STATEMENT OF ADDITIONAL INFORMATION

July 17, 2019

Mutual Fund and Variable Insurance Trust

Rational Special Situations Income Fund
Class A Shares: RFXAX  Class C Shares: RFXCX  Institutional Shares: RFXIX

17645 Wright Street
Omaha, Nebraska 68130

This Statement of Additional Information ("SAI") is not a prospectus. It should be read in conjunction with the Prospectus of the Rational Special Situations Income Fund (the "Fund") dated July 17, 2019 ("Prospectus"). The Fund is a separate series of the Mutual Fund and Variable Insurance Trust ("Trust"), an open-end management company organized as a Delaware Statutory Trust. This SAI is incorporated in its entirety into the Prospectus.

Copies of the Fund’s Prospectus and the Fund’s Annual Report (when available) may be obtained at no charge from the Trust by writing to the above address or calling 800-253-0412.
TABLE OF CONTENTS

RATIONAL SPECIAL SITUATIONS INCOME FUND .........................................................1
INVESTMENT RESTRICTIONS ..................................................................................1
ADDITIONAL INFORMATION ABOUT INVESTMENTS AND RISKS ......................3
DISCLOSURE OF PORTFOLIO HOLDINGS...............................................................35
TRUSTEES AND OFFICERS ..................................................................................36
PRINCIPAL SHAREHOLDERS ..............................................................................41
ADVISOR AND SUB-ADVISOR ............................................................................42
CODE OF ETHICS ..................................................................................................42
TRANSFER AGENT, FUND ACCOUNTING AGENT AND ADMINISTRATOR .............44
COMPLIANCE SERVICES .....................................................................................45
CUSTODIAN ............................................................................................................46
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ................................46
COUNSEL ................................................................................................................46
DISTRIBUTOR ..........................................................................................................47
SHAREHOLDER SERVICES ...................................................................................47
ADDITIONAL COMPENSATION TO FINANCIAL INTERMEDIARIES ..................47
PROXY VOTING POLICY .......................................................................................48
PORTFOLIO TURNOVER .......................................................................................48
PORTFOLIO TRANSACTIONS ...............................................................................48
PURCHASE AND REDEMPTION OF SHARES .........................................................50
SALES CHARGE WAIVERS AND REDUCTIONS AVAILABLE THROUGH CERTAIN
FINANCIAL INTERMEDIARIES ............................................................................51
WAIVERS AND REDUCTIONS OF UP-FRONT SALES CHARGE ON CLASS A SHARES .....52
WAIVERS OF DEFERRED SALES CHARGE ON CLASS C SHARES .........................53
FRONT-END SALES CHARGE REALLOWANCES ...............................................52
SHAREHOLDER RIGHTS ......................................................................................54
NET ASSET VALUE ................................................................................................55
TAX INFORMATION ...............................................................................................56
DIVIDENDS AND DISTRIBUTIONS ....................................................................70
FINANCIAL STATEMENTS .....................................................................................71

Appendix A—Investment Ratings ..............................................................................A-1
Appendix B – Proxy Voting Policies and Procedures .............................................B-1
Appendix C – Predecessor Fund Financial Statements ...........................................C-1
The Trust is a Delaware statutory trust, which was formed on June 23, 2006. The Trust is registered under the Investment Company Act of 1940, as amended (the “1940 Act”), as an open-end management investment company. As of the date of this SAI, the Trust operates thirteen separate series or mutual funds – eleven retail portfolios and two variable annuity portfolios (the “VA Funds”), each with its own investment objective and strategy. The Fund is non-diversified. Much of the information contained in this SAI expands upon subjects discussed in the Fund’s Prospectus. No investment in units of beneficial interest (“Shares” or “shares”) of the Fund should be made without first reading the Fund’s Prospectus.

The Fund acquired all of the assets and liabilities of the ESM Fund I, L.P. (“Predecessor Fund”), in a tax-free reorganization, which was consummated after the close of business on July 17, 2019 (the “Reorganization”). In connection with the Reorganization, shares of the Predecessor Fund were exchanged for Institutional Shares of the Fund. The Predecessor Fund had an investment objective and strategies that were, in all material respects, the same as those of the Fund and was managed in a manner that, in all material respects, complied with the investment guidelines and restrictions of the Fund. However, the Predecessor Fund was not registered as an investment company under the 1940 Act and was not subject to certain investment limitations, diversification requirements, liquidity requirements and other restrictions imposed by the 1940 Act and the Internal Revenue Code of 1986, as amended (the “Code”).

Rational Advisors, Inc. (the ”Advisor”), acts as investment advisor to the Fund.

ESM Management LLC (the “Sub-Advisor”) acts as the sub-advisor to the Fund.

The Trust does not issue share certificates. All shares are held in non-certificate form registered on the books of the Trust and the Trust’s transfer agent for the account of the shareholder. Each share of a series represents an equal proportionate interest in the assets and liabilities belonging to the applicable class of that series and is entitled to such dividends and distributions out of income belonging to the applicable class of that series as are declared by the Trustees. 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. Expenses attributable to any class of a series are borne by that class, and thus the net asset values per share of the classes may differ. There can be no assurance that a series will grow to an economically viable size, in which case the Trustees may determine to liquidate the series at a time that may not be opportune for shareholders. Any general expenses of the Trust not readily identifiable as belonging to a particular series are allocated by or under the direction of the Trustees in such manner as the Trustees 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.

The Fund has established three classes of shares: Class A, Class C and Institutional Shares. Each share class represents an interest in the same assets of the Fund, has the same rights and is identical in all material respects except that (i) each class of shares may bear different distribution fees; (ii) each class of shares may be subject to different (or no) sales charges; (iii) certain other class specific expenses will be borne solely by the class to which such expenses are attributable; and (iv) each class has exclusive voting rights with respect to matters relating to its own distribution arrangements. The Board of Trustees (“Board” or “Trustees”) may classify and reclassify the shares of the Fund into additional classes of shares at a future date.

INVESTMENT RESTRICTIONS

The Fund has adopted the following investment restrictions that may not be changed without approval by a “majority of the outstanding shares” of the Fund which, as used in this SAI, means the vote of the lesser of (a) 67% or more of the shares of the Fund represented at a meeting, if the holders of more than 50% of the outstanding shares of the Fund are present or represented by proxy, or (b) more than 50% of the outstanding shares of the Fund.
The Fund:

(1) May not invest 25% or more of its total assets in a particular industry or group of industries, except that the Fund will invest more than 25% of its total assets in the mortgage-backed securities industry, which shall include agency and non-agency mortgage-backed securities. For the purposes of the foregoing concentration policy, obligations issued or guaranteed by the U.S. government, its agencies and instrumentalities (or repurchase agreements with respect thereto) that are not mortgage-backed securities shall not be considered part of any industry.

(2) May not issue senior securities, except to the extent permitted by the 1940 Act, or any rules, exemptions or interpretations thereunder that may be adopted, granted or issued by the Securities and Exchange Commission (“SEC”) and as may be amended from time to time.

(3) May not borrow money, except to the extent permitted by the 1940 Act, or any rules, exemptions or interpretations thereunder that may be adopted, granted or issued by the SEC and as may be amended from time to time.

(4) May not purchase or sell commodities, except to the extent permitted by the 1940 Act, or any rules, exemptions or interpretations thereunder that may be adopted, granted or issued by the SEC and as may be amended from time to time.

(5) May not purchase or sell real estate unless acquired as a result of ownership of securities or other instruments, except to the extent permitted by the 1940 Act, or any rules, exemptions or interpretations thereunder that may be adopted, granted or issued by the SEC and as may be amended from time to time. This restriction does not prevent the Fund from (i) investing in issuers that invest, deal, or otherwise engage in transactions in real estate or interests therein, or investing in securities that are secured by real estate or interests therein, or (ii) making, purchasing or selling real estate mortgage loans.

(6) May not act as an underwriter, except to the extent the Fund may be deemed to be an underwriter when disposing of securities it owns or when selling its own shares.

(7) May not make loans, except to the extent permitted by the 1940 Act, or any rules, exemptions or interpretations thereunder that may be adopted, granted or issued by the SEC and as may be amended from time to time. This limitation does not apply to (i) the lending of portfolio securities, (ii) the purchase of debt securities, other debt instruments, loan participations and/or engaging in direct corporate loans in accordance with its investment goals and policies, and (iii) repurchase agreements to the extent the entry into a repurchase agreement is deemed to be a loan.

If a restriction on the Fund’s investments is adhered to at the time an investment is made, a subsequent change in the percentage of Fund assets invested in certain securities or other instruments resulting from changes in the value of the Fund’s total assets, will not be considered a violation of the restriction, with the exception of the Fund’s limitations on borrowing as described herein or unless otherwise noted herein.

With respect to the Fund’s fundamental restriction on concentration, the Fund will determine the industry classification of asset-backed securities based upon the Advisor’s or Sub-Advisor’s evaluation of the particular industry or group of industries associated with the underlying assets collateralizing the asset-backed security. To the extent sufficient information is reasonably available, the Fund will consider the investments of underlying investment companies when determining its compliance with this policy.

With respect to the Fund’s fundamental restriction on borrowing, the 1940 Act limits the Fund’s ability to borrow money, except that the Fund may borrow from any bank provided that immediately after any such borrowing there is an asset coverage of at least 300% for all borrowings by the Fund and provided further, that in the event that such asset coverage shall at any time fall below 300%, the Fund shall, within three days thereafter or such longer period as the SEC may prescribe by rules and regulations, reduce the amount of its borrowings to such an extent that the asset coverage of such borrowing shall be at least 300%.

*Regulatory Compliance.* The Fund may follow non-fundamental operational policies that are more restrictive than its fundamental investment limitations, as set forth in the Prospectus and this SAI, in order to comply
with applicable laws and regulations, including the provisions of and regulations under the 1940 Act. The Fund may change these operational policies to reflect changes in the laws and regulations without the approval of its shareholders.

ADDITIONAL INFORMATION ABOUT INVESTMENTS AND RISKS

The Prospectus for the Fund discusses the principal investment strategies of the Fund. Below you will find more detail about the types of investments and investment practices permitted by the Fund, including those which are not part of the Fund’s principal investment strategy.

Adjustable Rate Notes and Variable and Floating Rate Instruments

Adjustable rate notes include variable rate notes and floating rate notes. A variable rate note is one whose terms provide for the readjustment of its interest rate on set dates and that, upon such readjustment, can reasonably be expected to have a market value that approximates its amortized cost. The degree to which a variable rate note’s market value approximates its amortized cost subsequent to readjustment will depend on the frequency of the readjustment of the note’s interest rate and the length of time that must elapse before the next readjustment. A floating rate note is one whose terms provide for the readjustment of its interest rate whenever a specified interest rate changes and that, at any time, can reasonably be expected to have a market value that approximates its amortized cost. Variable or floating rate securities may have provisions that allow them to be tendered back to remarketing agents at par value plus accrued interest. Liquidity for these securities is provided by irrevocable letters of credit and stand-by purchase agreements. The absence of an active secondary market, however, could make it difficult for the Fund to dispose of a variable or floating rate note in the event the issuer of the note defaulted on its payment obligations and the Fund could, as a result or for other reasons, suffer a loss to the extent of the default. Variable or floating rate notes may be secured by bank letters of credit or insured as to payment of principal and interest. A demand instrument with a demand notice period exceeding seven days may be considered illiquid if there is no secondary market for such security.

American Depositary Receipts (ADRs), European Depositary Receipts (EDRs), Continental Depositary Receipts (CDRs) and Global Depositary Receipts (GDRs)

ADRs are securities, typically issued by a U.S. financial institution (a “depositary”), that evidence ownership interests in a security or a pool of securities issued by a foreign issuer and deposited with the depositary. ADRs include American Depositary Shares and New York Shares. EDRs, which are sometimes referred to as CDRs, are securities, typically issued by a non-U.S. financial institution, that evidence ownership interests in a security or a pool of securities issued by either a U.S. or foreign issuer. GDRs are issued globally and evidence a similar ownership arrangement. Generally, ADRs are designed for trading in the U.S. securities markets, EDRs are designed for trading in European securities markets and GDRs are designed for trading in non-U.S. securities markets. ADRs, EDRs, CDRs and GDRs may be available for investment through “sponsored” or “unsponsored” facilities. A sponsored facility is established jointly by the issuer of the security underlying the receipt and a depositary, whereas an unsponsored facility may be established by a depositary without participation by the issuer of the receipt’s underlying security. Holders of an unsponsored depositary receipt generally bear all the costs of the unsponsored facility. The depositary of an unsponsored facility frequently is under no obligation to distribute shareholder communications received from the issuer of the deposited security or to pass through to the holders of the receipts voting rights with respect to the deposited securities.

Asset-backed Securities (Non-mortgage)

Asset-backed securities are instruments secured by company receivables, truck and auto loans, leases, and credit card receivables. Such securities are generally issued as pass-through certificates, which represent undivided fractional ownership interests in the underlying pools of assets. Such securities also may be debt instruments, which are also known as collateralized obligations and are generally issued as the debt of a special purpose entity, such as a trust, organized solely for the purpose of owning such assets and issuing such debt.

The purchase of non-mortgage asset-backed securities raises risk considerations particular to the financing of the instruments underlying such securities. Like mortgages underlying mortgage-backed securities, underlying automobile sales contracts or credit card receivables are subject to substantial prepayment risk, which may reduce
the overall return to certificate holders. Certificate holders may also experience delays in payment on the certificates if the full amounts due on underlying sales contracts or receivables are not realized by the trust because of unanticipated legal or administrative costs of enforcing the contracts or because of depreciation or damage to the collateral (usually automobiles) securing certain contracts, or other factors.

Certificates of Deposit
For a discussion of Certificates of Deposit, please see the “Money Market Instruments” discussion in this section.

Commercial Paper
For a discussion of Commercial Paper, please see the “Money Market Instruments” discussion in this section.

Common Stock
Common stock is a type of equity security which represents an ownership interest in a corporation and the right to a portion of the assets of the corporation in the event of liquidation. This right, however, is subordinate to that of preferred stockholders and any creditors, including holders of debt issued by the corporation. Owners of common stock are generally entitled to vote on important matters. A corporation may pay dividends on common stock.

Convertible Securities
Convertible securities include fixed income securities that may be exchanged or converted into a predetermined number of shares of the issuer’s underlying common stock at the option of the holder during a specified period. Convertible securities may take the form of convertible preferred stock, convertible bonds or debentures, units consisting of “usable” bonds and warrants or a combination of the features of several of these securities. The investment characteristics of each convertible security vary widely, which allows convertible securities to be employed for a variety of investment strategies. The Fund will exchange or convert the convertible securities held in its portfolio into shares of the underlying common stock when, in the Advisor’s or Sub-Advisor’s opinion, the investment characteristics of the underlying common shares will assist the Fund in achieving its investment objective. Otherwise the Fund may hold or trade convertible securities.

Corporate Debt (Including Bonds, Notes and Debentures)
Corporate debt includes any obligation of a corporation to repay a borrowed amount at maturity and usually to pay the holder interest at specific intervals. Corporate debt can have a long or short maturity and is often rated by one or more Nationally Recognized Statistical Rating Organizations (“NRSROs”). See “INVESTMENT RATINGS” in Appendix A to this SAI for a description of these ratings.

The credit risk of an issuer’s debt security may vary based on its priority for repayment. For example, higher ranking (senior) debt securities have a higher priority than lower ranking (subordinated) securities. This means that the issuer might not make payments on subordinated securities while continuing to make payments on senior securities. In addition, in the event of bankruptcy, holders of senior securities may receive amounts otherwise payable to the holders of subordinated securities. Some subordinated securities, such as trust preferred and capital securities notes, also permit the issuer to defer payments under certain circumstances. For example, insurance companies issue securities known as surplus notes that permit the insurance company to defer any payment that would reduce its capital below regulatory requirements.

Credit-Enhanced Securities
Credit-enhanced securities are securities whose credit rating has been enhanced, typically by the existence of a guarantee, letter of credit, insurance or unconditional demand feature. In most cases, the Advisor or Sub-Advisor evaluates the credit quality and ratings of credit-enhanced securities based upon the financial condition and ratings of the party providing the credit enhancement (the “credit enhancer”) rather than the issuer. However, except where prohibited by Rule 2a-7 under the 1940 Act, credit-enhanced securities will not be treated as having been issued by the credit enhancer for diversification purposes, unless the Fund has invested more than 10% of its assets in securities issued, guaranteed or otherwise credit enhanced by the credit enhancer, in which case the securities will be treated as having been issued both by the issuer and the credit enhancer. The bankruptcy, receivership or default of the credit enhancer will adversely affect the quality and marketability of the underlying security. A default on the
underlying security or other event that terminates a demand feature prior to its exercise will adversely affect the liquidity of the underlying security.

