. Such a lack of correlation might occur due to factors unrelated to the value of the investments being hedged, such as speculative or other pressures on the markets in which these instruments are traded. In addition, a Fund's use of currency-related derivative instruments is always subject to the risk that the currency in question could be devalued by the foreign government. In such a case, any long currency positions would decline in value and could adversely affect any hedging position maintained by a Fund.

G. Loans of Portfolio Securities. Each Fund may make short- and long-term loans of its portfolio securities. To the extent authorized by the Board of Trustees and implemented by the Advisor, the Funds may lend portfolio securities to broker-dealers or institutional investors which the Advisor deems qualified. The borrower must agree to maintain collateral, in the form of cash or U.S. government obligations, with the Funds on a daily mark-to-market basis in an amount equal to at least 100% of the value of the loaned securities. The Funds will continue to receive dividends or interest on the loaned securities and may terminate such loans at any time or reacquire such securities in time to vote on any matter which the Board of Trustees determines to be serious. With respect to loans of securities, there is the risk that the borrower may fail to return the loaned securities or that the borrower may not be able to provide additional collateral. No loan of securities will be made if, as a result, the aggregate amount of such loans would exceed 5% of the value of a Fund's net assets.

H. Illiquid Securities. Each Fund may invest up to 15% of its net assets in illiquid securities. Certain illiquid securities may require pricing at fair value as determined in good faith under the supervision of the Board of Trustees. The Advisor may be subject to significant delays in disposing of illiquid securities, and transactions in illiquid securities may entail registration expenses and other transaction costs that are higher than those for transactions in liquid securities. The term "illiquid securities" for this purpose means securities that cannot be disposed of within seven days in the ordinary course of business at approximately the amount at which a Fund has valued the securities. Restricted securities, i.e., securities subject to legal or contractual restrictions on resale, may be illiquid. However, some restricted securities (such as securities issued pursuant to Rule

144A under the Securities Act of 1933 and certain commercial paper) may be treated as liquid, although they may be less liquid than registered securities traded on established secondary markets.

I. <u>Rule 144A Securities</u>. Each Fund may invest in Rule 144A securities. Rule 144A allows a broader institutional trading market for securities otherwise subject to restrictions on their resale to the general public. Rule 144A establishes a "safe harbor" from the registration requirements of the Securities Act of 1933 of resales of certain securities to qualified institutional buyers. Rule 144A securities are not considered to be illiquid if such securities satisfy the conditions enumerated in Rule 144A and are determined to be liquid by the Advisor in accordance with the requirements established by the Board of Trustees. In determining the liquidity of such securities, the Advisor may consider, among other things, the following factors: (1) the frequency of trades and quotes for the security; (2) the number of dealers and other potential purchasers or sellers of the security; (3) dealer undertakings to make a market in the security and (4) the nature of the security and of the marketplace trades (<u>e.g.</u>, the time needed to dispose of the security, the method of soliciting offers and the mechanics of the transfer).

J. <u>Real Estate Investment Trusts</u>. Each Fund may invest in real estate investment trusts ("REITs"). A REIT is a corporation or business trust that invests substantially all of its assets in interests in real estate. Equity REITs are those which purchase or lease land and buildings and generate income primarily from rental income. Equity REITs may also realize capital gains (or losses) when selling property that has appreciated (or depreciated) in value. Mortgage REITs are those which invest in real estate mortgages and generate income primarily from interest payments on mortgage loans. Hybrid REITs generally invest in both real property and mortgages. In addition, REITs are generally subject to risks associated with direct ownership of real estate, such as decreases in real estate values or fluctuations in rental income caused by a variety of factors, including increases in interest rates, increases in property taxes and other operating costs, casualty or condemnation losses, possible environmental liabilities and changes in supply and demand for properties. Risks associated with REIT investments include the fact that equity and mortgage REITs are dependent upon specialized management skills and are not fully diversified. These characteristics subject REITs to the risks associated with financing a limited number of projects. They are also subject to heavy cash flow dependency, defaults by borrowers and self-liquidation. Additionally, equity REITs may be affected by any changes in the value of the underlying property owned by the trusts, and mortgage REITs may be affected by the quality of any credit extended.

K. <u>Income Trusts</u>. Each Fund may invest in income trusts, including business trusts and oil royalty trusts (or partnerships). Income trusts are operating businesses that have been put into a trust. They pay out the bulk of their free cash flow to unit holders. The businesses that are sold into these trusts are usually mature and stable income-producing companies that lend themselves to fixed (monthly or quarterly) distributions. These trusts are regarded as equity investments with fixed-income attributes or high-yield debt with no fixed maturity date. These trusts typically offer regular income payments and a significant premium yield compared to other types of fixed income investments.

1. Business Trusts. A business trust is an income trust where the principal business of the underlying corporation or other entity is in the manufacturing, service or general

industrial sectors. Conversion to the income trust structure is attractive to many existing mature businesses with relatively high, stable cash flows and low capital expenditure requirements, due to tax efficiency and investor demand for high-yielding equity securities. One of the primary attractions of business trusts, in addition to their relatively high yield, is their ability to enhance diversification in a Fund's portfolio as they cover a broad range of industries and geographies, including the airline industry, public refrigerated warehousing, mining, coal distribution, sugar distribution, forest products, retail sales, food sales and processing, chemical recovery and processing, data processing, gas marketing and check printing. Each business represented is typically characterized by long life assets or businesses that have exhibited a high degree of stability. Investments in business trusts are subject to various risks, including risks related to the underlying operating companies controlled by such trusts. These risks may include lack of or limited operating histories and increased susceptibility to interest rate risks.

2. Oil Royalty Entities. Each Fund may invest in oil royalty entities, structured as trusts or as master limited partnerships ("MLPs"), that are traded on major stock exchanges. A royalty trust or MLP typically controls an operating company which purchases oil and gas properties using the entity's capital. The royalty entity then receives royalties and/or interest payments from its operating company, and distributes them as income to its unit holders. Units of the royalty entity represent an economic interest in the underlying assets of the entity.

Royalty trusts and/or MLPs pay out substantially all of the cash flow they receive from the production and sale of underlying crude oil and natural gas reserves to shareholders (unitholders) in the form of monthly dividends (distributions). As a result of distributing the bulk of their cash flow to unitholders, the royalty entities are effectively precluded from internally originating new oil and gas prospects. Therefore, these entities typically grow through acquisition of producing companies or those with proven reserves of oil and gas, funded through the issuance of additional equity or, where possible, additional debt. Consequently, these entities are considered less exposed to the uncertainties faced by a traditional exploration and production corporation. However, they are still exposed to commodity risk and reserve risk as well as operating risk.

The operations and financial condition of oil royalty trusts or MLPs, and the amount of distributions or dividends paid on their securities is dependent on the oil prices. Prices for commodities vary and are determined by supply and demand factors, including weather, and general economic and political conditions. A decline in oil prices could have a substantial adverse effect on the operations and financial conditions of the entity. Such entities are also subject to the risk of an adverse change in the regulations of the natural resource industry and other operational risks relating to the energy sector. In addition, the underlying operating companies held or controlled by these royalty entities are usually involved in oil exploration; however, such companies may not be successful in holding, discovering, or exploiting adequate commercial quantities of oil, the failure of which will adversely affect their values. Even if successful, oil and gas prices have fluctuated widely during the most recent years and may continue to do so in the future. The combination of global demand growth and depleting reserves, together with current geopolitical instability, could continue to support strong crude oil prices over the long term. However, there is no guarantee that these prices will not decline. Declining crude oil prices may cause a Fund to incur losses on its investments. In addition, the demand in and supply to the developing markets could be affected by other factors such as restrictions on imports, increased taxation, creation of government monopolies,

as well as social, economic and political uncertainty and instability. Furthermore, there is no guarantee that non-conventional sources of natural gas will not be discovered which would adversely affect the oil industry.

Moreover, as the underlying oil and gas reserves are produced the remaining reserves attributable to the royalty trust or MLP are depleted. The ability of such entity to replace reserves is therefore fundamental to its ability to maintain distribution levels and unit prices over time. Certain royalty entities have demonstrated consistent positive reserve growth year-over-year and, as such, certain of these entities have been successful to date in this respect and are thus currently trading at unit prices significantly higher than those of five or ten years ago. Oil royalty trusts or partnerships manage reserve depletion through reserve additions resulting from internal capital development activities and through acquisitions.

When a Fund invests in foreign oil royalty trusts and/or MLPs, it will also be subject to foreign securities risks which are more fully described above.

L. Temporary Defensive Position. Each Fund may, from time to time, take temporary defensive positions that are inconsistent with the Fund's principal investment strategies in attempting to respond to adverse market, economic, political, or other conditions. For example, a Fund may hold all or a portion of its assets in money market instruments, securities of no-load mutual funds or repurchase agreements. Each Fund may also invest in such instruments at any time to maintain liquidity or pending selection of investments in accordance with its policies. As a result of engaging in these temporary measures, a Fund may not achieve its investment objective.

INVESTMENT LIMITATIONS

Fundamental. The investment limitations described below have been adopted by the Trust with respect to each Fund and are fundamental ("Fundamental"), i.e., they may not be changed without the affirmative vote of a majority of the outstanding shares of each Fund. As used in the Prospectus and the SAI, the term "majority" of the outstanding shares of the Fund means the lesser of: (1) 67% or more of the outstanding shares of the Fund present at a meeting, if the holders of more than 50% of the outstanding shares of the Fund are present or represented at such meeting; or (2) more than 50% of the outstanding shares of the Fund. Other investment practices which may be changed by the Board of Trustees without the approval of shareholders to the extent permitted by applicable law, regulation or regulatory policy are considered non-fundamental ("Non-Fundamental").

1. Borrowing Money. The Funds will not borrow money, except (a) from a bank, provided that immediately after such borrowing there is an asset coverage of 300% for all borrowings of the Funds; or (b) from a bank or other persons for temporary purposes only, provided that such temporary borrowings are in an amount not exceeding 5% of each Fund's total assets at the time when the borrowing is made. This limitation does not preclude the Funds from entering into reverse repurchase transactions, provided that the Funds have an asset coverage of 300% for all borrowings and repurchase commitments of the Funds pursuant to reverse repurchase transactions.

2. Senior Securities. The Funds will not issue senior securities. This limitation is not applicable to activities that may be deemed to involve the issuance or sale of a senior security by the Fund, provided that the Fund's engagement in such activities is consistent with or permitted by the 1940 Act, the rules and regulations promulgated thereunder or interpretations of the SEC or its staff.

3. Underwriting. The Funds will not act as underwriter of securities issued by other persons. This limitation is not applicable to the extent that, in connection with the disposition of portfolio securities (including restricted securities), the Fund may be deemed an underwriter under certain federal securities laws.

4. Real Estate. The Funds will not purchase or sell real estate. This limitation is not applicable to investments in marketable securities which are secured by or represent interests in real estate. This limitation does not preclude the Funds from investing in mortgage-related securities or investing in companies engaged in the real estate business or that have a significant portion of their assets in real estate (including real estate investment trusts).