**Defensive Investments**

At times the Advisor or Sub-Advisor may determine that conditions in securities markets may make pursuing the Fund’s principal investment strategies inconsistent with the best interests of the Fund’s shareholders. At such times, the Advisor or Sub-Advisor may temporarily use alternative strategies, primarily designed to reduce fluctuations in the value of the Fund’s assets. In implementing these temporary “defensive” strategies, the Fund may temporarily place all or a portion of its assets in cash, U.S. Government securities, debt securities which the Advisor or Sub-Advisor considers to be of comparable quality to the acceptable investments of the Fund and other investments which the Advisor or Sub-Advisor considers consistent with such strategies.

**Demand Notes**

For a discussion of Demand Notes, please see the “Money Market Instruments” discussion in this section.

**Derivative Contracts**

Derivative contracts are financial instruments that require payments based upon changes in the values of designated (or underlying) securities, currencies, commodities, financial indices or other assets. Some derivative contracts (such as futures, forwards and options) require payments relating to a future trade involving the underlying asset. Other derivative contracts (such as swaps) require payments relating to the income or returns from the underlying asset. The other party to a derivative contract is referred to as a counterparty.

Depending upon how the Fund uses derivative contracts and the relationships between the market value of a derivative contract and the underlying asset, derivative contracts may increase or decrease the Fund’s exposure to interest rate and currency risks, and may also expose the Fund to liquidity and leverage risks. Over-the-counter (“OTC”) contracts also expose the Fund to credit risks in the event that a counterparty defaults on the contract.

The regulation of derivatives is a rapidly changing area of law and is subject to modification by government and judicial action. In addition, the SEC, Commodity Futures Trading Commission (“CFTC”) and the exchanges are authorized to take extraordinary actions in the event of a market emergency, including, for example, the implementation or reduction of speculative position limits, the implementation of higher margin requirements, the establishment of daily price limits and the suspension of trading.

It is not possible to predict fully the effects of current or future regulation. However, it is possible that developments in government regulation of various types of derivative instruments, such as speculative position limits on certain types of derivatives, or limits or restrictions on the counterparties with which the Fund engages in derivative transactions, may limit or prevent the Fund from using or limit the Fund’s use of these instruments effectively as a part of its investment strategy, and could adversely affect the Fund’s ability to achieve its investment goal(s). The Advisor will continue to monitor developments in the area. New requirements, even if not directly applicable to the Fund, may increase the cost of the Fund’s investments and cost of doing business.

**Equity Securities**

Equity securities include both foreign and domestic common stocks, preferred stocks, securities convertible or exchangeable into common or preferred stocks, and other securities which the Advisor or Sub-Advisor believes have common stock characteristics, such as rights and warrants.

**Exchange-Traded Commodity Funds (“ETCFs”)**

ETCFs invest in commodities, either directly or through derivative contracts and are treated as partnerships or grantor trusts for U.S. tax purposes. ETCFs may invest in a single commodity (such as gold) or manage a pool of derivative contracts that tracks a commodity index (such as the Dow Jones-AIG Commodity Index).
Exchange-Traded Funds (“ETFs”)/Index-Based Securities and Ultrashort ETFs

The Fund may invest in ETFs or Index-based Securities and Ultrashort ETFs as an efficient means of carrying out their investment strategies. Index-based securities are often interests in a unit investment trust (“UIT”) that may be obtained from the UIT or purchased in the secondary market. ETFs may be structured as a UIT, but may also be structured as an open-end investment company. Ultrashort ETFs are exchange-traded funds which are designed to correspond to twice the inverse of the daily performance of an underlying index. Ultrashort ETFs invest in financial instruments (including derivatives) which the advisor to the Ultrashort ETF believes should, in combination, achieve such daily return characteristics. As with index-based securities, ETFs sell their interests directly or the interests may be purchased in a secondary market. ETFs, index-based securities and Ultrashort ETFs are traded on stock exchanges or on the over-the-counter market.

As with traditional mutual funds, ETFs and index-based securities charge asset-based fees, although these fees tend to be relatively low. ETFs and index-based securities do not charge initial sales charges or redemption fees and investors pay only customary brokerage fees to buy and sell the shares.

A UIT will generally issue index-based securities in aggregations of 50,000 known as “Creation Units” in exchange for a “Portfolio Deposit” consisting of (a) a portfolio of securities substantially similar to the component securities (Index Securities) of the applicable index (Index), (b) a cash payment equal to a pro rata portion of the dividends accrued on the UIT’s portfolio securities since the last dividend payment by the UIT, net of expenses and liabilities, and (c) a cash payment or credit (Balancing Amount) designed to equalize the net asset value (“NAV”) of the Index and the NAV of a Portfolio Deposit. ETFs structured as investment companies also issue large Creation Units generally in exchange for a basket of securities in a proportion similar to the current holdings of the ETF and/or a cash payment.

ETFs and index-based securities are not individually redeemable, except upon termination of the UIT or ETF. To redeem, the Fund must accumulate enough index-based securities to reconstitute a Creation Unit (large aggregations of a particular index-based security). The liquidity of small holdings of ETFs and index-based securities, therefore, will depend upon the existence of a secondary market. Upon redemption of a Creation Unit, the Fund will generally receive Index Securities and cash identical to the Portfolio Deposit required of an investor wishing to purchase a Creation Unit that day.

Fixed Income Securities

Fixed income securities include corporate debt securities, U.S. Government securities, mortgage-related securities, tax-exempt securities and any other securities which provide a stream of fixed payments to the holder.

Foreign Currency Options (also see “Options”)

Options on foreign currencies operate similarly to options on securities, and are traded primarily in the OTC market (so-called “OTC options”), although options on foreign currencies have recently been listed on several exchanges. Options will be purchased or written only when the Advisor or Sub-Advisor believes that a liquid secondary market exists for such options. There can be no assurance that a liquid secondary market will exist for a particular option at any specific time. Options on foreign currencies are affected by all of those factors which influence exchange rates and investments generally.

Purchases and sales of options may be used to increase current return. They are also used in connection with hedging transactions. See “Foreign Currency Transactions and Foreign Exchange Contracts.” Writing covered call options on currencies may offset some of the costs of hedging against fluctuations in currency exchange rates. For transaction hedging purposes, the Fund may also purchase exchange-listed and OTC put and call options on foreign currency futures contracts and on foreign currencies. A put option on a futures contract gives the Fund the right to assume a short position in the futures contract until expiration of the option. A call option on a futures contract gives the Fund the right to assume a long position in the futures contract until the expiration of the option.

The value of a foreign currency option is dependent upon the value of the foreign currency and the U.S. dollar, and may have no relationship to the investment merits of a foreign security. Because foreign currency transactions occurring in the interbank market involve substantially larger amounts than those that may be involved in the use of foreign currency options, investors may be disadvantaged by having to deal in an 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.

There is no systematic reporting of last sale information for foreign currencies and there is no regulatory requirement that quotations available through dealers or other market sources be firm or revised on a timely basis. Available quotation information is generally representative of very large transactions in the interbank market and thus may not reflect relatively smaller transactions (less than $1 million) where rates may be less favorable. The interbank market in foreign currencies is a global, around-the-clock market. To the extent that the U.S. options markets are closed while the markets for the underlying currencies remain open, significant price and rate movements may take place in the underlying markets that cannot be reflected in the U.S. options markets. Options contracts are generally valued at the mean of the bid and asked price as reported on the highest-volume exchange (in terms of the number of option contracts traded for that issue) on which such options are traded.

**Foreign Currency Transactions and Foreign Exchange Contracts**

Foreign currency transactions and foreign exchange contracts include purchasing and selling foreign currencies, entering into forward or futures contracts to purchase or sell foreign currencies (see “Forward Foreign Currency and Foreign Currency Futures Contracts”), and purchasing and selling options on foreign currencies (see “Foreign Currency Options”). Foreign currency transactions may be used to hedge against uncertainty in the level of future foreign currency exchange rates and to increase current return.

Purchases and sales of foreign currencies on a spot basis are used to increase current return. They are also used in connection with both “transaction hedging” and “position hedging.”

Transaction hedging involves entering into foreign currency transactions with respect to specific receivables or payables generally arising in connection with the purchase or sale of portfolio securities. Transaction hedging is used to “lock in” the U.S. dollar price of a security to be purchased or sold, or the U.S. dollar equivalent of a dividend or interest payment in a foreign currency. The goal is to protect against a possible loss resulting from an adverse change in the relationship between the U.S. dollar and the applicable foreign currency during the period between the date on which the security is purchased or sold or on which the dividend or interest payment is declared, and the date on which such payments are made or received.

Position hedging involves entering into foreign currency transactions either to protect against: (i) a decline in the value of a foreign currency in which a security held or to be sold is denominated; or (ii) an increase in the value of a foreign currency in which a security to be purchased is denominated. In connection with position hedging, the Fund may purchase put or call options on foreign currency and foreign currency futures contracts and buy or sell forward contracts and foreign currency futures contracts.

Neither transaction nor position hedging eliminates fluctuations in the underlying prices of the securities which the Fund owns or intends to purchase or sell. They simply establish a rate of exchange which can be achieved at some future point in time. Additionally, although these techniques tend to minimize the risk of loss due to a decline in the value of the hedged currency, they also tend to limit any potential gain which might result from the increase in the value of such currency.

Hedging transactions are subject to correlation risk due to the fact that the amounts of foreign currency exchange transactions and the value of the portfolio securities involved will not generally be perfectly matched. This is because the future value of such securities in foreign currencies will change as a consequence of market movements in the values of those securities between the dates the currency exchange transactions are entered into and the dates they mature.

The Fund does not consider currencies or other financial commodities or contracts and financial instruments to be physical commodities (which include, for example, oil, precious metals and grains). Accordingly, the Fund interprets its fundamental restriction regarding purchasing and selling physical commodities to permit the Fund (subject to the Fund’s investment goals and general investment policies as stated in the Fund’s Prospectus and SAI) to invest directly in foreign currencies and other financial commodities and to purchase, sell or enter into foreign currency futures contracts and options thereon, foreign currency forward contracts, foreign currency options, currency, commodity and financial instrument-related swap agreements, hybrid instruments, interest rate, securities-related or foreign currency-related futures contracts or other currency-, commodity- or financial instrument-related
derivatives, subject to compliance with any applicable provisions of the federal securities or commodities laws. The Fund also interprets its fundamental restriction regarding purchasing and selling physical commodities to permit the Fund to invest in exchange-traded products or other entities that invest in physical and/or financial commodities, subject to the limits described in the Fund’s Prospectus and SAI.

**Forward Foreign Currency and Foreign Currency Futures Contracts**

A forward foreign currency contract involves an obligation to purchase or sell a specific currency at a future date, which may be any fixed number of days from the date of the contract as agreed by the parties, at a price set at the time of the contract. In the case of a cancelable forward contract, the holder has the unilateral right to cancel the contract at maturity by paying a specified fee. The contracts are traded in the interbank market conducted directly between currency traders (usually large commercial banks) and their customers. A forward contract generally has no deposit requirement, and no commissions are charged at any stage for trades.

A foreign currency futures contract is a standardized contract for the future delivery of a specified amount of a foreign currency at a future date at a price set at the time of the contract. Foreign currency futures contracts traded in the United States are designed by and traded on exchanges regulated by the CFTC, such as the New York Mercantile Exchange.

Forward foreign currency contracts differ from foreign currency futures contracts in certain respects. For example, the maturity date of a forward contract may be any fixed number of days from the date of the contract agreed upon by the parties, rather than a predetermined date in a given month. Forward contracts may be in any amounts agreed upon by the parties rather than predetermined amounts. Also, forward foreign currency contracts are traded directly between currency traders so that no intermediary is required. A forward contract generally requires no margin or other deposit.

At the maturity of a forward or futures contract, the Fund may either accept or make delivery of the currency specified in the contract, or at or prior to maturity enter into a closing transaction involving the purchase or sale of an offsetting contract. Closing transactions with respect to forward contracts are usually effected with the currency trader who is a party to the original forward contract. Closing transactions with respect to futures contracts are effected on a commodities exchange; a clearing corporation associated with the exchange assumes responsibility for closing out such contracts.

Forward foreign currency contracts and foreign currency futures contracts can be used to increase current return. They are also used in connection with both “transaction hedging” and “position hedging.” See “Foreign Currency Transactions and Foreign Exchange Contracts.”

Among the risks of using foreign currency futures contracts is the fact that positions in these contracts (and any related options) may be closed out only on an exchange or board of trade which provides a secondary market. Although it is intended that the Fund will only purchase or sell foreign currency futures contracts and related options on exchanges or boards of trade where there appears to be an active secondary market, there is no assurance that a secondary market on an exchange or board of trade will exist for any particular contract or option or at any particular time. In such event, it may not be possible to close a futures or related option position and, in the event of adverse price movements, the Fund would continue to be required to make daily cash payments of variation margin on its futures positions.

In addition, it is impossible to forecast with precision the market value of a security at the expiration or maturity of a forward or futures contract. Accordingly, it may be necessary to purchase additional foreign currency on the spot market (and bear the expense of such purchase) if the market value of the security being hedged is less than the amount of foreign currency the Fund is obligated to deliver and if a decision is made to sell the security and make delivery of the foreign currency. Conversely, it may be necessary to sell on the spot market some of the foreign currency received upon the sale of the hedged portfolio security if the market value of such security exceeds the amount of foreign currency the Fund is obligated to deliver.

The purchase and sale of foreign currency futures contracts also subjects the Fund to margin payment requirements. See “Futures Contracts and Options on Futures Contracts — Margin Payments” below.
Foreign Securities (including Emerging Markets Securities and Foreign Government Securities)

Foreign securities are those securities which are issued by companies located outside the United States and principally traded in foreign markets. This includes equity and debt securities of foreign entities and obligations of foreign branches of U.S. and foreign banks. Permissible investments may consist of obligations of foreign branches of U.S. banks and foreign or domestic branches of foreign banks, including European Certificates of Deposit, European Time Deposits, Canadian Time Deposits and Yankee Bonds and Certificates of Deposit, and investments in Canadian Commercial Paper, foreign securities and europaper. In addition, the Fund may invest in depositary receipts. The Fund may also invest in securities issued or guaranteed by foreign corporations or foreign governments, their political subdivisions, agencies or instrumentalities and obligations of supranational entities such as the World Bank and the Asian Development Bank. Investment in foreign securities is subject to a number of special risks.

Since foreign securities are normally denominated and traded in foreign currencies, the value of the Fund’s assets invested in such securities may be affected favorably or unfavorably by currency exchange rates and exchange control regulation. Exchange rates with respect to certain currencies may be particularly volatile. Additionally, although foreign exchange dealers do not charge a fee for currency conversion, they do realize a profit based on the difference (the “spread”) between prices at which they buy and sell various currencies. Thus, a dealer may offer to sell a foreign currency to the Fund at one rate, while offering a lesser rate of exchange should the Fund desire to resell that currency to the dealer. For additional information see “Foreign Currency Transactions and Foreign Exchange Contracts.”

There may be less information publicly available about a foreign company than about a U.S. company, and foreign companies are not generally subject to accounting, auditing, and financial reporting standards and practices comparable to those in the United States. The securities of some foreign companies are less liquid and at times more volatile than securities of comparable U.S. companies. Foreign brokerage commissions and other fees are also generally higher than in the United States. Foreign settlement procedures and trade regulations may involve certain risks (such as delays in payment or delivery of securities or in the recovery of the Fund’s assets held abroad) and expenses not present in the settlement of domestic investments.

In addition, with respect to certain foreign countries, there is a possibility of nationalization or expropriation of assets, confiscatory taxation, political or financial instability and diplomatic developments, including sanctions imposed by other countries or governmental entities, which could affect the value of investments in those countries. In certain countries, legal remedies available to investors may be more limited than those available with respect to investments in the United States or other countries. The laws of some foreign countries may limit the Fund’s ability to invest in securities of certain issuers located in those countries. Special tax considerations apply to foreign securities.

The Fund may invest in the securities of emerging market issuers. Investing in emerging market securities involves risks which are in addition to the usual risks inherent in foreign investments. Some emerging markets countries may have fixed or managed currencies that are not free-floating against the U.S. dollar. Further, certain currencies may not be traded internationally. Certain of these currencies have experienced a steady devaluation relative to the U.S. dollar. Any devaluation in the currencies in which the Fund’s securities are denominated may have a detrimental impact on the Fund.

Some countries with emerging securities markets have experienced substantial, and in some periods, extremely high, rates of inflation for many years. Inflation and rapid fluctuation in inflation rates have had and may continue to have negative effects on the economies and securities markets of certain countries. Moreover, the economies of some countries may differ favorably or unfavorably from the U.S. economy in such respects as rate of growth of gross domestic product, the rate of inflation, capital reinvestment, resource self-sufficiency, number and depth of industries forming the economy’s base, governmental controls and investment restrictions that are subject to political change and balance of payments position. Further, there may be greater difficulties or restrictions with respect to investments made in emerging markets countries.
Emerging markets typically have substantially less volume than U.S. markets. In addition, securities in many such markets are less liquid, and their prices often are more volatile, than securities of comparable U.S. companies. Such markets often have different clearance and settlement procedures for securities transactions, and in some markets there have been times when settlements have been unable to keep pace with the volume of transactions, making it difficult to conduct transactions. Delays in settlement could result in temporary periods when assets may be uninvested. Settlement problems in emerging markets countries also could cause the Fund to miss attractive investment opportunities. Satisfactory custodial services may not be available in some emerging markets countries, which may result in the Fund incurring additional costs and delays in the transportation and custody of such securities.

Foreign government securities generally consist of fixed income securities supported by national, state or provincial governments or similar political subdivisions. Foreign government securities also include debt obligations of supranational entities, such as international organizations designed or supported by governmental entities to promote economic reconstruction or development, international banking institutions and related government agencies. Examples of these include, but are not limited to, the International Bank for Reconstruction and Development (the “World Bank”), the Asian Development Bank, the European Investment Bank and the Inter-American Development Bank.

Foreign government securities also include fixed income securities of quasi-governmental agencies that are either issued by entities owned by a national, state or equivalent government or are obligations of a political unit that are not backed by the national government’s full faith and credit.

**Futures Contracts and Options on Futures Contracts**

A futures contract is a binding contractual commitment which, if held to maturity, will result in an obligation to make or accept delivery of a security at a specified future time and price. By purchasing futures (assuming a “long” position) the Fund will legally obligate itself to accept the future delivery of the underlying security and pay the agreed price. By selling futures (assuming a “short” position) it will legally obligate itself to make the future delivery of the security against payment of the agreed price. Open futures positions on debt securities will be valued at the most recent settlement price, unless that price does not in the judgment of the Trustees reflect the fair value of the contract, in which case the positions will be valued by or under the direction of the Trustees. Positions taken in the futures markets are not normally held to maturity, but are instead liquidated through offsetting transactions which may result in a profit or a loss. While futures positions taken by the Fund will usually be liquidated in this manner, the Fund may instead make or take delivery of the underlying securities whenever it appears economically advantageous to the Fund to do so. A clearing corporation associated with the exchange on which futures are traded assumes responsibility for such closing transactions and guarantees that the Fund’s sale and purchase obligations under closed-out positions will be performed at the termination of the contract. Futures contracts are considered to be commodity contracts. Futures and options on futures are regulated by the CFTC.

Hedging by use of futures on debt securities seeks to establish more certainty than would otherwise be possible of the effective rate of return on portfolio securities. The Fund may, for example, take a “short” position in the futures market by selling contracts for the future delivery of debt securities held by the Fund (or securities having characteristics similar to those held by the Fund) in order to hedge against an anticipated rise in interest rates that would adversely affect the value of the Fund’s portfolio securities. When hedging of this character is successful, any depreciation in the value of portfolio securities may be offset by appreciation in the value of the futures position.

On other occasions, the Fund may take a “long” position by purchasing futures on debt securities. This would be done, for example, when the Advisor or Sub-Advisor expects to purchase for the Fund particular securities when it has the necessary cash, but expects the rate of return available in the securities markets at that time to be less favorable than rates currently available in the futures markets. If the anticipated rise in the price of the securities should occur (with its corresponding reduction in yield), the increased cost to the Fund of purchasing the securities may be offset by the rise in the value of the futures position taken in anticipation of the subsequent securities purchase.

Successful use by the Fund of futures contracts on debt securities is subject to the Advisor’s or Sub-Advisor’s ability to predict correctly movements in the direction of interest rates and other factors affecting markets for debt securities. For example, if the Fund has hedged against the possibility of an increase in interest rates that would adversely affect the market prices of debt securities held by it and the prices of such securities increase instead, the
Fund will lose part or all of the benefit of the increased value of its securities which it has hedged because it will have offsetting losses in its futures positions. In addition, in such situations, if the Fund has insufficient cash, it may have to sell securities to meet daily margin maintenance requirements. The Fund may have to sell securities at a time when it may be disadvantageous to do so.

The Fund may purchase and write put and call options on debt futures contracts, as they become available. Such options are similar to options on securities except that options on futures contracts give the purchaser the right, in return for the premium paid, to assume a position in a futures contract (a long position if the option is a call and a short position if the option is a put) at a specified exercise price at any time during the period of the option. As with options on securities, the holder or writer of an option may terminate its position by selling or purchasing an option of the same series. There is no guarantee that such closing transactions can be effected. The Fund will be required to deposit initial margin and variation margin with respect to put and call options on futures contracts written by it pursuant to brokers’ requirements, and, in addition, net option premiums received will be included as initial margin deposits. Compared to the purchase or sale of futures contracts, the purchase of call or put options on futures contracts involves less potential risk to the Fund because the maximum amount at risk is the premium paid for the options plus transactions costs. However, there may be circumstances when the purchases of call or put options on a futures contract would result in a loss to the Fund when the purchase or sale of the futures contracts would not, such as when there is no movement in the prices of debt securities. The writing of a put or call option on a futures contract involves risks similar to those risks relating to the purchase or sale of futures contracts.

**Margin payments.** When the Fund purchases or sells a futures contract, it is required to deposit with its custodian an amount of cash, U.S. Treasury bills, or other permissible collateral equal to a small percentage of the amount of the futures contract. This amount is known as “initial margin.” The nature of initial margin is different from that of margin in security transactions in that it does not involve borrowing money to finance transactions. Rather, initial margin is similar to a performance bond or good faith deposit that is returned to the Fund upon termination of the contract, assuming the Fund satisfies its contractual obligations. Subsequent payments to and from the broker occur on a daily basis in a process known as “marking to market.” These payments are called “variation margin” and are made as the value of the underlying futures contract fluctuates. For example, when the Fund sells a futures contract and the price of the underlying debt security rises above the delivery price, the Fund's position declines in value. The Fund then pays the broker a variation margin payment equal to the difference between the delivery price of the futures contract and the market price of the securities underlying the futures contract. Conversely, if the price of the underlying security falls below the delivery price of the contract, the Fund’s futures position increases in value. The broker then must make a variation margin payment equal to the difference between the delivery price of the futures contract and the market price of the securities underlying the futures contract.

When the Fund terminates a position in a futures contract, a final determination of variation margin is made, additional cash is paid by or to the Fund, and the Fund realizes a loss or a gain. Such closing transactions involve additional commission costs.

**Liquidity risks.** Positions in futures contracts may be closed out only on an exchange or board of trade which provides a secondary market for such futures. Although the Fund intends to purchase or sell futures only on exchanges or boards of trade where there appears to be an active secondary market, there is no assurance that a liquid secondary market on an exchange or board of trade will exist for any particular contract or at any particular time. If there is not a liquid secondary market at a particular time, it may not be possible to close a futures position at such time and, in the event of adverse price movements, the Fund would continue to be required to make daily cash payments of variation margin. However, in the event financial futures are used to hedge portfolio securities, such securities will not generally be sold until the financial futures can be terminated. In such circumstances, an increase in the price of the portfolio securities, if any, may partially or completely offset losses on the financial futures.

In addition to the risks that apply to all options transactions, there are several special risks relating to options on futures contracts. The ability to establish and close out positions in such options will be subject to the development and maintenance of a liquid secondary market. It is not certain that such a market will develop. Although the Fund generally will purchase only those options for which there appears to be an active secondary market, there is no assurance that a liquid secondary market on an exchange will exist for any particular option or at any particular time. In the event no such market exists for particular options, it might not be possible to effect closing transactions in such options, with the result that the Fund would have to exercise the options in order to realize any profit.
**Hedging risks.** There are several risks in connection with the use by the Fund of futures contracts and related options as a hedging device. One risk arises because of the imperfect correlation between movements in the prices of the futures contracts and options and movements in the prices of securities which are the subject of the hedge. The Advisor or Sub-Advisor will, however, attempt to reduce this risk by purchasing and selling, to the extent possible, futures contracts and related options on securities and indices the movements of which will, in its judgment, correlate closely with movements in the prices of the portfolio securities sought to be hedged.

Successful use of futures contracts and options by the Fund for hedging purposes is also subject to the Advisor’s or Sub-Advisor’s ability to predict correctly movements in the direction of the market. It is possible that, where the Fund has purchased puts on futures contracts to hedge its portfolio against a decline in the market, the securities or index on which the puts are purchased may increase in value and the value of securities held in the portfolio may decline. If this occurred, the Fund would lose money on the puts and also experience a decline in value in its portfolio securities. In addition, the prices of futures, for a number of reasons, may not correlate perfectly with movements in the underlying securities or index due to certain market distortions. First, all participants in the futures market are subject to margin deposit requirements. Such requirements may cause investors to close futures contracts through offsetting transactions which could distort the normal relationship between the underlying security or index and futures markets. Second, the margin requirements in the futures markets are less onerous than margin requirements in the securities markets in general, and as a result the futures markets may attract more speculators than the securities markets do. Increased participation by speculators in the futures markets may also cause temporary price distortions. Due to the possibility of price distortion, even a correct forecast of general market trends by the Advisor or Sub-Advisor may still not result in a successful hedging transaction over a very short time period.

**Other risks.** The Fund will incur brokerage fees in connection with its futures and options transactions. In addition, while futures contracts and options on futures will be purchased and sold to reduce certain risks, those transactions themselves entail certain other risks. Thus, while the Fund may benefit from the use of futures and related options, unanticipated changes in interest rates or stock price movements may result in a poorer overall performance for the Fund than if it had not entered into any futures contracts or options transactions. Moreover, in the event of an imperfect correlation between the futures position and the portfolio position which is intended to be protected, the desired protection may not be obtained and the Fund may be exposed to risk of loss.

**Exclusion of the Advisor from commodity pool operator definition.** With respect to the Fund, the Advisor has claimed an exclusion from the definition of “commodity pool operator” (CPO) under the Commodity Exchange Act (“CEA”) and the rules of the CFTC and, therefore, is not subject to CFTC registration or regulation as a CPO. In addition, with respect to the Fund, the Advisor is relying upon a related exclusion from the definition of “commodity trading advisor” (“CTA”) under the CEA and the rules of the CFTC.

The terms of the CPO exclusion require the Fund, among other things, to adhere to certain limits on its investments in “commodity interests.” Commodity interests include commodity futures, commodity options and swaps, which in turn include non-deliverable currency forward contracts, as further described below. Because the Advisor and the Fund intend to comply with the terms of the CPO exclusion, the Fund may, in the future, need to adjust its investment strategies, consistent with its investment objective, to limit its investments in these types of instruments. The Fund is not intended as a vehicle for trading in the commodity futures, commodity options or swaps markets. The CFTC has neither reviewed nor approved the Advisor’s reliance on these exclusions, or the Fund, its investment strategies or this SAI.

Generally, the exclusion from CPO regulation on which the Advisor relies requires the Fund to meet one of the following tests for its commodity interest positions, other than positions entered into for bona fide hedging purposes (as defined in the rules of the CFTC): either (1) the aggregate initial margin and premiums required to establish the Fund’s positions in commodity interests may not exceed 5% of the liquidation value of the Fund’s portfolio (after taking into account unrealized profits and unrealized losses on any such positions); or (2) the aggregate net notional value of the Fund’s commodity interest positions, determined at the time the most recent such position was established, may not exceed 100% of the liquidation value of the Fund’s portfolio (after taking into account unrealized profits and unrealized losses on any such positions). In addition to meeting one of these trading limitations, the Fund may not be marketed as a commodity pool or otherwise as a vehicle for trading in the commodity futures, commodity options or swaps markets. If, in the future, the Fund can no longer satisfy these requirements, the Advisor would withdraw its notice claiming an exclusion from the definition of a CPO, and the
Advisor would be subject to registration and regulation as a CPO with respect to the Fund, in accordance with CFTC rules that apply to CPOs of registered investment companies. Generally, these rules allow for substituted compliance with CFTC disclosure and shareholder reporting requirements, based on the Advisor’s compliance with comparable SEC requirements. However, as a result of CFTC regulation with respect to the Fund, the Fund may incur additional compliance and other expenses.

**Index Futures Contracts and Options on Index Futures Contracts**

An index futures contract is a contract to buy or sell units of a specified index at a specified future date at a price agreed upon when the contract is made. A unit is the current value of the index.

The following example illustrates generally the manner in which index futures contracts operate. The Standard & Poor’s 100 Stock Index (S&P 100) is composed of 100 selected common stocks, most of which are listed on the New York Stock Exchange (NYSE). The S&P 100 assigns relative weightings to the common stocks included in the Index, and the Index fluctuates with changes in the market values of those common stocks. In the case of the S&P 100, contracts are to buy or sell 100 units. Thus, if the value of the S&P 100 were $180, one contract would be worth $18,000 (100 units X $180). An index futures contract specifies that no delivery of the actual securities making up the index will take place. Instead, settlement in cash must occur upon the termination of the contract, with the settlement being the difference between the contract price and the actual level of the index at the expiration of the contract. For example, if the Fund enters into a futures contract to buy 100 units of the S&P 100 at a specified future date at a contract price of $180 and the S&P 100 is at $184 on that future date, the Fund will gain $400 (100 units X gain of $4). If the Fund enters into a futures contract to sell 100 units of the index at a specified future date at a contract price of $180 and the S&P 100 is at $182 on that future date, the Fund will lose $200 (100 units X loss of $2). The Fund may purchase or sell futures contracts with respect to any index. Positions in index futures may be closed out only on an exchange or board of trade which provides a secondary market for such futures.

Purchases and sales of index futures may be used to hedge an investment. To hedge an investment successfully, however, the Fund must invest in futures contracts with respect to indices or sub-indices the movements of which will have a significant correlation with movements in the prices of the Fund’s securities.

Options on index futures contracts are similar to options on securities except that options on index futures contracts give the purchaser the right, in return for the premium paid, to assume a position in an index futures contract (a long position if the option is a call and a short position if the option is a put) at a specified exercise price at any time during the period of the option. Upon exercise of the option, the holder assumes the underlying futures position and receives a variation margin payment of cash or securities approximating the increase in the value of the holder’s option position. If an option is exercised on the last trading day prior to the expiration date of the option, the settlement is made entirely in cash based on the difference between the exercise price of the option and the closing level of the index on which the futures contract is based on the expiration date. Purchasers of options who fail to exercise their options prior to the exercise date suffer a loss of the premium paid.

As an alternative to purchasing call and put options on index futures contracts, the Fund may purchase put and call options on the underlying indices themselves to the extent that such options are traded on national securities exchanges. Index options are similar to options on individual securities in that the purchaser of an index option acquires the right to buy, and the writer undertakes the obligation to sell, an index at a stated exercise price during the term of the option. Instead of giving the right to take or make actual delivery of securities, the holder of an index option has the right to receive a cash “exercise settlement amount.” This amount is equal to the amount by which the fixed exercise price of the option exceeds (in the case of a put) or is less than (in the case of a call) the closing value of the underlying index on the date of the exercise, multiplied by a fixed “index multiplier.” The Fund will enter into an option position only if there appears to be a liquid secondary market for such options.

The Fund will not engage in transactions in options on indices for speculative purposes but only to protect appreciation attained, to offset capital losses and to take advantage of the liquidity available in the option markets.

**Inflation-Protected Securities**

Inflation-protected securities are fixed income securities whose principal value or interest rate is adjusted periodically according to changes in a specific price index (such as the Consumer Price Index for All Urban Consumers). If the price index falls (deflation), the principal value or interest rate of the securities will be adjusted.
downward, and, consequently, the interest payable on these securities will be reduced. U.S. Treasury Inflation-
Protected Securities, also known as “TIPS,” are adjusted as to principal; repayment of the original principal upon
maturity of the security is guaranteed if the security is purchased when originally issued. With respect to other types
of inflation-protected securities that are adjusted to the principal amount, the adjusted principal value of the security
repaid at maturity may be less than the original principal. Most other types of inflation-protected securities,
however, are adjusted with respect to the interest rate, which has a minimum of 0%, and the principal value does not
change.