5. Commodities. The Funds will not purchase or sell commodities unless acquired as a result of ownership of securities or other investments. This limitation does not preclude the Funds from purchasing or selling options or futures contracts, from investing in securities or other instruments backed by commodities or from investing in companies which are engaged in a commodities business or have a significant portion of their assets in commodities.

6. Loans. The Funds will not make loans to other persons, except (a) by loaning portfolio securities, (b) by engaging in repurchase agreements, or (c) by purchasing nonpublicly offered debt securities. For purposes of this limitation, the term "loans" shall not include the purchase of a portion of an issue of publicly distributed bonds, debentures or other securities.

7. Concentration. No Fund will invest 25% or more of its total assets in any particular industry. This limitation is not applicable to investments in obligations issued or guaranteed by the U.S. government, its agencies and instrumentalities or repurchase agreements with respect thereto. However, private activity bonds of similar type projects will be considered a single industry for purposes of this policy.

8. Diversification. With respect to 75% of its total assets, a Fund will not purchase securities issued by any one issuer (other than cash, cash items, or securities issued or guaranteed by the government of the United States or its agencies or instrumentalities) if, as a result at the time of such purchase, more than 5% of the value of the Fund's total assets would be invested in the securities of that issuer, or if it would own more than 10% of the outstanding voting securities of that issuer.

9. Name Rule. Each of the Tax-Exempt Fund and Core Tax-Exempt Fund will (i) invest at least 80% of its assets in investments the income from which is exempt from federal income taxes, including federal AMT; or (ii) make distributions of income to its shareholders at least 80% of which are exempt from federal income taxation, including federal AMT.

With respect to the percentages adopted by the Trust as maximum limitations on its investment policies and limitations, an excess above the fixed percentage will not be a violation of the policy or limitation unless the excess results immediately and directly from the acquisition of any security or the action taken. This paragraph does not apply to the borrowing policy set forth in paragraph 1 above.

Notwithstanding any of the foregoing limitations, any investment company, whether organized as a trust, association or corporation, or a personal holding company, may be merged or consolidated with or acquired by the Trust, provided that if such merger, consolidation or acquisition results in an investment in the securities of any issuer prohibited by said paragraphs, the Trust shall, within 90 days after the consummation of such merger, consolidation or acquisition, dispose of all of the securities of such issuer so acquired or such portion thereof as shall bring the total investment therein within the limitations imposed by said paragraphs above as of the date of consummation.

Non-Fundamental. The following limitations have been adopted by the Trust with respect to each Fund and are Non-Fundamental (see "Investment Limitations-Fundamental" above).

1. Pledging. The Funds will not mortgage, pledge, hypothecate or in any manner transfer, as security for indebtedness, any assets of the Funds except as may be necessary in connection with borrowings described in limitation (1) above. Margin deposits, security interests, liens and collateral arrangements with respect to transactions involving options, futures contracts, short sales and other permitted investments and techniques are not deemed to be a mortgage, pledge or hypothecation of assets for purposes of this limitation.

2. Borrowing. No Fund will purchase any security while borrowings (including reverse repurchase agreements) representing more than one third of its total assets are outstanding.

3. Margin Purchases. No Fund will purchase securities or evidences of interest thereon on "margin." This limitation is not applicable to short term credit obtained by a Fund for the clearance of purchases and sales or redemption of securities, or to arrangements with respect to transactions involving options, futures contracts, short sales and other permitted investments and techniques.

4. Illiquid Securities. No Fund may invest more than 15% of its net assets (taken at market value at the time of the investment) that are deemed to be illiquid because they are subject to legal or contractual restrictions on resale or because they cannot be sold or disposed of in the ordinary course of business at approximately the price at which they are valued. Rule 144A securities and shares of closed-end funds determined to be liquid by the Advisor shall not be considered illiquid for purposes of this policy.

5. SEC Name Rule. Under normal circumstances, the Equity Fund will invest at least 80% of its net assets in equity securities and the Total Return Fund will invest at least 80% of its net assets in fixed income securities. The Core Bond Fund will invest at least 80% of its net assets in debt securities. Each of these Funds may not change this policy except upon at least 60 days prior written notice to shareholders.

THE INVESTMENT ADVISOR

The Advisor is YieldQuest Advisors, LLC, 3280 Peachtree Road, Suite 2600, Atlanta, Georgia 30305. Jay K. Chitnis, a portfolio manager of the Funds, is the founder, controlling member and Managing Director of the Advisor.

Under the terms of an Investment Advisory Agreement (the "Agreement"), the Advisor manages each Fund's investments subject to approval of the Board of Trustees. As compensation for its management services, each Fund is obligated to pay the Advisor a fee (based on average daily net assets) computed and accrued daily and paid monthly at the following annual rates: Equity Fund, 0.99%; Total Return Fund, 0.59%; Tax-Exempt Fund, 0.59%; Core Bond Fund 0.34%, and Core Tax-Exempt Fund 0.40%. The Advisor contractually has agreed to waive its fees and/or reimburse certain operating expenses through February 28, 2011, but only to the extent necessary to maintain each Fund's total operating expenses, excluding brokerage costs, borrowing costs (such as interest expense and dividends on securities sold short), taxes, extraordinary expenses, any indirect expenses (such as expenses incurred by other investment companies in which a Fund invests), 12b-1 fees and administrative services fees, as follows: Equity Fund, 1.19%; Total Return Fund, 0.79%; Tax-Exempt Fund, 0.79%; Core Bond Fund, 0.49%; and Core Tax-Exempt Fund, 0.55%.

For the fiscal years ended October 31, 2007, October 31, 2008 and October 31, 2009, the Advisor received the following fees:

2007

Fund	Management Fees Earned by the Advisor	Management Fees Waived and Reimbursed by the Advisor	Management Fees Paid to the Advisor
Equity Fund	$212,406	$120,628	$91,778
Total Return Fund	$1,627,171	$0	$1,627,171
Tax-Exempt Fund	$881,785	$0	$881,785

***The Core Bond Fund and Core Tax-Exempt Fund had not yet been organized during the periods shown.**

2008

Fund	Management Fees Earned by the Advisor	Management Fees Waived and Reimbursed by the Advisor	Management Fees Paid to the Advisor
Equity Fund	$225,054	$68,701	$156,353
Total Return Fund	$1,581,867	$109,585	$1,472,282
Tax-Exempt Fund	$887,513	$157,375	$730,138

* The Core Bond Fund and Core Tax-Exempt Fund had not commenced operations during the periods shown.

2009

Fund	Management Fees Earned by the Advisor	Management Fees Waived and Reimbursed by the Advisor	Management Fees Paid to the Advisor
Equity Fund	$64,959	$143,657	$0
Total Return Fund	$784,054	$508,415	$275,639
Tax-Exempt Fund	$378,192	$316,694	$61,498

* The Core Bond Fund and Core Tax-Exempt Fund were organized but had not commenced operations during the periods shown.

Each waiver or reimbursement by the Advisor is subject to repayment by a Fund within three fiscal years following the fiscal year in which that particular expense was incurred; provided that the Fund is able to make repayment without exceeding its expense limitation in effect at the time of the waiver or reimbursement. The cumulative reimbursement and reduction amounts, if any, as of October 31, 2009 that are subject to repayment for each Fund are as follows:

Fund	Expiration 10/31/10	Expiration 10/31/11	Expiration 10/31/12	Total Available for Repayment
Equity Fund	$120,628	$68,701	$143,657	$332,986
Total Return Fund	$0	$109,585	$508,415	$618,000
Tax-Exempt Fund	$0	$157,375	$316,694	$474,069_

General Information

The Advisor retains the right to use the name “YieldQuest” in connection with another investment company or business enterprise with which the Advisor is or may become associated. The Trust’s right to use the name “YieldQuest” automatically ceases 90 days after termination of the Agreement and may be withdrawn by the Advisor on 90 days written notice.

The Advisor may make payments to banks or other financial institutions that provide shareholder services and administer shareholder accounts. If a bank or other financial institution were prohibited from continuing to perform all or a part of such services, the Advisor believes that there would be no material impact on the Funds or their shareholders. Banks and other financial institutions may charge their customers fees for offering these services to the extent permitted by applicable regulatory authorities, and the overall return to those shareholders availing themselves of the bank services will be lower than to those shareholders who do not. The Funds may from time to time purchase securities issued by banks and other financial institutions which provide such services; however, in selecting investments for the Fund, no preference will be shown for such securities.

About the Team of Portfolio Managers

Jay K. Chitnis, David N. Summers, IV, Joseph B. Patire and John N. Bliss, III serve as members of the portfolio management team for the Funds ("Portfolio Managers"). In addition to acting as Portfolio Managers to the Funds, the Portfolio Managers also serve on the Advisor’s investment committee and, as such, are jointly responsible for making the investment decisions for

the Advisor's advisory accounts. As members of the Advisor's investment committee, the Portfolio Managers were responsible for management of the following types of accounts as of October 31, 2009:

Portfolio Manager	Other Registered Investment Company Accounts	Assets Managed ($ Thousands)	Other Pooled Investment Vehicle Accounts	Assets Managed ($ Thousands)	Other Accounts	Assets Managed ($ Thousands)	Total Other Assets Managed ($ Thousands)
Jay K. Chitnis	0	$0	0	$0	0	0	$0
David N. Summers IV	0	$0	0	$0	52	$46,241	$46,241
Joseph B. Patire	0	$0	0	$0	52	$46,241	$46,241
John N. Bliss III	0	$0	0	$0	0	0	$0

*Messrs. Summers and Patire co-manage these accounts.

The Portfolio Managers did not manage any accounts with performance-based fees.

Each Portfolio Manager receives a salary from YieldQuest Securities, LLC, the Funds' principal underwriter (in such capacity, the "Distributor"). Each Portfolio Manager owns an equity interest in each of the Advisor and the Distributor and, as such, also shares in the profits realized by each such entity based on his applicable percentage ownership. As a result of their ownership of the Distributor, the Portfolio Managers indirectly share in the commission revenue received by the Distributor from the Funds in connection with execution portfolio transactions on behalf of the Funds.

Each Portfolio Manager is eligible for a discretionary bonus to be paid by the Distributor based on, among other factors, the Portfolio Manager's contributions to the pre-tax profitability of such entity. The Portfolio Managers are eligible to participate in the profit-sharing, retirement and employee benefit plans offered by the Advisor and/or Distributor.

Conflicts of Interest

The Funds are highly dependent on the investment strategies and management skills of Mr. Chitnis and the other Portfolio Managers. The Advisor will provide the services of the Portfolio Managers to manage the Funds' investments, but each Portfolio Manager will only spend a portion of his time managing the Funds' investments. The loss of services from any of the above Portfolio Managers, especially Mr. Chitnis, could have a material adverse effect on the Funds' investment results.

The Portfolio Managers provide investment advisory and brokerage services to other clients of the Advisor and the Distributor, in addition to managing the Funds. The Portfolio Managers are obligated to make investment decisions for a client based on each client's specific investment objective, guidelines, restrictions and circumstances and other relevant factors, such as the size of an available investment opportunity, the availability of other comparable investment opportunities and an obligation to treat all accounts fairly and equitably over time. Conflicts may arise as a result of a Portfolio Manager's multiple roles in managing the Funds and servicing other client accounts. For

example, management of the Funds and multiple separate accounts may result in a Portfolio Manager devoting unequal time and attention to the management of the Funds.

Due to similarities in the investment strategies of the Funds and certain client accounts, certain of the Portfolio Managers' duties may overlap. For example, the Portfolio Managers may be able to combine responsibilities such as research and stock selection for certain Funds and separate accounts. However, to the extent that a Fund and another of the Advisor's or the Distributor's clients seek to acquire the same security at about the same time, the Fund may not be able to acquire as large a position in such security as it desires or it may have to pay a higher price for the security. Similarly, a Fund may not be able to obtain as large an execution of an order to sell or as high a price for any particular security if other clients desire to sell the same portfolio security at the same time. On the other hand, if the same securities are bought or sold at the same time by more than one client, the resulting participation in volume transactions could produce better executions for a Fund. In the event that more than one client wants to purchase or sell the same security on a given day and limited quantities are available, the Advisor and the Distributor have adopted trade allocation procedures pursuant to which purchases and sales normally will be made on a pro rata, average price per share basis, or such other method as they deem fair and reasonable.

Even where the Funds and multiple separate accounts are managed by the same Portfolio Manager using similar investment strategies, however, the Portfolio Manager may take action with respect to a Fund or an account that may differ from the timing or nature of action taken, with respect to another Fund or account. The Funds and other client accounts may be allocated different or unequal investment opportunities due to particular investment restrictions or policies applicable only to certain accounts, differences in cash flows and account sizes, or other factors. For example, there may be circumstances under which a Portfolio Manager will cause one or more separate accounts to commit a larger percentage of their assets to an investment opportunity than the percentage of a Fund's assets that the Portfolio Manager commits to such investment. There also may be circumstances under which a Portfolio Manager purchases or sells an investment for the separate accounts and does not purchase or sell the same investment for a Fund, or purchases or sells an investment for a Fund and does not purchase or sell the same investment for the separate accounts. Accordingly, the performance of each Fund and account managed by a Portfolio Manager will vary and the results of a Fund's investments may differ significantly from the results achieved by the Advisor's other clients. It is possible that one or more of the Advisor's other client accounts will achieve investment results that are substantially more or less favorable than the results achieved by the Funds. Moreover, it is possible that the Funds will sustain losses during periods in which one or more separate accounts achieve significant profits.

Each Portfolio Manager's ownership of shares of the YieldQuest Funds as of October 31, 2009 appears in the table below:

Portfolio Manager	**Dollar Range of Equity Securities Beneficially Owned**		
	Equity Fund	Total Return Fund	Tax-Exempt Fund
Jay K. Chitnis	$50,001-$100,00	None	None
David N. Summers IV	$10,001-$50,000	$10,001-$50,000	None
Joseph B. Patire	$10,001-$50,000	$10,001-$50,000	None

John N. Bliss III	None	None	None

* The Core Bond Fund and Core Tax-Exempt Fund had not commenced operations as of October 31, 2009.

TRUSTEES AND OFFICERS

The Board of Trustees supervises the business activities of the Trust. Each Trustee serves as a trustee until termination of the Trust unless the Trustee dies, resigns, retires or is removed.

The following table provides information regarding the Independent Trustees.

Name, Address*, (Date of Birth), Position with Fund Complex,** Term of Position with Trust	Principal Occupation During Past 5 Years and Other Trusteeships
Denise M. Buchanan Age: 47 Independent Trustee, Since 2005	Chief Compliance Officer, CapFinancial Partners, LLC (d/b/a CAPTRUST Financial Advisors), a federally registered investment adviser and broker-dealer and member of FINRA/SIPC, January, 2007 to present; Director of Compliance, CapFinancial Partners, LLC January, 2003 to August, 2007; Chief Compliance Officer of Hatteras Investment Partners, LLC, an SEC-registered investment advisor from 2003 to December, 2007; President of Broker/Dealer Sales & Consulting, a consulting group specializing in compliance guidance for registered broker-dealers and investment advisors, from 1996 to December, 2007.
Gary D. Campbell, CFA Age: 57 Independent Trustee, Since 2005	President of Presbyterian Church in America, Retirement and Benefits, Inc., Aug. 2006 to present; Retired, July, 2005 through July, 2006; President and Chief Investment Officer of Kennedy Capital Management, Inc., an SEC-registered investment advisor based in St. Louis, Missouri, 2001 to 2005; Executive Vice President and Chief Investment Officer, Commerce Bancshares, Inc./The Commerce Trust Company, an asset management, trust, private banking and other financial advisory services firm with over $10 billion in assets under management, 2001 to 2005; Senior Vice President/Director of Institutional Portfolio Management, Wachovia (First Union Corp.), 1985 to 1990.
Craig Ruff, Ph.D, CFA Age: 49 Independent Trustee, Since 2005	Clinical Associate Professor of Finance at Georgia State University in Atlanta, GA, August, 2003 to present; Assistant Dean, Executive Education, Georgia State University, August, 2007 to present; Vice President, Educational Products for CFA Institute (formerly, Association for Investment Management and Research (AIMR)) and Associate Editor of the *Financial Analysts Journal*, July, 1998 to July, 2003; Senior Economist, Federal Home Loan Bank of Atlanta, June, 1988 to June, 1991.

* The address for each Trustee is 3280 Peachtree Road, Suite 2600, Atlanta, Georgia 30305
** Fund Complex refers to YieldQuest Funds. The Fund Complex currently consists of five series.

The Audit Committee consists of the Independent Trustees. The Audit Committee is responsible for overseeing the Funds' accounting and financial reporting policies and practices, their internal controls and, as appropriate, the internal controls of certain service providers; overseeing the quality and objectivity of the Funds' financial statements and the independent audit of the financial statements; and acting as a liaison between the Funds' independent auditors and the full Board of

Trustees. The Audit Committee operates pursuant to an Audit Committee Charter and will meet at least once annually. During the fiscal year ended October 31, 2009, the Audit Committee met two times.

The Valuation Committee acts as a liaison between the full Board of Trustees and the Advisor, with respect to the fair value pricing of securities held in the Funds' portfolio. The Valuation Committee is responsible for reviewing and approving the price of any security in a Fund's portfolio that is fair value priced. Any one Trustee constitutes a quorum of the Valuation Committee. During the fiscal year ended October 31, 2009, the Valuation Committee was not required to meet.

The following table provides information regarding each Trustee who is an "interested person" of the Trust, as defined in the 1940 Act, and each officer of the Trust.

Name, Address*, (Date of Birth), Position with Fund Complex, Term of Position with Trust**	**Principal Occupation During Past 5 Years and Other Trusteeships**
Jay K. Chitnis, CFA*** Age: 42 Trustee, President and Chief Executive Officer, Since 2005	Managing Director of YieldQuest Advisors, LLC, since June, 2004; Managing Director of YieldQuest Securities, LLC, a registered broker dealer and member of FINRA (formerly NASD), since September, 2004; Managing Director of YieldQuest Investment Group, a division (firm within a firm) of Register & Akers Investments, Inc., since from June, 2004, of McDonald Investments, from September, 2001 to June, 2004; and of First Union Securities (Wachovia Securities), from 1998 to September, 2001, all FINRA (formerly NASD) registered broker-dealers and members SIPC; Senior Vice President of CIBC/Oppenheimer Corp., from 1996 to 1998.
David Summers*** Age: 41 Treasurer, Secretary and Chief Financial Officer, Since 2005	Managing Director of YieldQuest Advisors, LLC and YieldQuest Securities, LLC, since 2005; Senior Vice President and Chief Compliance Officer of YieldQuest Advisors, LLC since June, 2004; Senior Vice President and Chief Compliance Officer of YieldQuest Investment Group, a division (firm within a firm) of Register & Akers Investments, Inc., since June, 2004; Chief Compliance Officer of the Trust, from 2005 to 2007; Senior Vice President and Chief Compliance Officer of YieldQuest Securities, LLC, from September, 2004 until October, 2006; Vice President of YieldQuest Investment Group, a division of McDonald Investments, from September, 2001 to June, 2004; and Investment Associate at First Union Securities (Wachovia Securities), from 1998 to September, 2001, all FINRA (formerly NASD) registered broker-dealers and members SIPC.
Gary S. Schwartz*** Age: 43 Chief Compliance Officer, Since 2007	Compliance Officer for YieldQuest Advisors, LLC since 2007; Chief Compliance Officer for YieldQuest Securities, LLC, since 2006; Assistant Compliance Officer of the Trust from 2006 to 2007; Nasdaq/OTC Trader, Riverstar Trading, 2002 through 2005; Regional Manager, Atlanta Branch Manager and

	Registered Options Principal for Protrader Securities, an Instinet Company, from 1998 through 2002.
Joseph Patire*** Age: 33 Assistant Secretary, Since 2008	Managing Director of YieldQuest Advisors, LLC, since 2004; Managing Director of YieldQuest Securities, LLC since 2005; Senior Vice President of the YieldQuest Investment Group of an independent broker-dealer firm, Register & Akers Investments, Inc., from 2004 to 2005; Vice President of McDonald Investments, a registered broker-dealer and FINRA member, from 2001 to 2004.

* The address for each Trustee and officer is 3280 Peachtree Road, Suite 2600, Atlanta, Georgia 30305
** Fund Complex refers to YieldQuest Funds. The Fund Complex currently consists of five series.
*** Messrs. Chitnis, Summers, Schwartz, and Patire are deemed to be "interested persons" of the Trust because they are officers of the Advisor and the Distributor.

The following table provides information regarding shares of the Funds and other portfolios of the Fund Complex owned by each Trustee as of December 31, 2009.

Name of Trustee	Dollar Range of Fund Shares		Aggregate Dollar Range of Shares of All Funds Within the Fund Complex*
	Name of Fund	**Dollar Range**	
Denise M. Buchanan, Trustee	Equity Fund Total Return Fund Tax-Exempt Fund	$1-$10,000 None None	$1-$10,000
Gary D. Campbell, CFA, Trustee	Equity Fund Total Return Fund Tax-Exempt Fund	$1-$10,000 $1-$10,000 None	$10,001-$50,000
Craig Ruff, Ph.D, CFA, Trustee	Equity Fund Total Return Fund Tax-Exempt Fund	$10,001-$50,000 $10,001-$50,000 None	$10,001-$50,000
Jay K. Chitnis**, Trustee and President	Equity Fund Total Return Fund Tax-Exempt Fund	Over $100,000 None None	Over $100,000

* Fund Complex refers to YieldQuest Funds. The Fund Complex currently consists of five series.
** Mr. Chitnis may be deemed to be an "interested person" of the Trust because he is a shareholder and officer of the Advisor and the Distributor

Set forth below is the annual compensation paid to the Trustees and officers by each Fund on an individual basis and by the Fund Complex on an aggregate basis for the Funds' fiscal year ended October 31, 2009. Trustees' and officers' fees and expenses of the Trust are Fund Complex expenses and each series incurs its pro rata share of expenses based on the number of series in the Fund Complex. The Trust does not compensate its officers or interested Trustees who are affiliated with the Advisor or Distributor. The Trust pays each non-interested Trustee an annual retainer of $19,000 and reimburses for out-of-pocket expenses.