Interests in Other Business Organizations

Entities such as limited partnerships, limited liability companies, business trusts and companies organized outside
the United States may issue securities comparable to common or preferred stock. Limited partnerships are
partnerships consisting of one or more general partners, by whom the business is conducted, and one or more limited
partners who contribute capital to the partnership. Limited liability companies frequently consist of one or more
managing members, by whom the business is conducted, and other members who contribute capital to the company.
Limited partners and members of limited liability companies generally are not liable for the debts of the partnership
beyond their capital contributions or commitments. Limited partners and non-managing members are not involved in
the day-to-day management of the partnership or limited liability company. They receive income and capital gains
from the partnership or company in accordance with the terms established in the partnership or operating agreement.
Typical limited partnerships and limited liability companies are involved in real estate, oil and gas, and equipment
leasing, but they also finance movies, research and development, and other projects.

For an organization classified as a partnership under the Code (including most limited partnerships and limited
liabilities companies), each item of income, gain, loss, deduction and credit is not taxed at the partnership level but
flows through with the same character to the partners or members. This allows the partnership to avoid double
taxation.

A master limited partnership (“MLP”) is a publicly traded limited partnership or limited liability company. MLPs
combine the tax advantages of a partnership with the liquidity of a publicly traded security. MLPs must limit their
operations to avoid being taxed as corporations under the Code.

Investment Company Securities, including Money Market Mutual Funds

The Fund may invest in securities of other investment companies (“Acquired Funds”), including ETFs, as an
efficient means of carrying out its investment policies and managing its uninvested cash. The Fund’s shareholders
indirectly bear the expenses of the Acquired Funds in which the Fund invests.

Except under exemptive rules or relief from the SEC, the Fund may not invest more than 10% of its total assets at
any one time in the shares of other investment companies, 5% of its total assets in the shares of any one investment
company, or own more than 3% of the shares of any one investment company. When the Fund invests in the shares
of other investment companies, investment advisory and other fees will apply, and the investment’s yield will be
reduced accordingly.

Money Market Instruments

Except where otherwise noted, the Fund may, for temporary defensive or liquidity purposes, invest up to 100% of its
assets in money market instruments.

Commercial Paper, Demand Notes, Variable Amount Demand Notes and Variable Amount Master Demand
Notes

Consistent with its investment objective, policies, and restrictions, the Fund may invest in commercial paper
(including commercial paper sold through private placements pursuant to Section 4(2) of the 1933 Act) and variable
amount master demand notes. Commercial paper consists of unsecured promissory notes issued by corporations
normally having maturities of 270 days or less and rates of return which are fixed. These investments may include
Canadian Commercial Paper, which is U.S. dollar denominated commercial paper issued by a Canadian corporation
or a Canadian counterpart of a U.S. corporation, and europaper, which is U.S. dollar denominated commercial paper
of a foreign issuer.
Demand notes and variable rate demand notes (“VRDNs”) are unsecured, direct lending arrangements between the Fund, as the lender, and a corporation, financial institution, government agency, municipality or other entity.

VRDNs have interest rates which float or which are adjusted at regular intervals ranging from daily to annually. Although the VRDNs are not generally traded, the Fund may demand payment of principal and accrued interest according to its arrangement with the borrower (usually upon no more than seven days’ notice). VRDNs are, therefore, treated as maturing on the later of the next interest adjustment or the date on which the Fund may next demand payment. Some VRDNs are backed by bank letters of credit.

The Fund may only invest in VRDNs which satisfy its credit requirements for commercial paper.

Variable amount master demand notes are unsecured demand notes that permit the indebtedness thereunder to vary and provide for periodic adjustments in the interest rate according to the terms of the instrument. Because master demand notes are direct lending arrangements between the Fund and the issuer, they are not normally traded. Although there is no secondary market in the notes, the Fund may demand payment of principal and accrued interest at any time. A variable amount master demand note will be deemed to have a maturity equal to the longer of the period of time remaining until the next readjustment of its interest rate or the period of time remaining until the principal amount can be recovered from the issuer through demand.

Other money market instruments may include: obligations (certificates of deposit, time deposits, bank master notes, and bankers’ acceptances) of thrift institutions and savings and loan associations, provided that such institutions or associations have total assets of $1 billion or more as shown on their last published financial statements at the time of investment; short-term corporate obligations rated within the three highest rating categories by an NRSRO (for example, at least A by S&P Global Ratings (“S&P”) or A by Moody’s Investors Service, Inc. (“Moody’s”)) at the time of investment, or, if not rated, determined by the Advisor or Sub-Advisor to be of comparable quality; general obligations issued by the U.S. Government and backed by its full faith and credit, and obligations issued or guaranteed as to principal and interest by agencies or instrumentalities of the U.S. Government (for example, obligations issued by Farmers Home Administration, Government National Mortgage Association, Federal Farm Credit Bank and Federal Housing Administration); receipts, including Treasury Receipts, Treasury Income Growth Receipts and Certificates of Accrual on Treasuries; repurchase agreements involving such obligations; shares of money market funds, and foreign commercial paper.

**Bank Obligations**

Bank obligations are short-term obligations issued by U.S. and foreign banks, including bankers’ acceptances, certificates of deposit, time deposits and similar securities.

Bankers’ acceptances are negotiable drafts or bills of exchange typically drawn by an importer or exporter to pay for specific merchandise that are “accepted” by a bank, meaning, in effect, that the bank unconditionally agrees to pay the face value of the instrument on maturity. Investments in bankers’ acceptances will be limited to those guaranteed by domestic and foreign banks having, at the time of investment, total assets of $1 billion or more (as of the date of the institution’s most recently published financial statements).

**Certificates of Deposit and Time Deposits**

Certificates of deposit and time deposits represent funds deposited in a commercial bank or a savings and loan association for a definite period of time and earning a specified return.

Investments in certificates of deposit and time deposits may include Eurodollar Certificates of Deposit, which are U.S. dollar denominated certificates of deposit issued by offices of foreign and domestic banks located outside the United States; Yankee Certificates of Deposit; which are certificates of deposit issued by a U.S. branch of a foreign bank denominated in U.S. dollars and held in the United States, Eurodollar Time Deposits, which are U.S. dollar denominated deposits in a foreign branch of a U.S. bank or a foreign bank; and Canadian Time Deposits, which are U.S. dollar denominated certificates of deposit issued by Canadian offices of major Canadian banks. All investments in certificates of deposit and time deposits will be limited to those (a) of domestic and foreign banks and savings and loan associations which, at the time of investment, have total assets of $1 billion or more (as of the date of the institution’s most recently published financial statements) or (b) the principal amount of which is insured by the Federal Deposit Insurance Corporation.
Mortgage Dollar Roll Transactions

A dollar roll transaction is a transaction through which the Fund sells certain of its securities to financial institutions such as banks and broker-dealers, and agrees to repurchase substantially similar securities at a mutually agreed upon date and price. At the time the Fund enters into a dollar roll agreement, it will place in a segregated custodial account assets such as U.S. Government securities or other liquid assets consistent with its investment restrictions having a value equal to the repurchase price (including accrued interest), and will subsequently continually monitor the account to insure that such equivalent value is maintained at all times. Dollar roll agreements involve the risk that the market value of securities sold by the Fund may decline below the price at which it is obligated to repurchase the securities. The Fund may experience a negative impact on its NAV if interest rates rise during the term of a dollar roll agreement. The Fund generally will invest the proceeds of such borrowings only when such borrowings will enhance the Fund’s liquidity or when the Fund reasonably expects that the interest income to be earned from the investment of the proceeds is greater than the interest expense of the transaction. Although mortgage dollar rolls could add leverage to the Fund’s portfolio, the Fund does not consider the purchase and/or sale of a mortgage dollar roll to be a borrowing for purposes of the Fund’s fundamental restrictions or other limitations on borrowing.

Mortgage-Related Securities

Mortgage-related securities are securities that, directly or indirectly, represent participations in, or are secured by and payable from, loans secured by real property. Mortgage-related securities include mortgage pass-through securities, adjustable rate mortgage securities and derivative securities such as collateralized mortgage obligations and stripped mortgage-backed securities. Mortgage-related securities fall into three categories: (a) those issued or guaranteed by the U.S. Government or one of its agencies or instrumentalities, such as Government National Mortgage Association (“GNMA”), Federal National Mortgage Association (“FNMA”) and Federal Home Loan Mortgage Corporation (“FHLMC”); (b) those issued by non-governmental issuers that represent interests in, or are collateralized by, mortgage-related securities issued or guaranteed by the U.S. Government or one of its agencies or instrumentalities; and (c) those issued by non-governmental issuers that represent an interest in, or are collateralized by, whole mortgage loans or mortgage-related securities without a government guarantee but usually with over-collateralization or some other form of private credit enhancement. Non-governmental issuers include originators of investors in mortgage loans, including savings and loan associations, mortgage bankers, commercial banks, investment banks and special purpose subsidiaries of the foregoing.

There are a number of important differences both among the agencies and instrumentalities of the U.S. Government that issue mortgage-related securities and among the securities themselves. “Ginnie Maes” are mortgage pass-through certificates issued by GNMA, which is a wholly-owned U.S. Government corporation within the Department of Housing and Urban Development. Ginnie Maes are guaranteed as to the timely payment of principal and interest by GNMA and GNMA’s guarantee is backed by the full faith and credit of the U.S. Treasury. In addition, Ginnie Maes are supported by the authority of GNMA to borrow funds from the U.S. Treasury to make payments under GNMA’s guarantee. Mortgage-related securities issued by the FNMA include FNMA guaranteed mortgage pass-through certificates (also known as “Fannie Maes”) which are solely the obligations of the FNMA. FNMA is a government-sponsored organization. Fannie Maes are guaranteed as to timely payment of principal and interest by FNMA but are not backed by or entitled to the full faith and credit of the U.S. Treasury. Mortgage-related securities issued by the FHLMC include FHLMC Mortgage Participation Certificates (also known as “Freddie Macs” or “PCs”). The FHLMC is a corporate instrumentality of the U.S. Government, created pursuant to an Act of Congress. Freddie Macs are not guaranteed by the U.S. Treasury or by any Federal Home Loan Bank and do not constitute a debt or obligation of the U.S. Government or of any Federal Home Loan Bank. Freddie Macs entitle the holder to timely payment of interest, which is guaranteed by the FHLMC. The FHLMC guarantees either ultimate collection or timely payment of all principal payments on the underlying mortgage loans. When the FHLMC does not guarantee timely payment of principal, FHLMC may remit the amount due on account of its guarantee of ultimate payment of principal at any time after default on an underlying mortgage, but in no event later than one year after it becomes payable.

In September 2008, the U.S. Treasury announced that FNMA and FHLMC were placed in conservatorship by the Federal Housing Finance Agency (“FHFA”), a newly created independent regulator. The conservatorship has no specified termination date. FNMA also has entered into a senior preferred stock purchase agreement with the U.S. Department of the Treasury pursuant to which the Treasury has committed to provide funding to FNMA under
specified circumstances. There can be no assurance as to when or how the conservatorship will be terminated or whether FNMA or FHLMC will continue to exist following the conservatorship or what their respective business structures will be during or following the conservatorship. The FHFA, as conservator, has the power to repudiate any contract entered into by FNMA or FHLMC prior to its appointment if it determines that performance of the contract is burdensome and repudiation of the contract promotes the orderly administration of FNMA’s or FHLMC’s affairs. Further, the FHFA has the right to transfer or sell any asset or liability of FNMA or FHLMC without any approval, assignment or consent. If FHFA were to transfer any such guaranty obligation to another party, holders of FNMA or FHLMC mortgage-backed securities would have to rely on that party for satisfaction of the guaranty obligation and would be exposed to the credit risk of that party.

Issuers of private mortgage-related securities, or non-governmental issuers, such as commercial banks, savings and loan institutions, private mortgage insurance companies, mortgage bankers and other secondary market issuers, are not U.S. government agencies and may be both the originators of the underlying mortgage loans as well as the guarantors of the mortgage-related securities, or they may partner with a government entity by issuing mortgage loans guaranteed or sponsored by the U.S. government or a U.S. government agency or sponsored enterprise. Pools of mortgage loans created by private issuers generally offer a higher rate of interest than government and government-related pools because there are no direct or indirect government or government agency guarantees of payment. The risk of loss due to default on private mortgage-related securities is historically higher because neither the U.S. government nor an agency or instrumentality have guaranteed them. Timely payment of interest and principal is, however, generally supported by various forms of insurance or guarantees, including individual loan, title, pool and hazard insurance. Government entities, private insurance companies or the private mortgage poolers issue the insurance and guarantees. The insurance and guarantees and the creditworthiness of their issuers will be considered when determining whether a mortgage-related security meets the Fund's quality standards. The Fund may buy mortgage-related securities without insurance or guarantees if, through an examination of the loan experience and practices of the poolers, the Advisor determines that the securities meet the Fund's quality standards. Private mortgage-related securities whose underlying assets are neither U.S. government securities nor U.S. government-insured mortgages, to the extent that real properties securing such assets may be located in the same geographical region, may also be subject to a greater risk of default than other comparable securities in the event of adverse economic, political or business developments that may affect such region and, ultimately, the ability of property owners to make payments of principal and interest on the underlying mortgages. Non-government mortgage-related securities are generally subject to greater price volatility than those issued, guaranteed or sponsored by government entities because of the greater risk of default in adverse market conditions. Where a guarantee is provided by a private guarantor, the Fund is subject to the credit risk of such guarantor, especially when the guarantor doubles as the originator.

Although certain mortgage-related securities are guaranteed by a third party or otherwise similarly secured, the market value of the security, which may fluctuate, is not so secured. If the Fund purchases a mortgage-related security at a premium, that portion may be lost if there is a decline in the market value of the security whether resulting from changes in interest rates or prepayments in the underlying mortgage collateral. As with other interest-bearing securities, the prices of mortgage-related securities are inversely affected by changes in interest rates. However, though the value of a mortgage-related security may decline when interest rates rise, the converse is not necessarily true, since in periods of declining interest rates the mortgages underlying the security are prone to prepayment. For this and other reasons, a mortgage-related security’s effective maturity may be shortened by unscheduled prepayments on the underlying mortgages and, therefore, it is not possible to predict accurately the security’s return to the Fund. In addition, regular payments received in respect of mortgage-related securities include both interest and principal. No assurance can be given as to the return the Fund will receive when these amounts are reinvested.

**Mortgage Pass-through Securities**

Mortgage pass-through securities provide for the pass-through to investors of their pro-rata share of monthly payments (including any prepayments) made by the individual borrowers on the pooled mortgage loans, net of any fees paid to the guarantor of such securities and the servicer of the underlying mortgage loans.
Adjustable Rate Mortgage Securities

Adjustable rate mortgage securities (“ARMS”) are pass-through mortgage securities collateralized by mortgages with interest rates that are adjusted from time to time. The adjustments usually are determined in accordance with a predetermined interest rate index and may be subject to certain limits. While the values of ARMS, like other debt securities, generally vary inversely with changes in market interest rates (increasing in value during periods of declining interest rates and decreasing in value during periods of increasing interest rates), the values of ARMS should generally be more resistant to price swings than other debt securities because the interest rates of ARMS move with market interest rates. The adjustable rate feature of ARMS will not, however, eliminate fluctuations in the prices of ARMS, particularly during periods of extreme fluctuations in interest rates. Also, since many adjustable rate mortgages only reset on an annual basis, it can be expected that the prices of ARMS will fluctuate to the extent that changes in prevailing interest rates are not immediately reflected in the interest rates payable on the underlying adjustable rate mortgages.

ARMS typically have caps which limit the maximum amount by which the interest rate may be increased or decreased at periodic intervals or over the life of the loan. To the extent that interest rates increase in excess of the caps, ARMS can be expected to behave more like traditional debt securities and to decline in value to a greater extent than would be the case in the absence of such caps. Also, since many adjustable rate mortgages only reset on an annual basis, it can be expected that the prices of ARMS will fluctuate to the extent that changes in prevailing interest rates are not immediately reflected in the interest rates payable on the underlying adjustable rate mortgages. The extent to which the prices of ARMS fluctuate with changes in interest rates will also be affected by the indices underlying the ARMS. Some indices, such as the one-year constant maturity Treasury note rate, closely mirror changes in market interest rate levels. Others, such as the 11th District Federal Reserve Cost of Funds Index (often related to ARMS issued by FNMA), tend to lag changes in market levels and tend to be somewhat less volatile.