Independent Trustees	Aggregate Compensation from Each Fund	Pension or Retirement Benefits Accrued as Part of Fund Expenses	Estimated Annual Benefits Upon Retirement	Total Compensation from the Fund Complex*
Denise M. Buchanan, Trustee	Equity $662 Total Return $11,279 Tax-Exempt $5,593	0	0	$19,000
Gary D. Campbell, CFA, Trustee	Equity $662 Total Return $11,279 Tax-Exempt $5,593	0	0	$19,000
Craig Ruff, Ph.D, CFA, Trustee	Equity $662 Total Return $11,279 Tax-Exempt $5,593	0	0	$19,000

Non-Independent Trustees and Officers	Aggregate Compensation from Each Fund	Pension or Retirement Benefits Accrued as Part of Fund Expenses	Estimated Annual Benefits Upon Retirement	Total Compensation from Fund Complex
Jay K. Chitnis** Trustee and President	$0	$0	$0	$0
David Summers** Treasurer	$0	$0	$0	$0
Gary S. Schwartz** Chief Compliance Officer	$0	$0	$0	$0
Joseph Patire** Assistant Secretary	$0	$0	$0	$0

* Fund Complex refers to YieldQuest Funds. The Fund Complex currently consists of five series.
** Messrs. Chitnis, Summers, Schwartz, and Patire are deemed to be "interested persons" of the Trust because they are officers of the Advisor and the Distributor.

CONTROL PERSONS AND PRINCIPAL HOLDERS OF SECURITIES

A principal shareholder is any person who owns (either of record or beneficially) 5% or more of the outstanding shares of a Fund. A control person is one who owns, either directly or indirectly, more than 25% of the voting securities of a Fund or acknowledges the existence of such control. As a controlling shareholder, each of these persons could control the outcome of any proposal submitted to the shareholders for approval, including changes to the Funds' fundamental policies or the terms of the management agreement with the Advisor. As of February 1, 2010, the following persons were deemed to be controlling shareholders and/or principal holders of each Fund's securities:

Equity Fund – Institutional Class Shares

Name and Address	% Ownership	Type of Ownership
Charles Schwab & Co. Inc. 101 Montgomery St. San Francisco, CA 94104-4151	77.53%	Record
Ameritrade Inc. PO Box 2226 Omaha, NE 68103-2226	6.49	Record

Equity Fund – Investor Class Shares

Name and Address	% Ownership	Type of Ownership
Charles Schwab & Co. Inc. 101 Montgomery St. San Francisco, CA 94104-4151	10.53%	Record
Raymond James & Assoc. Inc. FBO John E. Muroski & Karen A. Roan TTEE Jeanne Muroski Unified Credit Orlando, FL 32809	7.87%	Record
Raymond James & Assoc. Inc. FBO KMA of Lee Road LP Karen A. Roan Partner Orlando, FL 32809-6138	7.86%	Record
Raymond James & Assoc. Inc. Karen A. Roan & John E. Muroski TTEE Orlando, FL 32809	5.33%	Record
Ameritrade Inc. PO Box 2226 Omaha, NE 68103-2226	5.22%	Record

Total Return Fund – Institutional Class Shares

Name and Address	% Ownership	Type of Ownership
Charles Schwab & Co. Inc. 101 Montgomery St. San Francisco, CA 94104-4151	55.48%	Record
National Financial 200 Liberty St. One World Financial Center 5th Floor New York, NY 10281	19.60%	Record
Ameritrade Inc. PO Box 2226 Omaha, NE 68103-2226	16.94%	Record
SEI Private Trust Company 1 Freedom Valley Drive Oaks, PA 19456	5.13%	Record

Total Return Fund – Investor Class Shares

Name and Address	% Ownership	Type of Ownership
Ameritrade Inc. PO Box 2226 Omaha, NE 68103-2226	58.51%	Record
Charles Schwab & Co. Inc. 101 Montgomery St. San Francisco, CA 94104-4151	17.78%	Record
NFS LLC Lee K. Hight Rome, GA 30165	6.54%	Record

Tax-Exempt Fund – Institutional Class Shares

Name and Address	% Ownership	Type of Ownership
Charles Schwab & Co. Inc. 101 Montgomery St. San Francisco, CA 94104-4151	52.27%	Record
Ameritrade Inc. PO Box 2226 Omaha, NE 68103-2226	21.16%	Record
National Financial 200 Liberty St. One World Financial Center 5th Floor New York, NY 10281	20.49%	Record

Tax-Exempt Fund – Investor Class Shares

Name and Address	% Ownership	Type of Ownership
Charles Schwab & Co. Inc. 101 Montgomery St. San Francisco, CA 94104-4151	53.58%	Record
Ameritrade Inc. PO Box 2226 Omaha, NE 68103-2226	40.24%	Record

As of January 29, 2010, the Trustees and officers of the Trust as a group owned 5.53% of the Equity Fund – Institutional Class Shares and less than 1% of each of the Equity Fund – Investor Class Shares, Total Return Fund – Institutional and Investor Class Shares and Tax-Exempt Fund – Institutional and Investor Class Shares. As of the date of this SAI, each of the Core Bond Fund and Core Tax-Exempt Fund had not yet commenced investment operations and, as such, did not have any control or principal shareholders.

ANTI-MONEY LAUNDERING COMPLIANCE PROGRAM

Customer identification and verification is part of each Fund's overall obligation to prevent money laundering under federal law. The Trust has, on behalf of the Funds, adopted an anti-money laundering compliance program designed to prevent each Fund from being used for money laundering or financing of terrorist activities (the "AML Compliance Program"). The Trust has delegated the responsibility to implement the AML Compliance Program to the Funds' transfer agent, PNC, subject to oversight by the Trust's Chief Compliance Officer and, ultimately, by the Board of Trustees.

When you open an account with a Fund, the transfer agent will request that you provide your name, physical address, date of birth, Social Security number or tax identification number. You may also be asked for other information that, in the transfer agent's discretion, will allow the Fund to verify your identity. Entities are also required to provide additional documentation. This information will be verified to ensure the identity of all of persons opening an account with each Fund. Each Fund reserves the right to (i) refuse, cancel or rescind any purchase or exchange order, (ii) freeze any account and/or suspend account activities, or (iii) involuntarily redeem your account in cases of threatening conduct or suspected fraudulent or illegal activity. These actions will be taken when, in the sole discretion of the Funds' transfer agent, they are deemed to be in the best interest of a Fund, or in cases where the Fund is requested or compelled to do so by governmental or law enforcement authority.

PORTFOLIO TURNOVER

Each Fund may sell portfolio securities without regard to the length of time they have been held when, in the opinion of the Advisor, investment considerations warrant such action. A Fund's portfolio turnover rate is a measure of the Fund's portfolio activity, and is calculated by dividing the lesser of purchases or sales of securities by the average value of the portfolio securities held during

the period. A high rate of portfolio turnover (100% or more) generally leads to higher transaction costs and may result in a greater number of taxable transactions.

The turnover rates for the fiscal years or periods ended October 31 are set forth in the table below.

Name of Fund	2009	2008
Equity Fund	338%	499%
Total Return Fund	331%	165%
Tax-Exempt Fund	184%	158%

The portfolio turnover rate for each of the Core Bond Fund and the Core Tax-Exempt Fund is expected to be less than 100% in its first fiscal year.

PORTFOLIO TRANSACTIONS AND BROKERAGE

Subject to policies established by the Board of Trustees, the Advisor is responsible for each Fund's portfolio decisions and the placing of each Fund's portfolio transactions. The Advisor typically executes each Fund's portfolio transactions through its affiliated broker-dealer, YieldQuest Securities LLC, on an agency basis; while principal trades on behalf of the Funds are executed solely through independent broker-dealers. In placing portfolio transactions, the Advisor seeks the best qualitative execution for the Funds, taking into account such factors as price (including the applicable brokerage commission or dealer spread), the execution capability, financial responsibility, responsiveness of the broker or dealer, clearance procedures, wire service quotations, statistical and other research services provided by the broker or dealer to the Funds and the Advisor. The Advisor may receive proprietary research from brokers or dealers as part of their overall service offering. The Advisor does not, however, enter into third party soft dollar arrangements, nor does the Advisor transact trades with any broker or dealer solely to compensate them for this research. The Advisor generally seeks favorable prices and commission rates that are reasonable in relation to the benefits received.

OTC transactions will be placed either directly with principal market makers or with broker-dealers, if the same or a better price, including commissions and executions, is available. Fixed income securities are normally purchased directly from the issuer, an underwriter or a market maker. Purchases include a concession paid by the issuer to the underwriter and the purchase price paid to a market maker may include the spread between the bid and asked prices.

When the Advisor deems the purchase or sale of securities to be in the best interests of a Fund or its other clients, the Advisor may, but is under no obligation to, aggregate the transactions in order to obtain the most favorable price or lower brokerage commissions and efficient execution. To the extent that a Fund and another of the Advisor's clients seek to acquire the same security at about the same time, the Fund may not be able to acquire as large a position in such security as it desires or it may have to pay a higher price for the security. Similarly, the Fund may not be able to obtain as large an execution of an order to sell or as high a price for any particular portfolio security if the other client desires to sell the same portfolio security at the same time. In such event, allocation of the transactions, as well as the expenses incurred in the transaction, will be made by the Advisor in

the manner it considers to be most equitable and consistent with its fiduciary obligations to its clients. The allocation of orders among firms and the commission rates paid are reviewed periodically by the Board.

The Fund has no obligation to deal with any broker or dealer in the execution of its transactions. However, YieldQuest Securities, in its capacity as a registered broker-dealer, will effect substantially all securities transactions which are executed on a national securities exchange, options transactions and OTC transactions conducted on an agency basis. Such transactions will be executed at competitive commission rates through First Clearing Corp., a registered broker-dealer. YieldQuest Securities is under common ownership with the Advisor, and Jay Chitnis, the Funds' Portfolio Manager, is a control shareholder of YieldQuest Securities. As a result, Mr. Chitnis and other employees of the Advisor may indirectly share in the commissions received by YieldQuest Securities from the Funds. The Advisor is not required to reduce its fee by the amount of any profits earned by YieldQuest Securities, or indirectly by Mr. Chitnis or other employees of the Advisor, from brokerage commissions generated from portfolio transactions of the Funds.

OTC transactions will be placed either directly with principal market makers or with broker-dealers, if the same or a better price, including commissions and executions, is available. Purchases made directly through a market maker may include the spread between the bid and asked prices.

Under the 1940 Act, persons affiliated with an affiliate of the Advisor (such as YieldQuest Securities) may be prohibited from dealing with the Fund as a principal in the purchase and sale of securities. Therefore, YieldQuest Securities will not serve as the Fund's dealer in connection with OTC transactions. However, YieldQuest Securities may serve as the Fund's broker in OTC transactions conducted on an agency basis and may receive brokerage commissions in connection with such transactions. Such agency transactions will be executed, on a fully disclosed basis, through its clearing firm, First Clearing Corp.

Each Fund will not effect any brokerage transactions in its portfolio securities with YieldQuest Securities if such transactions would be unfair or unreasonable to Fund shareholders, and commissions paid, if any, will be solely for the execution of trades and not for any other services. In determining the commissions to be paid to YieldQuest Securities, if any, it is the policy of the Trust that such commissions will, in the judgment of the Trust's Board of Trustees, be at least as favorable to the Fund as those which would be charged by other qualified brokers having comparable execution capability. The Independent Trustees from time to time review, among other things, information relating to any commissions charged by YieldQuest Securities to each Fund, and rates and other information concerning the commissions charged by other qualified brokers. The Advisory Agreement does not provide for a reduction of the Advisor's fee by the amount of any profits earned by YieldQuest Securities from brokerage commissions generated from portfolio transactions of the Funds. Brokerage business may be given from time to time to other firms. YieldQuest Securities will not receive reciprocal brokerage business as a result of the brokerage business placed by the Fund with others.

The following table provides information regarding brokerage commissions paid by the Funds to all brokers (including YieldQuest Securities) for the fiscal years ended October 31, 2007, 2008 and 2009. Information relating to specific amounts paid by the Funds to YieldQuest Securities during the fiscal year is also provided below.

Name of Fund	Total Brokerage Commissions Paid to all Brokers 2007	Total Brokerage Commissions Paid to all Brokers 2008	Total Brokerage Commissions Paid to all Brokers 2009
Equity Fund	$170,814	$242,371	$147,600
Total Return Fund	$1,040,779	$1,344,015	$2,635,843
Tax-Exempt Fund	$451,240	$526,943	$932,450

The following tables provide information regarding brokerage commissions paid to YieldQuest Securities, LLC and the total value of transactions generating brokerage commissions for the fiscal years ended October 31, 2007, October 31, 2008 and October 31, 2009.

2007

Name of Fund	Brokerage Commissions	Percent of Total Brokerage Commissions	Total Value of Transactions	Percent of Total Transactions
Equity Fund	$119,560	70%	$194,977,962	81%
Total Return Fund	$838,362	81%	$613,909,715	77%
Tax-Exempt Fund	$368,999	82%	$347,194,055	82%

2008

Name of Fund	Brokerage Commissions	Percent of Total Brokerage Commissions	Total Value of Transactions	Percent of Total Transactions
Equity Fund	$233,375	96%	$262,832,624	92%
Total Return Fund	$1,195,996	89%	$784,371,614	81%
Tax-Exempt Fund	$493,044	94%	$423,955,507	88%

2009

Name of Fund	Brokerage Commissions	Percent of Total Brokerage Commissions	Total Value of Transactions	Percent of Total Transactions
Equity Fund	$102,414	69%	$50,077,974	91%
Total Return Fund	$1,785,499	68%	$935,442,105	88%
Tax-Exempt Fund	$593,423	64%	$326,779,989	93%

The Trust, the Advisor and the Funds' distributor have each adopted a Code of Ethics pursuant to Rule 17j-1 of the 1940 Act (collectively, the "Codes"), and the Advisor's Code of Ethics also conforms to Rule 204A-1 under the Investment Advisers Act of 1940. The personnel subject to the Codes are permitted to invest in securities, including securities that may be purchased or held by each Fund. You may obtain a copy of the Codes, free of charge, by calling the Funds at 1-877-497-3634. You may also obtain copies of the Trust's Code from documents filed with SEC and available on the SEC's web site at www.sec.gov.

DISCLOSURE OF PORTFOLIO HOLDINGS

Each Fund is required to include a schedule of portfolio holdings in its annual and semi-annual reports to shareholders, which is sent to shareholders within 60 days of the end of the second and fourth fiscal quarters and which is filed with the SEC on Form N-CSR within 10 days of mailing the respective report to shareholders. Each Fund also is required to file a schedule of portfolio holdings with the SEC on Form N-Q within 60 days of the end of the first and third fiscal quarters. Each Fund must provide a copy of the complete schedule of portfolio holdings as filed with the SEC to any shareholder of the Fund, upon request, free of charge. This policy is applied uniformly to all shareholders of a Fund without regard to the type of requesting shareholder (i.e., regardless of whether the shareholder is an individual or institutional investor).

The Board has authorized the disclosure of each Fund's portfolio holdings to third party servicing agents on a daily basis in order for those parties to perform their duties on behalf of the Funds. These third party servicing agents are the Advisor, Distributor, Custodian and PNC, the Funds' transfer agent, fund accounting agent and administrator. Fund portfolio holdings may also be disclosed, as needed, to auditors, legal counsel, proxy voting services (if applicable), printers, pricing services, parties to merger and reorganization agreements and their agents, and prospective investment advisors or sub-advisors.

The lag between the date of the information and the date on which the information is disclosed will vary based on the identity of the party to whom the information is disclosed. For instance, the information may be provided to auditors within days of the end of an annual period, while the information may be given to legal counsel or prospective sub-advisors at any time. This information is disclosed to all such third parties under conditions of confidentiality. "Conditions of confidentiality" include (i) confidentiality clauses in written agreements, (ii) confidentiality implied by the nature of the relationship (e.g., attorney-client relationship), (iii) confidentiality required by fiduciary or regulatory principles (e.g., custody relationships) or (iv) understandings or expectations between the parties that the information will be kept confidential. In addition, such third parties will be subject to an independent obligation not to trade on confidential information or they must confirm to the Fund that they will not use such confidential information to trade for their own account.

The Funds may enter into ongoing arrangements to release portfolio holdings to Morningstar, Inc., Lipper, Inc., Bloomberg, Standard & Poor's, Thompson Financial and Vickers-Stock ("Rating Agencies") in order for those organizations to assign a rating or ranking to the Funds. In these instances portfolio holdings will be supplied within approximately 25 days after the end of the month. The Rating Agencies may make a Fund's top portfolio holdings available on their websites and may make the Fund's complete portfolio holdings available to their subscribers for a fee. Neither the Funds, the Advisor nor any of their affiliates receive any portion of this fee. Information released to Rating Agencies is not released under conditions of confidentiality nor is it subject to prohibitions on trading based on the information.

The Board has authorized disclosure of portfolio holdings by the Advisor if the Advisor has a valid business purpose, such as disclosure to a potential investor's investment adviser, financial planner, or investment consultant for, in connection with evaluating an investment in a Fund, and

provided that the person receiving the information agrees to keep the information confidential and not to trade on the confidential information. The Advisor and the Funds are prohibited from entering into any such arrangements without the prior authorization of the Trust's Chief Compliance Officer ("CCO"). The Advisor is required to submit any proposed arrangement pursuant to which the Advisor proposes to disclose a Fund's portfolio holdings to the CCO, which will review such arrangement to determine whether the arrangement is in the best interests of Fund shareholders. Among the factors considered by the CCO to determine whether the arrangement is in the best interest of the shareholders include (i) the identity of the person or persons requesting such information, (ii) the reasonableness of the purpose advanced for such request, (iii) whether the CCO believes that the disclosure of such information is in fact necessary in order to advance the purpose given, (iv) the perceived benefits that will accrue to the Fund(s) as a result of such disclosure. The Board has adopted a policy that prohibits the Advisor, or any affiliated person of the Advisor, from receiving compensation or other consideration, for themselves or on behalf of the Funds, as a result of disclosing the Funds' portfolio holdings.

The Advisor holds regular calls and webinars that are open to registered investment advisers and other investment professionals whose clients invest (or are considering a potential investment) in the Funds. During these calls and webinars, the Funds' portfolio managers may discuss, among other things, their analysis of the Funds' past performance and factors that could impact future performance, percentages of a Fund's assets allocated among various classes of securities, markets or sectors, risk management techniques, as well as the portfolio managers' analysis of general market conditions or interest rate movements and how they have affected (or may affect in the future) various classes of securities, industries, and market sectors in which the Funds invest. The portfolio managers will not disclose any information relating to specific securities held by a Fund or with respect to past or pending securities transactions by a Fund.

CAPITAL STOCK

The Trust currently has five series: the Equity Fund, the Total Return Fund, the Tax-Exempt Fund, the Core Bond Fund, and the Core Tax-Exempt Fund. The Equity Fund, Total Return Fund and Tax-Exempt Fund currently offer two classes of shares, the Institutional Class Shares and the Investor Class Shares. The Core Bond Fund and Core Tax-Exempt Fund have not yet commenced investment operations as of the date of this SAI.

All shares of the Trust, when issued, are fully paid and non-assessable. Each issued and outstanding full and fractional share of a Fund is entitled to one full and fractional vote. Shares of a Fund participate equally in regard to dividends, distributions and liquidations with respect to that Fund subject to preferences (such as Rule 12b-1 distribution fees), rights or privileges of any share class. Shareholders have equal non-cumulative voting rights. Investor Class shares have exclusive voting rights with respect to their distribution plan. On any matter submitted to a vote of shareholders, shares of each Fund will vote separately except when a vote of shareholders in the aggregate is required by law, or when the Trustees have determined that the matter affects the interests of more than one Fund, in which case the shareholders of all such Funds shall be entitled to vote thereon. Shares are freely transferable, are entitled to dividends as determined by the Trustees, and, in liquidation of a Fund, are entitled to receive the net assets of the appropriate Fund.

PROXY VOTING POLICY

The Trust and the Advisor each have adopted a Proxy Voting Policy reasonably designed to ensure that proxies are voted in shareholders' best interests. As a brief summary, the Trust's Proxy Voting Policy delegates proxy voting to the Advisor, subject to the supervision of the Board. The Advisor's Proxy Voting Policy provides that the Advisor will review proxy issues on a company-by-company basis and analyze the economic impact these issue may have on the Fund's investment objective. The Policy also states that Advisor will give great weight to the views of management only when the issues involved will not have a negative impact on investor values. The Policy outlines specific factors that the Advisor will consider in deciding how to vote proxies relating to, among other things, director elections, corporate governance, executive compensation, shareholder rights and social and environmental issues. The Policy provides that the Advisor generally will vote against management proposals that (a) seek to insulate management from all threats of change in control, (b) provide the board with veto power against all takeover bids, (c) allow management or the board of the company to buy shares from particular shareholders at a premium at the expense of the majority of shareholders, or (d) allow management to increase or decrease the size of the board at its own discretion. Under both the Trust's and the Advisor's Proxy Voting Policy, if any potential conflict of interest between the Advisor or its affiliates and the Fund arises with respect to any proxy, the Advisor must disclose the conflict to the Board of Trustees and vote the proxy in accordance with the Board's instructions.

You may obtain a copy of the Proxy Voting Policy free of charge by calling 1-877-497-3634 to request a copy, or by writing to the Advisor at c/o YieldQuest Advisors, LLC, 3280 Peachtree Road, Suite 2600, Atlanta, Georgia 30305, Attn: YieldQuest Funds Chief Compliance Officer. A copy of the Policy will be mailed to you within three days of receipt of your request. You may obtain a copy from Fund documents filed with the SEC and available on the SEC's website at www.sec.gov. A copy of the votes cast by the Fund with respect to portfolio securities for each year ended June 30 are filed by the Trust with the SEC on Form N-PX. The Fund's proxy voting record is available to shareholders free of charge upon request by calling or writing the Fund as described above or from the SEC's website.