Derivative Mortgage Securities

Collateralized mortgage obligations are derivative mortgage securities and are debt instruments issued by special purpose entities which are secured by pools of mortgage loans or other mortgage-related securities. Multi-class pass-through securities are equity interests in a trust composed of mortgage loans or other mortgage-related securities. Both are considered derivative mortgage securities and are collectively referred to as “CMOs.” Payments of principal and interest on underlying collateral provide the funds to pay debt service on the collateralized mortgage obligation or make scheduled distributions on the multi-class pass-through security.

In a CMO, a series of bonds or certificates is issued in multiple classes. Each class of CMO, often referred to as a “tranche,” is issued at a specific coupon rate and has a stated maturity or final distribution date. Principal prepayments on collateral underlying a CMO may cause it to be retired substantially earlier than the stated maturities or final distribution dates.

The principal and interest on the underlying mortgages may be allocated among the several tranches of a CMO in many ways. For example, certain tranches may have variable or floating interest rates and others may provide only the principal or interest feature of the underlying security. Generally, the purpose of the allocation of the cash flow of a CMO to the various tranches is to obtain a more predictable cash flow to certain of the individual tranches than exists with the underlying collateral of the CMO. As a general rule, the more predictable the cash flow is on a CMO tranche, the lower the anticipated yield will be on that tranche at the time of issuance relative to prevailing market yields on mortgage-related securities. As part of the process of creating more predictable cash flows on most of the tranches of a CMO, one or more tranches generally must be created that absorb most of the volatility in the cash flows on the underlying mortgage loans. The yields on these tranches, which may include inverse floaters, stripped mortgage-backed securities, and Z tranches, discussed below, are generally higher than prevailing market yields on mortgage-related securities with similar maturities. As a result of the uncertainty of the cash flows of these tranches, the market prices of and yields on these tranches generally are more volatile.

An inverse floater is a CMO tranche with a coupon rate that moves inversely to a designated index, such as LIBOR (London Inter-Bank Offered Rate) or COFI (Cost of Funds Index). Like most other fixed income securities, the value of inverse floaters will decrease as interest rates increase. Inverse floaters, however, exhibit greater price volatility than the majority of mortgage pass-through securities or CMOs. Coupon rates on inverse floaters typically change at a multiple of the change in the relevant index rate. Thus, any rise in the index rate (as a consequence of an increase in interest rates) causes a correspondingly greater drop in the coupon rate of an inverse floater while any drop in the index rate causes a correspondingly greater increase in the coupon of an inverse floater. Some inverse
floaters also exhibit extreme sensitivity to changes in prepayments. Inverse floaters may be purchased by the Fund in an attempt to protect against a reduction in the income earned on the Fund’s investments due to a decline in interest rates.

Z tranches of CMOs defer interest and principal payments until one or more other classes of the CMO have been paid in full. Interest accretes on the Z tranche, being added to principal, and is compounded through the accretion period. After the other classes have been paid in full, interest payments begin and continue through maturity. Z tranches have characteristics similar to zero coupon bonds. Like a zero coupon bond, during its accretion period a Z tranche has the advantage of eliminating the risk of reinvesting interest payments at lower rates during a period of declining market interest rates. At the same time, however, and also like a zero coupon bond, the market value of a Z tranche can be expected to fluctuate more widely with changes in market interest rates than would the market value of a tranche which pays interest currently. In addition, changes in prepayment rates on the underlying mortgage loans will affect the accretion period of a Z tranche, and therefore also will influence its market value.

Stripped mortgage-backed securities (“SMBSs”) may represent an interest solely in the principal repayments or solely in the interest payments on mortgage-backed securities. SMBSs are derivative multi-class securities. SMBSs are usually structured with two classes and receive different proportions of the interest and principal distributions on the pool of underlying mortgage-backed securities. Due to the possibility of prepayments on the underlying mortgages, SMBSs may be more interest-rate sensitive than other securities purchased. If prevailing interest rates fall below the level at which SMBSs were issued, there may be substantial prepayments on the underlying mortgages, leading to the relatively early prepayments of principal-only SMBSs (the principal-only or “PO” class) and a reduction in the amount of payments made to holders of interest-only SMBSs (the interest-only or “IO” class). Therefore, the IO class generally increases in value as interest rates rise and decreases in value as interest rates fall, counter to the PO class and to changes in value experienced by most fixed income securities. If the underlying mortgages experience slower than anticipated prepayments of principal, the yield on a PO class will be affected more severely than would be the case with a traditional mortgage-related security. Because the yield to maturity of an IO class is extremely sensitive to the rate of principal payments (including prepayments) on the related underlying mortgage-backed securities, it is possible that the Fund might not recover its original investment on interest-only SMBSs if there are substantial prepayments on the underlying mortgages. The Fund’s inability to fully recoup its investment in these securities as a result of a rapid rate of principal prepayments may occur even if the securities are rated AAA by an NRSRO. In view of these considerations, the Advisor or Sub-Advisor intends to use these characteristics of interest-only SMBSs to reduce the effects of interest rate changes on the value of the Fund’s portfolio, while continuing to pursue current income.

Municipal Securities
Municipal securities generally include debt obligations (bonds, notes or commercial paper) issued by or on behalf of any of the 50 states and their political subdivisions, agencies and public authorities. The interest paid on municipal securities generally is tax-exempt. Municipal securities are issued to obtain funds for various public purposes, including the construction of public facilities, such as airports, bridges, highways, housing, hospitals, mass transportation, schools, streets, water and sewer works, gas, and electric utilities. They may also be issued to refund outstanding obligations or to obtain funds for general operating expenses. Municipal leases are issued by a state or local government to acquire equipment or facilities, the obligations of which are typically secured by the leased equipment or facilities.

Non-Investment Grade Securities
The fixed income securities rated below investment grade generally entail greater interest rate, liquidity and credit risks than investment grade securities.

Obligations of Supranational Entities
For a discussion of Obligations of Supranational Entities, please see the “Foreign Securities” discussion in this section.

Options
A call option gives the purchaser of the option the right to buy a security at a stated price from the writer (seller) of the option. A put option gives the purchaser of the option the right to sell a security at a stated price to the writer of
the option. In a covered call option, during the option period the writer owns the security (or a comparable security sufficient to satisfy securities exchange requirements) which may be sold pursuant to the option. In a covered put option, the writer holds cash and/or short-term debt instruments sufficient in an amount equal to the exercise price of the option. In addition, a put or call option will be considered covered if and to the extent that some or all of the risk of the option has been offset by another option. The Fund may write combinations of covered puts and calls on the same underlying security.

In general, the Fund may write uncovered options in an attempt to increase returns or purchase options for hedging purposes.

The premium received from writing a put or call option increases the Fund’s return on the underlying security in the event that the option expires unexercised or is closed out at a profit. The amount of the premium reflects, among other things, the relationship between the exercise price and the current market value of the underlying security, the implied volatility of the underlying security, the amount of time remaining until expiration, current interest rates, and the effect of supply and demand in the options market and in the market for the underlying security. A put option locks in the price at which the Fund may sell a security it holds, thus hedging against market declines and a call option locks in the price at which the Fund may purchase a security, thus hedging against inflation. Such protection is provided during the life of the put option since the Fund, as holder of the option, is able to sell the underlying security at the option’s exercise price regardless of any decline in the underlying security’s market price. By writing a call option, the Fund limits its opportunity to profit from any increase in the market value of the underlying security above the exercise price of the option but continues to bear the risk of a decline in the value of the underlying security. By writing a put option, the Fund assumes the risk that it may be required to purchase the underlying security for an exercise price higher than its then current market value, resulting in a potential capital loss unless the security substantially appreciates in value.

The Fund may terminate an option that it has written prior to its expiration by entering into a closing purchase transaction, in which it purchases an offsetting option. The Fund realizes a profit or loss from a closing transaction if the cost of the transaction (option premium plus transaction costs) is less or more than the premium received from writing the option. Because increases in the market price of a call option generally reflect increases in the market price of the security underlying the option, any loss resulting from a closing purchase transaction may be offset in whole or in part by unrealized appreciation of the underlying security owned by the Fund.

In order for a put option to be profitable, the market price of the underlying security must decline sufficiently below the exercise price to cover the premium and transaction costs. By using put options in this manner the Fund will reduce any profit it might otherwise have realized from appreciation of the underlying security by the premium paid for the put option and by transaction costs.

In order for a call option to be profitable, the market price of the underlying security must rise sufficiently above the exercise price to cover the premium and transaction costs.

The successful use of options depends on the ability of the Advisor or Sub-Advisor to forecast interest rate and market movements. For example, if the Fund were to write a call option based on the Advisor’s or Sub-Advisor’s expectation that the price of the underlying security will fall, but the price rises instead, the Fund could be required to sell the security upon exercise at a price below the current market price. Similarly, if the Fund were to write a put option based on the Advisor’s or Sub-Advisor’s expectations that the price of the underlying security will rise, but the price falls instead, the Fund could be required to purchase the security upon exercise at a price higher than the current market price.

When the Fund purchases an option, it runs the risk that it will lose its entire investment in the option in a relatively short period of time, unless the Fund exercises the option or enters into a closing sale transaction with respect to the option during the life of the option. If the price of the underlying security does not rise (in the case of a call) or fall (in the case of a put) to an extent sufficient to cover the option premium and transaction costs, the Fund will lose part or all of its investment in the option. This contrasts with an investment by the Fund in the underlying security, since the Fund will not lose any of its investment in such security if the price does not change.

The use of options also involves the risk of imperfect correlation between movements in option prices and movements in the value of the underlying securities.
The effective use of options also depends on the Fund’s ability to terminate option positions at times when the Advisor or Sub-Advisor deems it desirable to do so. Although the Fund will take an option position only if the Advisor or Sub-Advisor believes there is a liquid secondary market for the option, there is no assurance that the Fund will be able to effect a closing transaction at any particular time or at an acceptable price.

The Fund generally expects that its options transactions will be conducted on recognized exchanges. In certain instances, however, the Fund may purchase and sell options in the OTC markets. The Fund’s ability to terminate options in the OTC market may be more limited than for exchange-traded options and may also involve the risk that securities dealers participating in such transactions would be unable to meet their obligations to the Fund. The Fund will, however, engage in OTC market transactions only when appropriate exchange-traded transactions are unavailable and when, in the opinion of the Advisor or Sub-Advisor, the pricing mechanism and liquidity of the OTC market is satisfactory and the participants are responsible parties likely to meet their contractual obligations.

If a secondary trading market in options were to become unavailable, the Fund could no longer engage in closing transactions. Lack of investor interest might adversely affect the liquidity of the market for particular options or series of options. A market may discontinue trading of a particular option or options generally. In addition, a market could become temporarily unavailable if unusual events—such as volume in excess of trading or clearing capability—were to interrupt its normal operations.

A market may at times find it necessary to impose restrictions on particular types of options transactions, such as opening transactions. For example, if an underlying security ceases to meet qualifications imposed by the market or the Options Clearing Corporation, new series of options on that security will no longer be opened to replace expiring series, and opening transactions in existing series may be prohibited. If an options market were to become unavailable, the Fund as a holder of an option would be able to realize profits or limit losses only by exercising the option, and the Fund, as option writer, would remain obligated under the option until expiration.

Disruptions in the markets for the securities underlying options purchased or sold by the Fund could result in losses on the options. If trading is interrupted in an underlying security, the trading of options on that security is normally halted as well. As a result, the Fund as purchaser or writer of an option will be unable to close out its positions until options trading resumes, and it may be faced with considerable losses if trading in the security reopens at a substantially different price. In addition, the Options Clearing Corporation or other options markets may impose exercise restrictions. If a prohibition on exercise is imposed at the time when trading in the option has also been halted, the Fund as a purchaser or writer of an option will be locked into its position until one of the two restrictions has been lifted. If the Options Clearing Corporation were to determine that the available supply of an underlying security appears insufficient to permit delivery by the writers of all outstanding calls in the event of exercise, it may prohibit indefinitely the exercise of put options by holders who would be unable to deliver the underlying interest. The Fund, as holder of such a put option, could lose its entire investment if the prohibition remained in effect until the put option’s expiration and the Fund was unable either to acquire the underlying security or to sell the put option in the market.

Special risks are presented by internationally-traded options. Because of time differences between the United States and various foreign countries, and because different holidays are observed in different countries, foreign options markets may be open for trading during hours or on days when U.S. markets are closed. As a result, option premium may not reflect the current prices of the underlying interest in the United States.

An exchange-listed option may be closed out only on an exchange which provides a secondary market for an option of the same series. There is no assurance that a liquid secondary market on an exchange will exist for any particular option or at any particular time. If no secondary market were to exist, it would be impossible to enter into a closing transaction to close out an option position. As a result, the Fund may be forced to continue to hold, or to purchase at a fixed price, a security on which it has sold an option at a time when the Advisor or Sub-Advisor believes it is inadvisable to do so.

Higher than anticipated trading activity or order flow or other unforeseen events might cause the Options Clearing Corporation or an exchange to institute special trading procedures or restrictions that might restrict the Fund’s use of options. The exchanges have established limitations on the maximum number of calls and puts of each class that may be held or written by an investor or group of investors acting in concert. It is possible that the Fund and other clients of the Advisor may be considered such a group. These position limits may restrict the Fund’s ability to

21
purchase or sell options on particular securities. Options which are not traded on national securities exchanges may be closed out only with the other party to the option transaction. For that reason, it may be more difficult to close out unlisted options than listed options. Furthermore, unlisted options are not subject to the protection afforded purchasers of listed options by the Options Clearing Corporation.

**Preferred Stock**

Preferred stock is a type of equity security which represents an ownership interest in a corporation and the right to a portion of the assets of the corporation in the event of a liquidation. This right, however, is subordinate to that of any creditors, including holders of debt issued by the corporation. Owners of preferred stock ordinarily do not have voting rights, but are entitled to dividends at a specified rate.

**Real Estate Investment Trusts (“REITs”)**

REITs are pooled investment vehicles which invest primarily in income producing real estate or real estate-related loans or interest. REITs are generally classified as equity REITs, mortgage REITs or a combination of equity and mortgage REITs. Equity REITs invest the majority of their assets directly in real property and derive income primarily from the collection of rents. Equity REITs can also realize capital gains by selling property that has appreciated in value. Mortgage REITs invest the majority of their assets in real estate mortgages and derive income from the collection of interest payments. The real property and mortgages serving as investment vehicles for REITs may be either residential or commercial in nature. Similar to investment companies, REITs are not taxed on income distributed to shareholders provided they comply with several requirements of the Code. Such tax requirements limit a REIT’s ability to respond to changes in the commercial real estate market.

Investments in REITs are subject to the same risks as direct investments in real estate. Real estate values rise and fall in response to many factors, including local, regional and national economic conditions, the demand for rental property, and interest rates. In addition, REITs may have limited financial resources, may trade less frequently and in limited volume and may be more volatile than other securities.

**Repurchase Agreements**

Repurchase agreements are agreements through which banks, broker-dealers and other financial institutions approved by the Trustees, sell securities (usually U.S. Government securities) to the Fund and agree to repurchase those securities at a specified price and time (usually not more than seven days from the original sale). The seller’s obligation to pay the repurchase price is secured by the securities to be repurchased. These securities are required to be held by the Fund, its custodian or a third-party custodian. In order to protect the Fund’s interest, collateral securities must have a value of at least 100% of the resale price at all times. (The seller must provide additional collateral in the event that this condition is not met). In general, the Advisor or Sub-Advisor will require collateral securities to have a value of at least 102% of the resale price at the time the repurchase agreement is made. The collateral is marked to market on a daily basis, thus enabling the Advisor or Sub-Advisor to determine when to request additional collateral from the seller.

If a seller defaults on its repurchase obligation, the Fund could realize a loss on the sale of the underlying securities to the extent that the proceeds of the sale (including accrued interest) are less than the resale price. In addition, even though the U.S. Bankruptcy Code provides protection to the Fund if the seller becomes bankrupt or insolvent, the Fund may suffer losses in such event.

**Restricted and Illiquid Securities**

Generally, an “illiquid security” or “illiquid investment” is any investment that the Fund reasonably expects cannot be sold or disposed of in current market conditions in seven calendar days or less without the sale or disposition significantly changing the market value of the investment. Illiquid investments generally include investments for which no market exists or which are legally restricted as to their transfer (such as those issued pursuant to an exemption from the registration requirements of the federal securities laws). Restricted securities are generally sold in privately negotiated transactions, pursuant to an exemption from registration under the 1933 Act. If registration of a security previously acquired in a private transaction is required, the Fund, as the holder of the security, may be obligated to pay all or part of the registration expense and a considerable period may elapse between the time it decides to seek registration and the time it will be permitted to sell a security under an effective registration
statement. If, during such a period, adverse market conditions were to develop, the Fund might obtain a less favorable price than prevailed when it decided to seek registration of the security. To the extent it is determined that there is a liquid institutional or other market for certain restricted securities, the Fund would consider them to be liquid securities. An example is a restricted security that may be freely transferred among qualified institutional buyers pursuant to Rule 144A under the 1933 Act, and for which a liquid institutional market has developed. Rule 144A securities may be subject, however, to a greater possibility of becoming illiquid than securities that have been registered with the SEC.

The following factors may be taken into account in determining whether a restricted security is properly considered a liquid security: (i) the frequency of trades and quotes for the security; (ii) the number of dealers willing to buy or sell the security and the number of other potential buyers; (iii) any dealer undertakings to make a market in the security; and (iv) the nature of the security and of the marketplace trades (e.g., any demand, put or tender features, the method of soliciting offers, the mechanics and other requirements for transfer, and the ability to assign or offset the rights and obligations of the security). The nature of the security and its trading includes the time needed to sell the security, the method of soliciting offers to purchase or sell the security, and the mechanics of transferring the security including the role of parties such as foreign or U.S. custodians, subcustodians, currency exchange brokers, and depositories.

The sale of illiquid investments often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than the sale of investments eligible for trading on national securities exchanges or in the over-the-counter (OTC) markets. Illiquid investments often sell at a price lower than similar investments that are not subject to restrictions on resale.

The risk to the Fund in holding illiquid investments is that they may be more difficult to sell if the Fund wants to dispose of the investment in response to adverse developments or in order to raise money for redemptions or other investment opportunities. Illiquid trading conditions may also make it more difficult for the Fund to realize an investment's fair value.

The Fund may also be unable to achieve its desired level of exposure to a certain investment, issuer, or sector due to overall limitations on its ability to invest in illiquid investments and the difficulty in purchasing such investments.

The Fund may not acquire any illiquid investment if, immediately after the acquisition, the Fund would have invested more than 15% of its net assets in illiquid investments that are assets. Because illiquid investments may not be readily marketable, the portfolio managers and/or investment personnel may not be able to dispose of them in a timely manner. As a result, the Fund may be forced to hold illiquid investments while their price depreciates. Depreciation in the price of illiquid investments may cause the net asset value of a Fund to decline.

**Reverse Repurchase Agreements**

The Fund may borrow funds for temporary purposes by entering into reverse repurchase agreements, provided such action is consistent with the Fund’s investment objective and fundamental investment restrictions. As a matter of non-fundamental policy, the Fund intends to limit total borrowings under reverse repurchase agreements to no more than 10% of the value of its total assets. Pursuant to a reverse repurchase agreement, the Fund will sell portfolio securities to financial institutions such as banks or to broker-dealers, and agree to repurchase the securities at a mutually agreed-upon date and price. The Fund intends to enter into reverse repurchase agreements only to avoid otherwise selling securities during unfavorable market conditions to meet redemptions. At the time the Fund enters into a reverse repurchase agreement, it will place in a segregated custodial account assets such as U.S. Government securities or other liquid assets consistent with the Fund’s investment objective having a value equal to 100% of the repurchase price (including accrued interest), and will subsequently monitor the account to ensure that an equivalent value is maintained. Reverse repurchase agreements involve the risk that the market value of the securities sold by the Fund may decline below the price at which the Fund is obligated to repurchase the securities. Reverse repurchase agreements are considered to be borrowings by the Fund under the 1940 Act.

**Securities Lending**

In order to generate additional income, the Fund may lend its portfolio securities on a short-term basis to certain brokers, dealers or other financial institutions. In determining whether to lend to a particular broker, dealer or financial institution, the Advisor or Sub-Advisor will consider all relevant facts and circumstances, including the size, creditworthiness and reputation of the borrower. Any loans made will be continuously secured by collateral in cash at least equal to 100% of the value of the securities on loan for the Fund. The Fund may lend up to 33 1/3% of its
total assets. Such loans must be fully collateralized by cash, U.S. government obligations or other high-quality debt obligations and marked to market daily. Although the loan is fully collateralized, if the borrower defaults, the Fund could lose money.

While portfolio securities are on loan, the borrower will pay to the lending Fund any dividends or interest received on the securities. In addition, the Fund retains all or a portion of the interest received on investment of the collateral or receives a fee from the borrower. Although voting rights, or rights to consent, with respect to the loaned securities pass to the borrower, the lending Fund retains the right to call the loans at any time on reasonable notice, and it will do so to enable the Fund to exercise voting rights on any matters materially affecting the investment. The Fund may also call such loans in order to sell the securities.

One of the risks in lending portfolio securities, as with other extensions of credit, is the possible delay in recovery of the securities or possible loss of rights in the collateral should the borrower fail financially. There is also the risk that, when lending portfolio securities, the securities may not be available to the Fund on a timely basis and the Fund may, therefore, lose the opportunity to sell the securities at a desirable price. In addition, in the event that a borrower of securities would file for bankruptcy or become insolvent, disposition of the securities may be delayed pending court action.

**Small Cap/Special Equity Situation Securities**

The Fund may invest in the securities of small capitalization companies and companies in special equity situations. Companies are considered to have a small market capitalization if their capitalization is within the range of those companies in the S&P 600 SmallCap Index. Companies are considered to be experiencing special equity situations if they are experiencing unusual and possibly non-repetitive developments, such as mergers; acquisitions; spin-offs; liquidations; reorganizations; and new products, technology or management. These companies may offer greater opportunities for capital appreciation than larger, more established companies, but investment in such companies may involve certain special risks. These risks may be due to the greater business risks of small size, limited markets and financial resources, narrow product lines and frequent lack of depth in management. The securities of such companies are often traded in the OTC market and may not be traded in volumes typical on a national securities exchange. Thus, the securities of such companies may be less liquid, and subject to more abrupt or erratic market movements than securities of larger, more established growth companies. Since a “special equity situation” may involve a significant change from a company’s past experiences, the uncertainties in the appraisal of the future value of the company’s equity securities and the risk of a possible decline in the value of the Fund’s investments are significant.

**Tax-Exempt Commercial Paper and Tax-Exempt Securities**

Tax-exempt commercial paper typically represents very short-term, unsecured, negotiable promissory notes. These obligations are often issued to meet seasonal working capital needs of municipalities or to provide interim construction financing. The obligations are paid from general revenues of municipalities or are refinanced with long-term debt. In most cases, tax-exempt commercial paper is backed by letters of credit, lending agreements, note repurchase agreements or other credit facility agreements offered by banks or other institutions which may be called upon in the event of default by the issuer of the commercial paper.

Tax-exempt securities are debt obligations the interest on which is, in the opinion of bond counsel for the issuing governmental entity or agency, excluded from gross income for federal income tax purposes. Examples of tax-exempt securities include fixed and floating or variable rate municipal obligations, tax-exempt notes, certificates of participation, trust and partnership interests in municipal obligations, tax-exempt commercial paper, stand-by commitments and private activity bonds.

Tax-exempt securities are issued to obtain monies for various public purposes, including the construction of a wide range of public facilities such as bridges, highways, roads, schools, water and sewer works, and other utilities. Other public purposes for which tax-exempt securities may be issued include refunding outstanding obligations, obtaining monies for general operating expenses and to lend to other public institutions and facilities. The two principal classifications of tax-exempt securities are general obligation and limited obligation (or revenue) securities. General obligation securities are obligations involving the credit of an issuer possessing taxing power and are payable from the issuer’s general unrestricted revenues and not from any particular fund or source. The characteristics and methods of enforcement of general obligation securities vary according to the law applicable to the particular issuer.
Limited obligation securities are payable only from the revenues derived from a particular facility or class or facilities or, in some cases, from the proceeds of a special excise or other specific revenue source, and generally are not payable from the unrestricted revenues of the issuer. Private activity bonds generally are limited obligation securities, the credit and quality of which are usually directly related to the credit of the private user of the facilities. Payment of principal of and interest on these bonds is the responsibility of the private user (and any guarantor).

Tax-exempt notes and tax-exempt commercial paper are generally used to provide for short-term capital needs, seasonal working capital needs of municipalities or to provide interim construction financing, and generally have maturities of one year or less. Tax-exempt notes include tax anticipation notes ("TANs"), revenue anticipation notes ("RANs") and bond anticipation notes ("BANs"). TANs are issued to finance working capital needs of municipalities. Generally, they are issued in anticipation of various seasonal tax revenues, such as income, sales, use and business taxes, and are payable from these specific future taxes. RANs are issued in expectation of receipt of other kinds of revenue, such as federal revenues or grants available under the federal revenue sharing programs. BANs are issued to provide interim financing until long-term financing can be arranged. In most cases, the long-term bonds then provide the money for the repayment of the notes. Tax-exempt commercial paper is typically backed by letters of credit, lending agreements, note repurchase agreements or other credit facility agreements offered by banks or other institutions and is actively traded.

Private activity bonds (sometimes called “industrial development bonds”) may be issued by or on behalf of public authorities to obtain funds to support certain privately owned or operated facilities. Because dividends attributable to interest on such bonds may not be tax exempt, it may not be desirable for an investor to purchase shares of the Fund which invests in private activity bonds, if such investor is a “substantial user” of facilities which are financed by private activity bonds or industrial development bonds or a “related person” of such a substantial user.

Tax-exempt securities may be purchased through the acquisition of certificates of accrual or similar instruments evidencing direct ownership of interest payments or principal payments, or both, on tax-exempt securities. In such arrangements, any discount accruing on a certificate or instrument that is purchased at a yield not greater than the coupon rate of interest on the related tax-exempt securities must be exempt from federal income tax and applicable state income taxes to the same extent as interest on such tax-exempt securities, in the opinion of counsel to the initial seller of each such certificate or instrument.

Tax-exempt securities may also be acquired by purchasing from banks participation interests in all or part of specific holdings of tax-exempt securities. Such participations may be backed in whole or in part by an irrevocable letter of credit or guarantee of the selling bank. The Fund will have the right to sell the interest back to the bank or other financial institutions and draw on the letter of credit on demand, generally on seven days’ notice, for all or any part of the Fund’s participation interest in the par value of the municipal obligation plus accrued interest. The Advisor or Sub-Advisor will generally exercise the demand on a letter of credit only under the following circumstances: (1) upon default of any of the terms of the documents of the municipal obligation plus accrued interest, (2) as needed to provide liquidity in order to meet redemptions, or (3) in order to maintain a high quality investment portfolio. The selling bank may receive a fee in connection with the arrangement. Banks and financial institutions are subject to extensive governmental regulations which may limit the amounts and types of loans and other financial commitments that may be made and interest rates and fees which may be charged. The profitability of banks and financial institutions is largely dependent upon the availability and cost of capital funds to finance lending operations under prevailing money market conditions. General economic conditions also play an important part in the operations of these entities and exposure to credit losses arising from possible financial difficulties of borrowers may affect the ability of a bank or financial institution to meet its obligations with respect to a participation interest. If the Fund purchases a participation interest, it must receive an opinion of counsel or a ruling of the Internal Revenue Service stating that interest earned by it on the tax-exempt securities in which it holds such participation interest is excluded from gross income for federal regular income tax purposes and applicable state income taxes.

Prices and yields on tax-exempt securities are dependent on a variety of factors, including general money market conditions, the financial condition of the issuer, general conditions in the market for tax-exempt obligations, the size of a particular offering, and the maturity of the obligation and ratings of particular issues, and are subject to change from time to time. Information about the financial condition of an issuer of tax-exempt bonds or notes may not be as extensive as that which is made available by corporations whose securities are publicly traded.
Congress or state legislatures may seek to extend the time for payment of principal or interest, or both, or to impose other constraints upon enforcement of tax-exempt securities. There is also the possibility that, as a result of litigation or other conditions, the power or ability of issuers to meet their obligations to pay interest on and principal of their tax-exempt securities may be materially impaired or their obligations may be found to be invalid or unenforceable. Such litigation or conditions may from time to time have the effect of introducing uncertainties in the market for tax exempt obligations or certain segments thereof, or may materially affect the credit risk with respect to particular bonds or notes. Adverse economic, business, legal or political developments might affect all or a substantial portion of tax-exempt securities in the same manner. Obligations of issuers of tax-exempt securities are subject to the provisions of bankruptcy, insolvency and other laws, such as the Federal Bankruptcy Code, affecting the rights and remedies of creditors.

The Code imposes certain continuing requirements on issuers of tax-exempt securities regarding the use, expenditure and investment of bond proceeds and the payment of rebates to the United States. Failure by the issuer to comply with certain of these requirements subsequent to the issuance of tax-exempt bonds could cause interest on the bonds to become includable in gross income retroactive to the date of issuance.

**Time Deposits**

For a discussion of Time Deposits, please see the “Money Market Instruments” discussion in this section.

**Treasury Receipts**

For a discussion of Treasury Receipts, please see the “Money Market Instruments” discussion in this section.

**Unit Investment Trusts**

Unit Investment Trusts are a type of investment company, registered with the SEC under the 1940 Act, that purchases a fixed portfolio of income-producing securities, such as corporate, municipal, or government bonds, mortgage-backed securities, or preferred stock. Unit holders receive an undivided interest in both the principal and the income portion of the portfolio in proportion to the amount of capital they invest. The portfolio of securities remains fixed until all the securities mature and unit holders have recovered their principal. Certain exchange traded funds are organized as unit investment trusts.

**U.S. Government Securities**

U.S. Government securities are securities that are either issued or guaranteed as to payment of principal and interest by the U.S. Government, its agencies or instrumentalities. U.S. Government securities are limited to: direct obligations of the U.S. Treasury, such as bills, notes, and bonds of the U.S. Treasury, and notes, bonds, and discount notes of U.S. Government agencies or instrumentalities, including certain mortgage securities.

Some obligations issued or guaranteed by agencies or instrumentalities of the U.S. Government, such as GNMA participation certificates, are backed by the full faith and credit of the U.S. Treasury.

Other such obligations are only supported by: the issuer’s right to borrow an amount limited to a specific line of credit from the U.S. Treasury; the discretionary authority of the U.S. Government to purchase certain obligations of an agency or instrumentality; or the credit of the agency or instrumentality.

Agency securities are issued or guaranteed by a federal agency or other government sponsored entity (“GSE”) acting under federal authority. Some GSE securities are supported by the full faith and credit of the U.S. Government and some GSE securities are not. GSE securities backed by the full faith and credit of the U.S. Government include the GNMA, Small Business Administration, Farm Credit System Financial Assistance Corporation, Farmer’s Home Administration, Federal Financing Bank, General Services Administration, Department of Housing and Urban Development, Export-Import Bank, Overseas Private Investment Corporation, and Washington Metropolitan Area Transit Authority Bonds.

GSE securities, which are not backed by the full faith and credit of the U.S. Government but receive support through federal subsidies, loans or other benefits, include those issued by the Federal Home Loan Bank System, FHLMC, FNMA and Tennessee Valley Authority in support of such obligations.
Certain other GSE securities are not backed by the full faith and credit of the U.S. Government and have no explicit financial support, including the Farm Credit System, Financing Corporation, and Resolution Funding Corporation.

Investors regard agency securities as having low credit risks, but not as low as Treasury securities. The Fund treats mortgage-backed securities guaranteed by a GSE as if issued or guaranteed by a federal agency. Although such a guarantee protects against credit risks, it does not reduce market and prepayment risks.

**U.S. Treasury Obligations**

For a discussion of U.S. Treasury Obligations, please see the “U.S. Government Securities” discussion above.

**Warrants**

Warrants are options to purchase common stock at a specific price (usually at a premium above the market value of the optioned common stock at issuance) valid for a specific period of time. Warrants may have a life ranging from less than a year to twenty years or may be perpetual. However, most warrants have expiration dates after which they are worthless. In addition, if the market price of the common stock does not exceed the warrant’s exercise price during the life of the warrant, the warrant will expire as worthless. Warrants have no voting rights, pay no dividends, and have no rights with respect to the assets of the corporation issuing them. The percentage increase or decrease in the market price of the warrant may tend to be greater than the percentage increase or decrease in the market price of the optioned common stock.

**When-Issued and Delayed Delivery Transactions**

When-issued and delayed delivery transactions are arrangements through which the Fund purchases securities with payment and delivery scheduled for a future time. No fees or other expenses, other than normal transaction costs, are incurred. However, liquid assets of the purchasing Fund sufficient to make payment for the securities are segregated on the Fund’s records at the trade date. These assets are then marked to market daily and maintained until the transaction has been settled. The Fund does not consider the purchase and/or sale of securities on a when-issued and delayed delivery basis to be a borrowing for purposes of the Fund’s fundamental restrictions or other limitations on borrowing.