DETERMINATION OF NET ASSET VALUE

The net asset value ("NAV") of the shares of each Fund is determined as of 4:00 p.m., Eastern time on each day the Trust is open for business and on any other day on which there is sufficient trading in the Fund's securities to materially affect the net asset value. The Trust is open for business on every day on which the New York Stock Exchange ("NYSE") is open for trading. The NYSE is closed on Saturdays, Sundays and the following holidays: New Year's Day, Martin Luther King, Jr. Day, President's Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving and Christmas.

For purposes of calculating NAV, portfolio securities and other assets for which market quotes are readily available are stated at market value. Market value is generally determined on the basis of last reported sales prices, or it no sales prices are reported, based on the quotes obtained from a quotation reporting system, established market makes, or pricing services. Certain securities or investments for which daily market quotations are not readily available may be valued, pursuant to guidelines

established by the Board of Trustees, with reference to other securities or indices. Short-term investments having a maturity of 60 days or less are generally valued at amortized cost. ETFs, exchange-traded options, futures and options on futures are valued at the settlement price determined by the exchange. Other securities for which market quotes are not readily available are valued at fair value as determined in good faith by the Board of Trustees or persons acting at their direction. Investments initially valued in currencies other than the U.S. dollar are converted to U.S. dollars using exchange rates obtained from pricing services. As a result, the NAV of a Fund's shares may be affected by changes in the value of currencies in relation to the U.S. dollar. The value of securities traded in markets outside the United States or denominated in currencies other than the U.S. dollar may be affected significantly on a day that the NYSE is closed and an investor is not able to purchase, redeem or exchange shares.

In unusual circumstances, instead of valuing securities in the usual manner, the Funds may value securities at fair value or estimate their value as determined in good faith by the Board of Trustees, generally based upon recommendations provided by the Advisor. Fair valuation may also be used if extraordinary events occur after the close of the relevant market but prior to the NYSE close. To the extent that there is a delay between a change in the value of a Fund's portfolio holdings, and the time when that change is reflected in the net asset value of the Fund's shares, the Fund is exposed to the risk that investors may seek to exploit this delay by purchasing or redeeming shares at net asset values that do not reflect appropriate fair value prices. The Trust seeks to deter and prevent this activity, sometimes referred to as "stale price arbitrage," by the appropriate use of "fair value" pricing of the Funds' portfolio securities. Fair value pricing requires subjective determinations about the value of a security. There are no assurances that a Fund will realize fair valuation upon the sale of a security.

Each Fund's net asset value per share is computed by dividing the value of the securities held by the Fund plus any cash or other assets (including interest and dividends accrued but not yet received) minus all liabilities (included accrued expenses) by the total number of shares in the Fund outstanding at such time.

REDEMPTION IN-KIND

The Funds do not intend to redeem shares in any form except cash. However, if the amount you are redeeming is over the lesser of $250,000 or 1% of a Fund's net asset value, the Fund has the right, pursuant to a plan filed with the SEC pursuant to Rule 18f-1 under the 1940 Act, to redeem your shares by giving you the amount that exceeds the lesser of $250,000 or 1% of the Fund's net asset value in securities instead of cash. In the event that an in-kind distribution is made, a shareholder may incur additional expenses, such as the payment of brokerage commissions, on the sale or other disposition of the securities received from the Fund.

STATUS AND TAXATION OF THE FUNDS

Each Fund was organized as series of a business trust, and intends to continue to qualify for treatment as a regulated investment company ("RIC") under the Internal Revenue Code of 1986, as amended (the "Code") in each taxable year. There can be no assurance that they actually will so qualify. If the Funds qualify as a RIC, their dividend and capital gain distributions generally are

subject only to a single level of taxation to the shareholders. This differs from distributions of a regular business corporation which, in general, are taxed first as taxable income of the distributing corporation, and then again as dividend income of the shareholder.

If the Funds do qualify as a RIC but (in a particular tax year) distribute less than 98% of their ordinary income and their capital gain net income (as the Code defines each such term), the Funds are subject to an excise tax. The excise tax, if applicable, is 4% of the excess of the amount required to have been distributed over the amount actually distributed for the applicable year. If the Funds do not qualify as a RIC, their income will be subject to taxation as a regular business corporation, without reduction by dividends paid to shareholders of the Funds.

To continue to qualify for treatment as a RIC under Subchapter M of the Code, the Funds must, among other requirements:

- Derive at least 90% of their gross income each taxable year from dividends, interest, payments with respect to securities loans, gains from the sale or other disposition of stock or securities or foreign currencies, and certain other income (including gains from options, futures, or forward contracts derived with respect to the RIC's business of investing in stock securities, or foreign currencies) (the "Income Requirement");
- Diversify their investments in securities within certain statutory limits; and
- Distribute annually to their shareholders at least 90% of its investment company taxable income (generally, taxable net investment income less net capital gain) and 90% of its net exempt interest income (the "Distribution Requirement").

By meeting certain requirements of the Code, the Tax-Exempt Fund and Core Tax-Exempt Fund would qualify to pay exempt-interest dividends to shareholders. These dividends ("exempt-interest dividends") are derived from interest income exempt from federal income tax, and are not subject to federal income tax when distributed to shareholders of these Funds. Specifically, these Funds can pay exempt-interest dividends only for taxable years in which, at the end of each quarter, at least 50% of the value of its total assets consists of securities generating such exempt interest income. Distributions from these Funds other than exempt-interest dividends generally will be taxable as ordinary income, except in the case of distributions of net long-term capital gains.

Interest on the municipal securities purchased by the Tax-Exempt Fund and the Core Tax-Exempt Fund and on the municipal securities purchased by other investment companies that qualify as grantor trusts or certain other investment vehicles is believed to be free from federal income tax based on opinions issued by bond counsel. However, there is no guarantee that the opinion is correct or that the IRS will agree with the opinion. In addition, the Code imposes limitations on the use and investment of the proceeds of state and local governmental bonds and of other funds of the issuers of such bonds. These limitations must be satisfied on a continuing basis to maintain the exclusion from gross income of interest on such bonds. Bond counsel qualify their opinions as to the federal tax status of new issues of bonds by making such opinions contingent on the issuer's future compliance with these limitations. Any failure on the part of an issuer to comply with these limitations, or a determination by the IRS that the securities do not qualify for tax-exempt treatment, could cause the interest on the bonds to become taxable to investors retroactive to the date the bonds were issued. If this were to happen, dividends paid by these Funds derived from this interest may be taxable.

The Funds may acquire zero coupon or other securities issued with original issue discount (including pay-in-kind securities). If they do so, the Funds will have to include in their income each share of the original issue discount that accrues on the securities during the taxable year, even if the Funds receive no corresponding payment on the securities during the year. Because the Funds annually must distribute (a) 98% of their ordinary income in order to avoid imposition of a 4% excise tax, and (b) 90% of their investment company taxable income, including any original issue discount, to satisfy the Distribution Requirement, the Funds may be required in a particular year to distribute as a dividend an amount that is greater than the total amount of cash they actually receive. Those distributions would be made from each Fund's cash assets, if any, or from the sales of portfolio securities, if necessary. The Funds might realize capital gains or losses from any such sales, which would increase or decrease the Funds' investment company taxable income and/or net capital gain (the excess of net long-term capital gain over net short-term capital loss).

The use of hedging strategies, such as selling (writing and purchasing) options and futures contracts and entering into forward currency contracts, involves complex rules that will determine for income tax purposes the amount, character and timing of recognition of the gains and losses a fund realizes in connection therewith.

Certain futures and foreign currency contracts in which the Funds may invest will be "section 1256 contracts." Section 1256 contracts the Funds hold at the end of each taxable year, other than section 1256 contracts that are part of a "mixed straddle" with respect to which it has made an election not to have the following rules apply, must be "marked-to-market" (that is, treated as sold for their fair market value) for federal income tax purposes, with the result that unrealized gains or losses will be treated as though they were realized. Sixty percent of any net gain or loss recognized on these deemed sales, and 60% of any net realized gain or loss from any actual sales of section 1256 contracts, will be treated as long-term capital gain or loss, and the balance will be treated as short-term capital gain or loss. Section 1256 contracts also may be marked-to-market for purposes of the excise tax described above. These rules may operate to increase the amount that the Funds must distribute to satisfy the distribution requirement (i.e., with respect to the portion treated as short-term capital gain), which will be taxable to the shareholders as ordinary income, and to increase the net capital gain a fund recognizes, without in either case increasing the cash available to the fund.

Code section 1092 (dealing with straddles) also may affect the taxation of certain hedging instruments in which the Funds may invest. Code section 1092 defines a "straddle" as offsetting positions with respect to actively traded personal property; for these purposes, options, futures and forward currency contracts are personal property. Under that section, any loss from the disposition of a position in a straddle generally may be deducted only to the extent the loss exceeds the unrealized gain on the offsetting position(s) of the straddle. In addition, these rules may postpone the recognition of loss that otherwise would be recognized under the mark-to-market rules discussed above. The regulations under Code section 1092 also provide certain "wash sale" rules, which apply to transactions where a position is sold at a loss and a new offsetting position is acquired within a prescribed period, and "short sale" rules applicable to straddles. If a fund makes certain elections, the amount, character and timing of the recognition of gains and losses from the affected straddle positions would be determined under rules that vary according to the elections made. Because only

a few of the regulations implementing the straddle rules have been promulgated, the tax consequences to a fund of straddle transactions are not entirely clear.

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

Fund distributions received by your qualified retirement plan, such as a 401(k) plan or IRA, are generally tax-deferred; this means that you are not required to report Fund distributions on your income tax return when paid to your plan, but, rather, when your plan makes payments to you or your beneficiary. Special rules apply to payouts from Roth and Education IRAs.

The portion of the dividends a Fund pays (other than capital gain distributions) that does not exceed the aggregate dividends it receives from U.S. corporations will be eligible for the dividends received deduction allowed to corporations; however, dividends received by a corporate shareholder and deducted by it pursuant to the dividends received deduction are subject indirectly to the federal alternative minimum tax.

If you are a non-retirement plan holder, the Funds will send you a Form 1099 each year that tells you the amount of distributions you received for the prior calendar year, the tax status of those distributions, and a list of reportable sale transactions. Each Fund is required to report all distributions as well as gross proceeds from the redemption of Fund shares, except in the case of certain exempt shareholders. Generally, the Funds' distributions are taxable to you in the year you received them. However, any dividends that are declared in October, November or December but paid in January are taxable as if received in December of the year they are declared. Investors should be careful to consider the tax consequences of buying shares shortly before a distribution. The price of shares purchased at that time may reflect the amount of the anticipated distribution. However, any such distribution will be taxable to the purchaser of the shares and may result in a decline in the share value by the amount of the distribution.

Exempt-interest dividends paid by the Tax-Exempt Fund and Core Tax-Exempt Fund will be reported to both the IRS and the shareholders of these Funds. Individual shareholders are required to report to the IRS all exempt-interest dividends and all other tax-exempt interest received.

If shares of the Funds are sold at a loss after being held by a shareholder for six months or less, the loss will be treated as a long-term instead of a short-term capital loss, to the extent of any capital gain distributions received on such shares.