A seller’s failure to complete a transaction may cause the Fund to miss a desired price or yield. In addition, because of delayed settlement, the Fund may pay more than market value on the settlement date. The Advisor or Sub-Advisor may choose to dispose of a commitment prior to settlement.

**Zero-Coupon Securities**

Zero-coupon securities are debt obligations which are generally issued at a discount and payable in full at maturity, and which do not provide for current payments of interest prior to maturity. Zero-coupon securities usually trade at a deep discount from their face or par value and are subject to greater market value fluctuations from changing interest rates than debt obligations of comparable maturities which make current distributions of interest. As a result, the NAV of shares of the Fund investing in zero-coupon securities may fluctuate over a greater range than shares of other mutual funds investing in securities making current distributions of interest and having similar maturities.

Zero-coupon securities may include U.S. Treasury bills issued directly by the U.S. Treasury or other short-term debt obligations, and longer-term bonds or notes and their unmatured interest coupons which have been separated by their holder, typically a custodian bank or investment brokerage firm. A number of securities firms and banks have stripped the interest coupons from the underlying principal (the “corpus”) of U.S. Treasury securities and resold them in custodial receipt programs with a number of different names, including TIGRS and CATS. The underlying U.S. Treasury bonds and notes themselves are held in book-entry form at the Federal Reserve Bank or, in the case of bearer securities (i.e., unregistered securities which are owned ostensibly by the bearer or holder thereof), in trust on behalf of the owners thereof.

In addition, the U.S. Treasury has facilitated transfers of ownership of zero-coupon securities by accounting separately for the beneficial ownership of particular interest coupons and corpus payments on U.S. Treasury securities through the Federal Reserve book-entry record-keeping system. The Federal Reserve program, as established by the U.S. Treasury Department, is known as “STRIPS” or “Separate Trading of Registered Interest and Principal of Securities.” Under the STRIPS program, the Fund will be able to have its beneficial ownership of U.S.
Treasury zero-coupon securities recorded directly in the book-entry record-keeping system in lieu of having to hold certificates or other evidence of ownership of the underlying U.S. Treasury securities. When debt obligations have been stripped of their unmatured interest coupons by the holder, the stripped coupons are sold separately. The principal or corpus is sold at a deep discount because the buyer receives only the right to receive a future fixed payment on the security and does not receive any rights to periodic cash interest payments. Once stripped or separated, the corpus and coupons may be sold separately.

Typically, the coupons are sold separately or grouped with other coupons with like maturity dates and sold in such bundled form. Purchasers of stripped obligations acquire, in effect, discount obligations that are economically identical to the zero-coupon securities issued directly by the obligor.

INVESTMENT RISKS

There are many factors which may affect an investment in the Fund. The Fund’s principal risks are described in the Prospectus. Additional risk factors are outlined below.

Active Trading Risk

Active trading will cause the Fund to have an increased portfolio turnover rate, which is likely to generate shorter-term gains (losses) for its shareholders, which are taxed at a higher rate than longer-term gains (losses). Actively trading portfolio securities increases the Fund’s trading costs and may have an adverse impact on the Fund’s performance.

ADRs and Domestically Traded Foreign Securities Risk

Because the Fund may invest in ADRs and other domestically traded securities of foreign companies, the Fund’s share price may be more affected by foreign economic and political conditions, taxation policies and accounting and auditing standards than would otherwise be the case. Foreign companies may not provide information as frequently or to as great an extent as companies in the United States. Foreign companies may also receive less coverage than U.S. companies by market analysts and the financial press. In addition, foreign companies may lack uniform accounting, auditing and financial reporting standards or regulatory requirements comparable to those applicable to U.S. companies. These factors may prevent the Fund and the Advisor or Sub-Advisor from obtaining information concerning foreign companies that is as frequent, extensive and reliable as the information concerning companies in the United States.

Asset-Backed Securities Risk

Asset-backed securities include interests in pools of debt securities, commercial or consumer loans, or other receivables. The value of these securities depends on many factors, including changes in interest rates, the availability of information concerning the pool and its structure, the credit quality of the underlying assets, the market’s perception of the servicer of the pool, and any credit enhancement provided. In addition, asset-backed securities have prepayment risks similar to mortgage-backed securities.

Call Risk

Call risk is the possibility that an issuer may redeem a fixed income security before maturity (a call) at a price below its current market price. An increase in the likelihood of a call may reduce the security’s price.

If a fixed income security is called, the Fund may have to reinvest the proceeds in other fixed income securities with lower interest rates, higher credit risks, or other less favorable characteristics.

Class/Sector/Region Focus Risk

When the Fund invests more than 25% of its net assets in securities of issuers within a particular geographic region, industry or sector or asset class, such as real estate-related or commodities-related securities, it is subject to increased risk. Performance will generally depend on the performance of the particular region, industry or sector or asset class, which may differ in direction and degree from that of the overall stock market. In addition, financial,
economic, business and political developments affecting the region, industry or sector or asset class may have a greater effect on the Fund than it would on a fund that did not focus on the region, industry or sector or asset class.

**Counterparty Risk**
This is the risk that the guarantor of a fixed-income security, the counterparty to an OTC derivatives contract or a borrower of a Fund’s securities will be unable or unwilling to make timely principal, interest or settlement payments, or otherwise honor its obligations.

**Credit Enhancement Risk**
The securities in which the Fund invests may be subject to credit enhancement (for example, guarantees, letters of credit or bond insurance). Credit enhancement is designed to assure timely payment of the security; it does not protect the Fund against losses caused by declines in a security’s value due to changes in market conditions. Securities subject to credit enhancement generally would be assigned a lower credit rating if the rating were based primarily on the credit quality of the issuer without regard to the credit enhancement. If the credit quality of the credit enhancement provider (for example, a bank or bond insurer) is downgraded, the rating on a security credit enhanced by such credit enhancement provider also may be downgraded.

A single bank, bond insurer or other enhancement provider may provide credit enhancement to more than one of the Fund’s investments. Having multiple securities credit enhanced by the same enhancement provider will increase the adverse effects on the Fund that are likely to result from a downgrading of, or a default by, such an enhancement provider. Adverse developments in the banking or bond insurance industries also may negatively affect the Fund, as the Fund may invest its assets in securities credit enhanced by banks or by bond insurers without limit. Bond insurers that provide credit enhancement for large segments of the fixed income markets, particularly the municipal bond market, may be more susceptible to being downgraded or defaulting during recessions or similar periods of economic stress.

**Credit Risk**
Credit risk is the possibility that an issuer may default on a security by failing to pay interest or principal when due. If an issuer defaults, the Fund will lose money.

Many fixed income securities receive credit ratings from NRSROs which assign ratings to securities by assessing the likelihood of issuer default. Lower credit ratings correspond to higher credit risk. If a security has not received a rating, the Fund must rely entirely upon the Advisor’s or Sub-Advisor’s credit assessment.

Fixed income securities generally compensate for greater credit risk by paying interest at a higher rate. The difference between the yield of a security and the yield of a U.S. Treasury security with a comparable maturity (the spread) measures the additional interest paid for risk. Spreads may increase generally in response to adverse economic or market conditions. A security’s spread may also increase if the security’s rating is lowered, or the security is perceived to have an increased credit risk. An increase in the spread will cause the price of the security to decline.

**Derivative Contracts and Hybrid Instruments Risk**
The Fund’s investments in derivatives can significantly increase the Fund’s exposure to market risk or credit risk of the counterparty. Derivatives also involve the risk of mispricing or improper valuation and the risk that changes in the value of the derivative may not correlate perfectly with the relevant assets, rates and indices.

When a derivative or other instrument is used as a hedge against an offsetting position that the Fund also holds, any loss generated by that derivative or other instrument will be substantially offset by the gains on the hedged security, and vice versa. To the extent the Fund uses a derivative security or other instrument for purposes other than as a hedge, or, if the Fund hedges imperfectly, the Fund is directly exposed to the risks of that derivative or other instrument and the risk that any loss generated by that derivative or other instrument will not be offset by a gain.

Derivative contracts and hybrid instruments involve risks different from, or possibly greater than, risks associated with investing directly in securities and other traditional investments. Specific risk issues related to the use of such contracts and instruments include valuation and tax issues, increased potential for losses and/or costs to the Fund,
and a potential reduction in gains to the Fund. Each of these issues is described in greater detail in the Prospectus. Derivative contracts and hybrid instruments may also involve other risks described in the Prospectus or this SAI, such as market, interest rate, credit, currency, liquidity and leverage risks.

**Emerging Markets Risk**

In addition to all of the risks of investing in foreign developed markets, emerging market securities involve risks attendant to less mature and stable governments and economies, such as lower trading volume, trading suspension, security price volatility, repatriation restrictions, government confiscation, inflation, deflation, currency devaluation and adverse government regulations of industries or markets. As a result of these risks, the prices of emerging market securities tend to be more volatile than the securities of issuers located in developed markets.

**Equity Securities Risk**

Equity securities include common, preferred and convertible preferred stocks and securities the values of which are tied to the price of certain securities, such as rights, warrants and convertible debt securities. Common and preferred stocks represent equity ownership in a company. Stock markets are volatile and the price of equity securities will fluctuate and can decline, based on changes in a company’s financial condition and overall market and economic conditions, reducing the value of the Fund.

High quality or “blue chip” equity securities or securities of established companies with large market capitalizations (which generally have strong financial characteristics) can be negatively impacted by poor overall market and economic conditions. Companies with large market capitalizations may also have less growth potential than smaller companies and may be able to react less quickly to changes in the marketplace.

**ETCFs Risk**

Commodities are tangible assets such as oil, agriculture, livestock, industrial metals, and precious metals such as gold or silver. The values of ETCFs are highly dependent on the prices of the commodities in which they invest; however, most ETCFs utilize futures trading to implement their strategies, which may produce returns that differ from those that would result from owning the underlying commodity. The demand and supply of these commodities may fluctuate widely based on such factors as interest rates, investors’ expectations with respect to the rate of inflation, currency exchange rates, the production and cost levels of producing countries and/or forward selling by such producers, global or regional political, economic or financial events, purchases and sales by central banks, and trading activities by hedge funds and other commodity funds. ETCFs may use derivatives, such as futures, options and swaps, which exposes them to further risks, including counterparty risk (i.e., the risk that the institution on the other side of their trade will default). There may be times when the market price and NAV of an ETCF may vary significantly, and because the Fund buys and sells ETCFs at market price, it may pay more than NAV when buying an ETCF, and receive less than NAV when selling an ETCF. Additionally, an active trading market for an ETCF’s shares may not develop or be maintained. The trading of an ETCF’s shares may be halted if the listing exchange’s officials deem such action appropriate, the shares are delisted from the exchange, or by the activation of market-wide “circuit breakers” (which are tied to large decreases in stock prices) that halt stock trading generally. Finally, the Fund incurs certain transaction costs in purchasing and selling ETCFs in the secondary market.

**Exchange-Traded Funds/Index-Based Securities Risk**

An investment in an ETF or index-based security generally presents the same primary risks as an investment in a mutual fund that has the same investment objectives, strategies, and policies. The price of an ETF or index-based security can fluctuate up or down, and the Fund could lose money investing in an ETF or index-based security if the prices of the securities owned by the ETF or index-based security decrease. In addition, ETFs and index-based securities may be subject to the following risks that do not apply to conventional mutual funds: (i) the market price of an ETF’s or index-based security’s shares may trade above or below their NAV; (ii) an active trading market for an ETF’s or index-based security's shares may not develop or be maintained; or (iii) trading of an ETF’s or index-based security's shares may be halted if the listing exchange’s officials deem such action appropriate, the shares are delisted from the exchange, or by the activation of market-wide “circuit breakers” (which are tied to large decreases in stock prices) that halt stock trading generally. See also “Ultrashort ETFs Risk” for further discussion of risks associated with investments in ETFs.
Extension Risk

Extension risk is the possibility that rising interest rates may cause prepayments on underlying obligations to occur at a slower than expected rate. This particular risk may effectively change a security which was considered short- or intermediate-term at the time of purchase into a long-term security. Long-term securities generally fluctuate more widely in response to changes in interest rates than short- or intermediate-term securities.

Foreign Investment/Currency Risk

Compared with investing in the United States, investing in foreign markets involves a greater degree and variety of risk. Investors in international or foreign markets may face delayed settlements, currency controls and adverse economic developments as well as higher overall transaction costs. In addition, fluctuations in the U.S. dollar’s value versus other currencies may erode or reverse gains from investments denominated in foreign currencies or widen losses. Exchange rates for currencies fluctuate daily. Foreign governments may expropriate assets, impose capital or currency controls, impose punitive taxes, impose limits on ownership or nationalize a company or industry. Any of these actions could have a severe effect on security prices and impair the fund’s ability to bring its capital or income back to the U.S. Exchange rate fluctuations also may impair an issuer’s ability to repay U.S. dollar denominated debt, thereby increasing credit risk of such debt. Finally, the value of foreign securities may be affected by incomplete, less frequent or inaccurate financial information about their issuers, social upheavals or political actions ranging from tax code changes to governmental collapse. Foreign companies may also receive less coverage than U.S. companies by market analysts and the financial press. In addition, foreign countries may lack uniform accounting, auditing and financial reporting standards or regulatory requirements comparable to those applicable to U.S. companies. These risks are greater in emerging markets. The combination of currency risk and market risk tends to make securities traded in foreign markets more volatile than securities traded exclusively in the United States.

Foreign custodial services and other costs relating to investment in international securities markets are generally more expensive than in the United States. Such markets have settlement and clearance procedures that differ from those in the United States. In certain markets, particularly emerging markets, there have been times when settlements have been unable to keep pace with the volume of securities transactions, making it difficult to conduct such transactions. The inability of the Fund to make intended securities purchases due to settlement problems could cause the Fund to miss attractive investment opportunities. Inability to dispose of a portfolio security caused by settlement problems could result in losses to the Fund due to a subsequent decline in value of the portfolio security. In addition, security settlement and clearance procedures in some emerging market countries may not fully protect the Fund against loss or theft of its assets.

Government Intervention and Extreme Volatility Risk

In the past, instability in the financial markets led the U.S. Government and other governments to take a number of unprecedented actions designed to support certain financial institutions and segments of the financial markets that experienced extreme volatility, and in some cases a lack of liquidity. Federal, state, and other governments, their regulatory agencies, or self-regulatory organizations could take actions that affect the regulation of the instruments in which the Fund invests, or the issuers of such instruments, in ways that are unforeseeable. Legislation or regulation may also change the way in which the Fund itself is regulated. Such legislation or regulation could limit or preclude the Fund’s ability to achieve its investment objective.

Reduced liquidity in credit and fixed-income markets may adversely affect many issuers worldwide. Reduced liquidity may also result in less money being available to purchase raw materials, goods and services from emerging markets, which may, in turn, bring down the prices of these economic staples. It may also result in emerging market issuers having more difficulty obtaining financing, which may, in turn, cause a decline in their stock prices. If they arise, these issues may have an adverse effect on the Fund.

In the wake of the financial crises that began in 2008, the Federal Reserve System attempted to stabilize the U.S. economy and support the U.S. economic recovery by keeping the federal funds rate at a low level. A low interest rate environment may have an adverse impact on the Fund’s ability to provide a positive yield to its shareholders and pay expenses out of Fund assets because of the low yields from the Fund’s portfolio investments.
However, continued economic recovery and rising interest rates could cause the value of the Fund to decrease. Federal Reserve policy changes may expose fixed-income and related markets to heightened volatility and may reduce liquidity for certain Fund investments, which could cause the value of the Fund’s investments and the Fund’s share price to decline or create difficulties for the Fund in disposing of investments. Investments in derivatives tied to fixed income markets may subject the Fund to greater risks than a fund that does not invest in derivatives. If rising interest rates cause the Fund to lose enough value, the Fund could also face increased shareholder redemptions, which could force the Fund to liquidate its investments at disadvantageous times or prices, thereby adversely affecting the Fund. To the extent the Fund experiences high redemptions because of these policy changes, the Fund may experience increased portfolio turnover, which will increase the costs that the Fund incurs and lower the Fund’s performance.

Hedging Risk
When a derivative (a security whose value is based on that of another security or index) is used as a hedge against an opposite position that a fund holds, any loss on the derivative should be substantially offset by gains on the hedged investment, and vice versa. Although hedging can be an effective way to reduce the Fund’s risk, it may not always be possible to perfectly offset one position with another. As a result, there is no assurance that the Fund’s hedging transactions will be effective.