The Funds' net realized capital gains from securities transactions will be distributed only after reducing such gains by the amount of any available capital loss carryforwards. Capital losses may be carried forward to offset any capital gains for eight years, after which any capital loss remaining is lost as a deduction. As of October 31, 2009, capital loss carryforwards available, if any, to offset future capital gains are provided in the following table:

Name of Fund	Expiring in 2014	Expiring in 2015	Expiring in 2016	Expiring in 2017
Equity Fund	$82,732	$0	$11,895,697	$3,719,121
Total Return Fund	$200,854	$14,598,251	$22,710,383	$57,854,923
Tax-Exempt Fund	$303,684	$4,248,042	$12,628,904	$19,916,807

The foregoing is only a summary of some of the important federal income tax considerations affecting the Funds and their shareholders and is not intended as a substitute for careful tax planning. **Accordingly, prospective investors should consult their own tax advisors for more detailed information regarding the above and for information regarding federal, state, local and foreign taxes.**

CUSTODIAN

The Bank of New York Mellon ("BNY Mellon"), located at One Wall Street, New York, New York 10286, serves as Custodian of the Funds' investments. The Custodian acts as the Funds' depository, safekeeps their portfolio securities, collects all income and other payments with respect thereto, disburses funds at the Funds' request and maintains records in connection with its duties.

Hong Kong and Shanghai Banking Corporation Limited ("HKSB"), serves as sub-custodian for the Funds' investments in foreign securities. HKSB holds and provides services with respect to foreign securities and other foreign assets belonging to the Funds.

For their custodian services during fiscal years or periods ended October 31, 2007, 2008 and 2009, BNY Mellon received the following fees from the Funds:

Name of Fund	Custodian Fees Paid 2007	Custodian Fees Paid 2008	Custodian Fees Paid 2009
Equity Fund	$47,227	$34,818	$40,675
Total Return Fund	$54,907	$73,018	$66,207
Tax-Exempt Fund	$49,425	$47,562	$43,218

FUND ADMINISTRATION AND ACCOUNTING

The administrator and accountant for the Funds is PNC Global Investment Servicing (U.S.) Inc. ("PNC"), located at 4400 Computer Drive, Westborough, MA 01581. Pursuant to an Administration and Accounting Services Agreement and related agreements between PNC and the Trust (the "PNC Agreement"), PNC provides administrative and accounting services to the Funds, subject to the supervision of the Board. The PNC Agreement was initially approved by the Board at a meeting held on June 5, 2008. The PNC Agreement shall continue for a period of five years from the effective date of September 8, 2008, and shall automatically renew for successive terms of one year unless the Trust or PNC provides ninety days written notice to the other party of its intent not to renew.

Under the PNC Agreement, PNC provides administrative and accounting services, including: (i) preparing quarterly broker security transactions summaries and providing backup documentation; (ii) calculating and monitoring wash sales and other tax adjustments required by the Internal Revenue Code and preparing for execution and filing of the Funds' Federal and State tax returns; (iii) monitoring daily and periodic compliance with respect to all requirements and restrictions of the 1940 Act, the Internal Revenue Code and the Prospectuses; (iv) preparing and coordinating the periodic updating of the Funds' Registration Statement, Prospectuses and Statement of Additional Information in conjunction with Fund counsel, including the printing of such documents for the purpose of filings with the SEC and state securities administrators, and preparing the annual and semi-annual shareholder reports; (v) preparing notices, agendas and resolutions for meetings of the Board and minutes of such meetings in all matters required by the 1940 Act to be acted upon by the Board; (vi) preparing in conjunction with Fund counsel, but not paying for, all filings under the securities or "Blue Sky" laws of such states or countries as are designated by the Distributor, which may be required to register or qualify, or continue the registration or qualification, of the Funds and/or its shares under such laws; (vii) journalizing investment, capital share and income and expense activities; (viii) maintaining individual ledgers for investment securities and historical tax lots for each security; (ix) reconciling cash and investment balances of each Fund with the Custodian and other accounts containing cash and investments on a daily basis, and providing the Advisor with the beginning cash balance available for investment purposes; and (x) calculating capital gains and losses, net income and net asset value.

For its administrative and accounting services from September 8, 2008 through October 31, 2008, and for the fiscal year ended October 31, 2009, PNC received the following fees from the Funds:

Name of Fund	Administrative and Accounting Fees Paid 2008	Administrative and Accounting Fees Paid 2009
Equity Fund	$2,210	$16,874
Total Return Fund	$32,489	$223,240
Tax-Exempt Fund	$13,682	$119,816

Prior to September 8, 2008, Citi Fund Services Ohio, Inc. ("Citi") served as the Funds' administrator and accountant. Prior to April 15, 2007, Gemini Fund Services, LLC ("Gemini") served as the Funds' administrator and accountant. For its administrative and accounting services during fiscal

years ended October 31, 2007 and for the period from November 1, 2007 through September 8, 2008, Citi and Gemini received the following fees from the Funds:

Name of Fund	**Administrative Fees Paid 2007**	**Administrative Fees Paid 2008**
Equity Fund	$24,170	$11,078
Total Return Fund	$168,833	$135,666
Tax-Exempt Fund	$81,085	$80,142

Name of Fund	**Fund Accounting Fees Paid 2007**	**Fund Accounting Fees Paid 2008**
Equity Fund	$18,883	$12,296
Total Return Fund	$21,944	$29,898
Tax-Exempt Fund	$16,588	$28,770

TRANSFER AGENT

PNC acts as transfer agent, registrar, dividend disbursing agent, and shareholder servicing agent for the Funds pursuant to the Transfer Agency Services Agreement with the Trust. Under the agreement, PNC is responsible for administering and performing transfer agent functions, dividend distribution, shareholder administration, and maintaining necessary records in accordance with applicable rules and regulations.

For its transfer agency services provided to the Trust from September 8, 2008 through October 31, 2008, and for the fiscal year ended October 31, 2009, PNC received the following fees from the Funds:

Name of Fund	**Transfer Agency Fees Paid 2008**	**Transfer Agency Fees Paid 2009**
Equity Fund	$5,350	$30,942
Total Return Fund	$5,350	$98,673
Tax-Exempt Fund	$4,286	$50,521

Prior to September 8, 2008, Citi served as the Funds' transfer agent. Prior to April 15, 2007, Gemini served as the Funds' transfer agent. For their transfer agent services during fiscal year or periods ended October 31, 2007 and for the period from November 1, 2007 through September 8, 2008, Citi and Gemini received the following fees from the Funds:

Name of Fund	**Transfer Agency Fees Paid 2006**	**Transfer Agency Fees Paid 2007**	**Transfer Agency Fees Paid 2008**
Equity Fund	$14,010	$16,439	$12,982
Total Return Fund	$13,920	$24,043	$24,998
Tax-Exempt Fund	$14,916	$19,301	$14,512

INVESTOR CLASS DISTRIBUTION AND SHAREHOLDER SERVICES PLAN

Core Equity, Total Return, and Tax-Exempt Bond Fund, each on behalf of its Investor Class shares, has adopted a Distribution and Shareholder Services Plan under Rule 12b-1 (the "12b-1 Plan") that allows it to pay distribution fees for the sales and distribution of Investor Class shares of the Funds to mutual fund supermarkets, and other platforms sponsored by any 401(k) plan, bank, trust company or broker-dealer that has entered into a selling agreement with the YieldQuest Funds' distributor. These fees are called "Rule 12b-1 fees". Rule 12b-1 fees are paid by the Funds to the Distributor as compensation for its services and expenses in connection with the sale and distribution of Fund shares. The Distributor in turn pays all or part of these Rule 12b-1 fees to certain entities which may include investment advisors, banks, trust companies, retirement plan administrators and other types of service providers which provide distribution services and shareholder and administrative support with respect to shares of the Fund attributable to or held in the name of the service provider for its clients or other parties with whom they have a servicing relationship. Under the terms of each 12b-1 Plan, a Fund is authorized to pay a service provider (which may include affiliates of the Fund) a shareholder services fee which is based on the average daily net asset value of the Investor Class shares of the Fund attributable to or held in the name of the service provider for providing certain distribution and administrative services to Fund shareholders with whom the service provider has a servicing relationship.

Investor Class shares pay an annual Rule 12b-1 fee of 0.25% of the average daily net assets of Investor Class shares in each respective Fund. Rule 12b-1 fees help the Distributor sell Investor Class shares without an up-front sales charge by defraying the costs of mutual fund supermarket or platform fees and other expenses paid to financial intermediaries.

Amounts spent on behalf of each Fund pursuant to the 12b-1 Plan during the fiscal year ended October 31, 2009 are set forth below.

12b-1 Plan Expenses

Name of Fund	Advertising	Printing	Compensation to Distributors	Compensation to Broker-Dealers	Compensation to Sales Personnel	Financing Charges	Total
Equity Fund	$0	$0	$0	$1,250	$0	$0	$1,250
Total Return Fund	$0	$0	$0	$21,297	$0	$0	$21,297
Tax-Exempt Fund	$0	$0	$0	$1,930	$0	$0	$1,930

Amounts of unreimbursed expenses incurred under the 12b-1 Plan which are eligible for reimbursement as of October 31, 2009 are set forth below.

Name of Fund	Unreimbursed Expenses in Dollars	Unreimbursed Expenses as a Percentage of each Fund's Investor Class Shares Net Assets
Equity Fund	$0	0 %
Total Return Fund	$0	0 %
Tax-Exempt Fund	$0	0 %

INVESTOR CLASS ADMINISTRATION PLAN

Core Equity, Total Return, and Tax-Exempt Bond Funds each has adopted an Administration Plan with respect to its Investor Class shares, pursuant to which each Fund pays an annual fee equal to 0.10% of the average daily net assets of each Fund's Investor Class Shares to the Funds' distributor to compensate financial intermediaries who provide administrative services to the Investor Class shareholders. Financial intermediaries eligible to receive payments under the Administration Plan include mutual fund supermarkets or other platforms offered by broker-dealers, 401(k) plans and/or trust companies that sell and/or provide administrative services to Investor Class shareholder. The Plan requires the distributor to enter into a written agreement with a financial intermediary describing the administrative services to be provided to the Funds' Investor Class shareholders before the distributor can compensate the financial intermediary pursuant to the Administration Plan.

For purposes of the Administration Plan, administrative services include, but are not limited to (a) processing and issuing confirmations concerning orders to purchase, redeem and exchange Investor Class shares; (b) receiving and transmitting funds representing the purchase price or redemption proceeds of Investor Class shares; (c) forwarding shareholder communications such as prospectus updates, proxies and shareholder reports; (d) acting, or arranging for another party to act, as recordholder and nominee of all Investor Class shares beneficially owned by the intermediary's customers; (e) providing sub-accounting with respect to Investor Class shares of the Funds beneficially owned by the intermediary's customers or the information necessary for sub-accounting, including establishing and maintaining individual accounts and records with respect to Investor Class shares owned by each customer; (f) providing periodic statements to each customer showing account balances and transactions during the relevant period; (g) processing dividend payments; (h) receiving, tabulating and transmitting proxies; (i) responding to customer inquiries relating to the Investor Class shares or the services; (j) providing the necessary computer hardware and software which links the intermediary's systems to the Funds' account management system; (k) providing software that aggregates the customers orders and establishes an order to purchase or redeem shares of a Fund based on established target levels for the customer's demand deposit accounts; (l) providing periodic statements showing a customer's account balance and, to the extent practicable, integrating such information with other Customer transactions otherwise effected through or with the financial intermediary; and/or (m) furnishing (either separately or on an integrated basis with other reports sent to a customer by the intermediary) monthly and year-end statements and confirmations of purchases, exchanges and redemptions.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The firm of Tait, Weller & Baker LLP ("Tait Weller") located at 1818 Market Street, Suite 2400, Philadelphia, PA 19103 has been selected as independent registered public accountants for the Funds for the fiscal year ending October 31, 2010. Tait Weller will perform an annual audit of the Funds' financial statements and provides financial, tax and accounting consulting services as requested.

COUNSEL

The firm of Thompson Coburn LLP, located at One US Bank Plaza, St. Louis, MO 63101, serves as counsel to the Trust.

DISTRIBUTOR

YieldQuest Securities, LLC ("Distributor") located at 3280 Peachtree Road, Suite 2600, Atlanta, Georgia 30305 is the distributor of the Funds' shares. The Distributor is a broker-dealer registered under the Securities Exchange Act of 1934 and a member-firm of the Financial Industry Regulatory Authority, Inc. Pursuant to a distribution agreement with the Trust on behalf of the Funds, the Distributor is obligated to sell the shares of the Funds on a best efforts basis only against purchase orders for the shares. Shares of the Funds are offered to the public on a continuous basis. The Distributor serves as the YieldQuest Funds' principal underwriter and exclusive agent for distribution of shares of the YieldQuest Funds pursuant to a distribution agreement that has been approved by the Board of Trustees of the Trust. The Trust's distribution agreement with the Distributor provides that the Distributor will sell the shares of the Funds on a best efforts basis only against purchase orders for the shares. The Distributor receives no compensation for the distribution of the Funds' shares. The Distributor is an affiliate of the Advisor because they are under common ownership, and a Trustee and the officers of the Trust are control shareholders and/or officers and employees of the Distributor.

Jay K. Chitnis, who is the controlling member and Senior Managing Director of the Distributor, is also portfolio manager of the Funds, controlling member and Managing Director of the Advisor and Chairman of the Board of Trustees and President of YieldQuest Funds Trust. David N. Summers, who is Managing Director of the Distributor, is also portfolio manager of the Funds, Treasurer and Chief Financial Officer of the YieldQuest Funds Trust and Chief Compliance Officer of the Advisor. Joseph Patire, who is Managing Director of the Distributor, is also portfolio manager of the Funds, Managing Director of the Advisor and Assistant Secretary of the YieldQuest Funds Trust. Gary Schwartz, who is Chief Compliance Officer of the Distributor, is also Chief Compliance Officer of the YieldQuest Funds Trust.

Prior to January 2, 2007, Aquarius Fund Distributors, LLC served as distributor of the Funds' shares. Aquarius is located at 1005 South 107th Avenue, Omaha, NE 68114.

FINANCIAL STATEMENTS

The financial statements and independent registered public accountant's report are included in this Statement of Additional Information and hereby incorporated by reference to the Annual Report to shareholders of each of the YieldQuest Core Equity Fund, YieldQuest Total Return Bond Fund and YieldQuest Tax-Exempt Bond Fund for the fiscal year or period ended October 31, 2009 (the "Annual Report"). A free copy of the Annual Report can be obtained by writing the Funds' Transfer Agent, PNC Global Investment Servicing (U.S.) Inc. ("PNC"), 100 Freight Street, P.O. Box 9818, Pawtucket, RI 02860, or by calling 1-877-497-3634.

APPENDIX A
DESCRIPTION OF CORPORATE BOND RATINGS

A Fund's investments may range in quality from securities rated in the lowest category in which the Fund is permitted to invest to securities rated in the highest category (as rated by Moody's, S&P or Fitch or, if unrated, determined by the Advisor to be of comparable quality). The percentage of a Fund's assets invested in securities in a particular rating category will vary. The following terms are generally used to describe the credit quality of fixed income securities:

High Quality Debt Securities are those rated, in one of the two highest rating categories (the highest category for commercial paper) or, if unrated, deemed comparable by the Advisor.

Investment Grade Debt Securities are those rated in one of the four highest rating categories or, if unrated, deemed comparable by the Advisor.

Below Investment Grade, High Yield Securities ("Junk Bonds") are those rated lower than Baa by Moody's or BBB by S&P and Fitch. They are deemed to be predominately speculative with respect to the issuer's ability to repay principal and interest.

Standard & Poor's Ratings Services

The ratings are based on current information furnished by the issuer or obtained by Standard & Poor's from other sources it considers reliable. Standard & Poor's does not perform any audit in connection with any rating and may, on occasion, rely on unaudited financial information. The ratings may be changed, suspended or withdrawn as a result of changes in, or unavailability of, such information, or based on other circumstances.

The ratings are based, in varying degrees, on the following considerations:

I. Likelihood of payment-capacity and willingness of the obligor to meet its financial commitment on an obligation in accordance with the terms of the obligation.

II. Nature and provisions of the obligation.

III. Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

<u>Corporate and Municipal Bond Ratings</u>

Investment Grade

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.

Speculative Grade

Obligations 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 or when preferred stock is the subject of a distressed exchange offer, whereby some or all of the issue is either repurchased for an amount of cash or replaced by other instruments having a total value that is less than par.

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 Standard & Poor's 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 similar action if payments on an obligation are jeopardized. An obligation's rating is lowered to 'D' upon completion of a distressed exchange offer, whereby some or all of the issue is either repurchased for an amount of cash or replaced by other instruments having a total value that is less than par..

Plus (+) or 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.

Provisional ratings: The letters "pr" indicate that the rating is provisional. A provisional rating assumes the successful completion of the project being financed by the debt being rated and indicates that payment of debt service requirements is largely or entirely dependent upon the successful, timely completion of the project. This rating, however, while addressing credit quality subsequent to completion of the project, makes no comment on the likelihood of or the risk of default upon failure of such completion. The investor should exercise his own judgment with respect to such likelihood and risk.

r: The "r" is attached to highlight derivative, hybrid, and certain other obligations that S&P believes may experience high volatility or high variability in expected returns due to non-credit risks. Examples of such obligations are: securities whose principal or interest return is indexed to equities, commodities, or currencies; certain swaps and options; and interest only and principal only mortgage securities.

The absence of an "r" symbol should not be taken as an indication that an obligation will exhibit no volatility or variability in total return.

N.R.: This indicates that no rating has been requested, that there is insufficient information on which to base a rating, or that Standard & Poor's does not rate a particular obligation as a matter of policy.

Debt obligations of issuers outside the United States and its territories are rated on the same basis as domestic corporate and municipal issues. The ratings measure the creditworthiness of the obligor but do not take into account currency exchange and related uncertainties.

Commercial Paper Rating Definitions

Short-term ratings are generally assigned to those obligations considered short-term in the relevant market. In the U.S., for example, that means obligations with an original maturity of no more than 365 days—including commercial paper. :

A-1: A short-term obligation rated 'A-1' is rated in the highest category by Standard & Poor's. 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 obligation..

B-1: A short-term obligation rated 'B-1' is regarded as having significant speculative characteristics, but the obligor has a relatively stronger capacity to meet its financial commitments over the short-term compared to other speculative-grade obligors.

B-2: A short-term obligation rated 'B-2' is regarded as having significant speculative characteristics, and the obligor has an average speculative-grade capacity to meet its financial commitments over the short-term compared to other speculative-grade obligors.

B-3. A short-term obligation rated 'B-3' is regarded as having significant speculative characteristics, and the obligor has a relatively weaker capacity to meet its financial commitments over the short-term compared to other speculative-grade obligors.

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 Standard & Poor's 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

Fitch Ratings

<u>Short-Term Debt Rating Definitions</u>

F-1--Indicates the strongest intrinsic capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.

F-2--Good intrinsic capacity for timely payment of financial commitments.

F-3--The intrinsic capacity for timely payment of financial commitments is adequate.

B: Minimal capacity for timely payment of financial commitments, plus heightened vulnerability to near term adverse changes in financial and economic conditions.

C: Default is a real possibility.

RD: Indicates an entity that has defaulted on one or more of its financial commitments, although it continues to meet other financial obligations. Applicable to entity ratings only.

D: Indicates a broad-based default event for an entity, or the default of a specific short-term obligation.

Moody's Investors Service, Inc.

Moody's Long-Term Ratings: Bonds and Preferred Stock

Aaa: Obligations which are 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 appends numerical modifiers, 1, 2, and 3 to 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.

Corporate Short-Term Debt 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 rated.

Moody's employs the following designations to indicate the relative repayment ability of rated issuers:

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 obligations.

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

Canadian issuers rated P-1 or P-2 have their short-term ratings enhanced by the senior-most long-term rating of the issuer, its guarantor or support-provider.

Short-Term Municipal Bond Ratings

There are three rating categories for short-term municipal obligations that are considered investment grade. These ratings are designated as Municipal Investment Grade (MIG) and are divided into three levels – MIG 1 through MIG 3. In addition, those short-term obligations that are of speculative quality are designated SG, or speculative grade. MIG ratings expire at the maturity of the obligation.

MIG 1: This designation denotes superior quality. Excellent protection is afforded by established cash flows, highly reliable liquidity support, or demonstrated broad-based access to the market for refinancing.

MIG 2: This designation denotes strong quality. Margins of protection are ample although not as large as in the preceding group.

MIG 3: This designation denotes acceptable quality. Liquidity and cash-flow protection may be narrow, and market access for refinancing is likely to be less well-established.

SG: This designation denotes speculative-grade credit quality. Debt instruments in this category may lack sufficient margins of protection.

Demand Obligation Ratings

In the case of variable rate demand obligations (VRDOs), a two-component rating is assigned; a long or short-term debt rating and a demand obligation rating. The first element represents Moody's evaluation of the degree of risk associated with scheduled principal and interest payments. The second element represents Moody's evaluation of the degree of risk associated with the ability to receive purchase price upon demand ("demand feature"), using a variation of the MIG rating scale, the Variable Municipal Investment Grade or VMIG rating.

When either the long- or short-term aspect of a VRDO is not rated, that piece is designated NR, e.g. Aaa/NR or NR/VMIG 1.

VMIG rating expirations are a function of each issue's specific structural or credit features.

VMIG 1: This designation denotes superior credit quality. Excellent protection is afforded by the superior short-term credit strength of the liquidity provider and structural and legal protections that ensure the timely payment of purchase price upon demand.

VMIG 2: This designation denotes strong credit quality. Good protection is afforded by the strong short-term credit strength of the liquidity provider and structural and legal protections that ensure the timely payment of purchase price upon demand.

SG: This designation denotes speculative-grade credit quality. Demand features rated in this category may be supported by a liquidity provider that does not have an investment grade short-term rating or may lack the structural and/or legal protections necessary to ensure the timely payment of purchase price upon demand.