Interest Rate Risk
Prices of fixed income securities rise and fall in response to changes in the interest rate paid by similar securities. Generally, when interest rates rise, prices of fixed income securities fall. However, market factors, such as the demand for particular fixed income securities, may cause the price of certain fixed income securities to fall while the prices of other securities rise or remain unchanged.

Interest rate changes have a greater effect on the price of fixed income securities with longer durations. Duration measures the price sensitivity of a fixed income security to changes in interest rates. See also Government Intervention and Extreme Volatility Risk.

Investment Style Risk
The particular type of investment on which the Fund focuses (such as small cap value stocks or large-cap growth stocks) may underperform other asset classes or the overall market. Individual market segments tend to go through cycles of performing better or worse than other types of securities. These periods may last as long as several years. Additionally, a particular market segment could fall out of favor with investors, causing the Fund that focuses on that market segment to underperform those funds that favor other kinds of securities.

Leverage Risk
Some transactions, such as derivatives, reverse repurchase agreements and dollar rolls, may give rise to a form of leverage, which may expose the Fund to greater risk and increase its costs. When transactions create leverage, adverse changes in the value or level of the underlying asset, reference rate or index can result in a loss substantially greater than the amount invested in the derivatives or other instruments themselves. Certain transactions have the potential for unlimited loss, regardless of the size of the initial investments. Increases and decreases in the value of the securities held by the Fund and therefore in the Fund’s NAV will be magnified when the Fund uses leverage because leverage tends to increase the Fund’s exposure to market risk, interest rate risk or other risks by, in effect, increasing assets available for investment.

As a series of an investment company registered with the SEC, the Fund must identify on its books (often referred to as “asset segregation”) liquid assets, or engage in other SEC or SEC-staff approved or other appropriate measures, to “cover” open positions with respect to certain kinds of derivative instruments. In the case of swaps, futures contracts, options, forward contracts and other derivative instruments that do not cash settle, for example, the Fund must identify on its books liquid assets equal to the full notional amount of the instrument while the positions are open, to the extent there is not an offsetting position. However, with respect to certain swaps, futures contracts, options, forward contracts and other derivative instruments that are required to cash settle, the Fund may identify liquid assets in an amount equal to the Fund’s daily marked-to-market net obligations (i.e., the Fund’s daily net liability) under the instrument, if any, rather than its full notional amount. The Fund reserves the right to modify its asset segregation policy in the future in its discretion, consistent with the 1940 Act and SEC or SEC-staff guidance.
By identifying assets equal to only its net obligations under certain instruments, the Fund will have the ability to employ leverage to a greater extent than if the Fund were required to identify assets equal to the full notional amount of the instrument.

To mitigate leverage risk, the Advisor or Sub-Advisor will segregate liquid assets on the books of the Fund or otherwise cover the transactions. The use of leverage may cause the Fund to liquidate Fund positions when it may not be advantageous to do so in order to satisfy its obligations or to meet segregation requirements. The Fund will also have to pay interest on its borrowing, reducing the Fund’s return. This interest expense may be greater than the Fund’s return on the underlying investment.

**Liquidity Risk**

Liquidity risk refers to the possibility that the Fund may not be able to sell a security or close out a derivative contract when it wants to. If this happens, the Fund will be required to continue to hold the security or keep the position open, and the Fund could incur losses. OTC derivative contracts generally carry greater liquidity risk than exchange-traded contracts.

**Management Risk**

The strategy used by the Fund’s portfolio manager may fail to produce the intended result. The Advisor’s or Sub-Advisor’s selection of securities for the Fund may cause the Fund to underperform similar funds or relevant benchmarks.

**Market Capitalization Risk**

Stocks fall into three broad market capitalization categories—large, medium and small. If the Fund invests primarily in one of these categories, it is subject to the risk that that category may be out of favor with investors due to current market conditions. If valuations of large capitalization companies appear to be greatly out of proportion to the valuations of small or medium capitalization companies, investors may migrate to the stocks of small and medium-sized companies. Larger, more established companies may also be unable to respond quickly to new competitive challenges such as changes in technology and consumer tastes. Many larger companies also may not be able to attain the high growth rate of successful smaller companies, especially during extended periods of economic expansion.

Investing in medium and small capitalization companies may be subject to special risks associated with narrower product lines, more limited financial resources, fewer experienced managers, dependence on a few key employees, and a more limited trading market for their stocks, as compared with larger companies. In addition, securities of these companies are subject to the risk that, during certain periods, the liquidity of particular issuers or industries will shrink or disappear with little forewarning as a result of adverse economic or market conditions, or adverse investor perceptions, whether or not accurate. Securities of medium and smaller capitalization issuers may therefore be subject to greater price volatility and may decline more significantly in market downturns than securities of larger companies. Smaller and medium capitalization issuers may also require substantial additional capital to support their operations, to finance expansion or to maintain their competitive position; and may have substantial borrowings or may otherwise have a weak financial condition, and may be susceptible to bankruptcy. Transaction costs for these investments are often higher than those of larger capitalization companies. There is typically less publicly available information about small capitalization companies. Some small and medium capitalization companies also may be relatively new issuers, which carries additional risks. Investments in new issuers may be more speculative because such companies are relatively unseasoned. These companies will often be involved in the development or marketing of a new product with no established market, which could lead to significant losses.

**Market Risk**

Market risk is the risk that the value of a security will move up or down, sometimes rapidly and unpredictably. These fluctuations, which are often referred to as “volatility,” may cause a security to be worth less than it was worth at an earlier time. Market risk may affect a single issuer, industry or sector of the economy or the market as a whole. Market risk is common to most investments, including stocks and bonds, and the mutual funds that invest in them. The risks of investing in bonds can vary significantly depending upon factors such as issuer and maturity. The bonds of some companies may be riskier than the stocks of others.
Mortgage-Backed and Asset-Backed Securities Risk
Mortgage-backed securities represent participating interests in pools of residential mortgage loans, some of which are guaranteed by the U.S. Government, its agencies or instrumentalities. However, the guarantee of these types of securities relates to the principal and interest payments and not the market value of such securities. In addition, the guarantee only relates to the mortgage-backed securities held by the Fund and not the purchase of shares of the Fund.

Mortgage-backed securities do not have a fixed maturity and their expected maturities may vary when interest rates rise or fall. An increased rate of prepayments on the Fund’s mortgage-backed securities will result in an unforeseen loss of interest income to the Fund as the Fund may be required to reinvest assets at a lower interest rate. A decreased rate of prepayments lengthens the expected maturity of a mortgage-backed security. The prices of mortgage-backed securities may decrease more than prices of other fixed-income securities when interest rates rise.

Collateralized Mortgage Obligations: The Fund may invest in mortgage-backed securities called collateralized mortgage obligations (“CMOs”). CMOs are issued in separate classes with different stated maturities. As the mortgage pool experiences prepayments, the pool pays off investors in classes with shorter maturities first. By investing in CMOs, the Fund may manage the prepayment risk of mortgage-backed securities. However, prepayments may cause the actual maturity of a CMO to be substantially shorter than its stated maturity.

Asset-Backed Securities: Asset-backed securities include interests in pools of debt securities, commercial or consumer loans, or other receivables. The value of these securities depends on many factors, including changes in interest rates, the availability of information concerning the pool and its structure, the credit quality of the underlying assets, the market’s perception of the servicer of the pool, and any credit enhancement provided. In addition, asset-backed securities have prepayment risks similar to those of mortgage-backed securities.

Non-Investment Grade Securities Risk
The securities in which the Fund may invest may be rated below investment grade. Such securities are known as junk bonds. Junk bonds generally entail greater market, credit and liquidity risks than investment grade securities. For example, their prices are more volatile, economic downturns and financial setbacks may affect their prices more negatively, and their trading market may be more limited.

Prepayment Risk
Many types of fixed income securities are subject to prepayment risk, including mortgage-backed securities. Prepayment risk occurs when the issuer of a security repays principal prior to the security’s maturity. This is more likely to occur when interest rates fall. The prepayment of principal can adversely affect the return of the Fund since it may have to reinvest the proceeds in securities that pay a lower interest rate.

Generally, mortgage-backed securities compensate for the increased risk associated with prepayments by paying a higher yield. The additional interest paid for risk is measured by the difference between the yield of a mortgage-backed security and the yield of a U.S. Treasury security with a comparable maturity (the spread). An increase in the spread may cause the price of the mortgage-backed security to decline. Spreads generally increase in response to adverse economic or market conditions. Spreads may also increase if the security is perceived to have an increased prepayment risk or is perceived to have less market demand.

Securities Linked to the Real Estate Market and REIT Risk
Investing in securities of companies in the real estate industry subjects the Fund to the risks associated with the direct ownership of real estate. These risks include:
- declines in the value of real estate;
- risks related to general and local economic conditions;
- possible lack of availability of mortgage funds;
- overbuilding;
- extended vacancies of properties;
• increased competition;
• increases in property taxes and operating expenses;
• change in zoning laws;
• losses due to costs resulting from the clean-up of environmental problems;
• liability to third parties for damages resulting from environmental problems;
• casualty or condemnation losses;
• limitations on rents;
• changes in neighborhood values and the appeal of properties to tenants; and
• changes in interest rates.

Therefore, if the Fund invests a substantial amount of its assets in securities of companies in the real estate industry, the value of the Fund’s shares may change at different rates compared to the value of shares of a fund with investments in a variety of different industries.

Securities of companies in the real estate industry include REITs, including equity REITs and mortgage REITs. Equity REITs may be affected by changes in the value of the underlying property owned by the trusts, while mortgage REITs may be affected by the quality of any credit extended. Further, equity and mortgage REITs are dependent upon management skills and generally may not be diversified. Equity and mortgage REITs are also subject to heavy cash flow dependency, defaults by borrowers and self-liquidations. In addition, equity and mortgage REITs could possibly fail to qualify for tax free pass-through of income under the Code, or to maintain their exemptions from registration under the 1940 Act. These factors may also adversely affect a borrower’s or a lessee’s ability to meet its obligations to the REIT. In the event of a default by a borrower or lessee, the REIT may experience delays in enforcing its rights as a mortgagee or lessor and may incur substantial costs associated with protecting its investments.

In addition, even the larger REITs in the industry tend to be small to medium-sized companies in relation to the equity markets as a whole. See “Market Capitalization Risk” for a discussion of the risks associated with investments in these companies.

**Security Specific Risk**

Security specific risk is the risk that the value of a particular security may or may not move in the same direction as the market as a whole.

**Ultrashort ETFs Risk**

Ultrashort ETFs use investment techniques that may be considered aggressive, including the use of futures contracts, options on futures contracts, securities and indices, forward contracts, swap agreements and similar instruments. An Ultrashort ETF’s investment in financial instruments may involve a small investment relative to the amount of investment exposure assumed and may result in losses exceeding the amounts invested. Such instruments, particularly when used to create leverage, may expose the Ultrashort ETF and consequently, the Fund, to potentially dramatic changes (losses or gains) in the value of the instruments and imperfect correlation between the value of the instruments and the security or index. The use of aggressive investment techniques also exposes the Fund to risks different from, or possibly greater than, the risks associated with investing directly in securities contained in an index underlying an Ultrashort ETF, including: (1) the risk that an instrument is mispriced; (2) credit or performance risk on the amount the Ultrashort ETF expects to receive from a counterparty; (3) the risk that securities prices, interest rates and currency markets will move adversely and the Ultrashort ETF will incur significant losses; (4) the risk that there may be imperfect correlation between the price of financial instruments and movements in the prices of the underlying securities; (5) the risk that the cost of holding a financial instrument might exceed its total return; and (6) the possible absence of a liquid secondary market for any particular instrument and/or possible exchange-imposed price fluctuation limits, which may make it difficult or impossible to adjust an Ultrashort ETF’s position in a particular financial instrument when desired.
Unrated Securities Risk
To the extent that the Fund invests in unrated securities, these securities may prove less liquid than rated securities as less information is available regarding the securities and a market may not exist for the securities at a given point in time.

DISCLOSURE OF PORTFOLIO HOLDINGS

The Fund’s Board of Trustees has adopted policies and procedures for the public and nonpublic disclosure of the Fund’s portfolio securities. The Fund’s portfolio holdings are currently disclosed to the public through filings with the SEC. The Fund discloses its portfolio holdings by mailing the annual and semi-annual reports to shareholders approximately two months after the end of the fiscal year and semi-annual period. In addition, the Fund discloses its portfolio holdings reports on Forms N-CSR and Form N-Q (or any successor Form) two months after the end of each quarter/semi-annual period.

As a general matter, no information concerning the portfolio holdings of the Fund may be disclosed to any unaffiliated third party except (1) to service providers that require such information in the course of performing their duties (for example, the Fund’s custodian, administrator, the Advisor, Sub-Advisor, independent public accountants, attorneys, officers and trustees) and are subject to a duty of confidentiality including a duty not to trade on non-public information, and (2) pursuant to certain exceptions that serve a legitimate business purpose. These exceptions may include: (1) disclosure of portfolio holdings only after such information has been publicly disclosed and (2) to third-party vendors, currently consisting of Morningstar Investment Services and Lipper Analytical Services that (a) agree to not distribute the portfolio holdings or results of the analysis to third parties, other departments or persons who are likely to use the information for purposes of purchasing or selling the Fund before the portfolio holdings or results of the analysis become publicly available; and (b) sign a written confidentiality agreement. The confidentiality agreement must provide, but is not limited to, that the recipient of the portfolio holdings information agrees to limit access to the portfolio holdings information to its employees who, on a need to know basis are (1) authorized to have access to the portfolio holdings information and (2) subject to confidentiality obligations, including duties not to trade on non-public information, no less restrictive than the confidentiality obligations contained in the confidentiality agreement.

Neither the Fund, the Advisor nor the Sub-Advisor may enter into any arrangement providing for the disclosure of non-public portfolio holding information for the receipt of compensation or benefit of any kind. Any exceptions to the policies and procedures may only be made by the consent of the Trust’s chief compliance officer upon a determination that such disclosure serves a legitimate business purpose and is in the best interests of the Funds and will be reported to the Board at the Board’s next regularly scheduled meeting.

TRUSTEES AND OFFICERS

The following tables provide information about the Board of Trustees and the senior officers of the Trust. The Board is composed of three Trustees, each of whom is not an “interested person” of the Trust, as that term is defined in the 1940 Act (each an “Independent Trustee” and collectively, the “Independent Trustees”). Each Trustee oversees all portfolios of the Trust and serves for an indefinite term (subject to mandatory retirement provisions). Information about each Trustee is provided below and includes each person’s: name, address, year of birth, present position(s) held with the Trust and principal occupations for at least the past five years. Unless otherwise noted, the business address of each person listed below is c/o Mutual Fund and Variable Insurance Trust, 36 North New York Avenue, Huntington, NY 11743. Unless otherwise noted, each officer is elected annually by the Board. Each Trustee and officer also serves in the same capacity for the Strategy Shares, another open-end investment company whose series are managed by the Advisor. Collectively, the Trust, Strategy Shares, Mutual Fund Series Trust, Variable Insurance Trust, AlphaCentric Prime Meridian Income Fund and the TCG Financial Series Trusts I-X comprise the “Fund Complex”.

Independent Trustees
<table>
<thead>
<tr>
<th>Name, Address and Year of Birth</th>
<th>Term of Office and Length of Time Served*</th>
<th>Position(s) Held with Registrant</th>
<th>Principal Occupation(s) During Past 5 Years</th>
<th>Number of Portfolios in Fund Complex Overseen by Trustee**</th>
<th>Other Directorships Held During Past 5 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tobias Caldwell, Year of Birth: 1967</td>
<td>Since January 2016</td>
<td>Chairman of the Board and Trustee</td>
<td>Managing Member, Genovese Family Enterprises, LLC (family office) (1999-present); Managing Member, PTL Real Estate LLC (real estate/investment firm) (2000-present); Manager Member, Bear Properties, LLC (real estate firm) (2006-present).</td>
<td>57</td>
<td>Chairman of the Board, Strategy Shares (2016-present); Lead Independent Trustee and Chairman of the Audit Committee, Mutual Fund Series Trust (2006-present); Independent Trustee and Chairman of Audit Committee, Variable Insurance Trust (2010-present); Trustee, M3Sixty Trust (2016-present); Chairman of the Board, AlphaCentric Prime Meridian Income Fund (July 2018 to present).</td>
</tr>
</tbody>
</table>

* The term of office of each Trustee is indefinite.

** The “Fund Complex” includes the Trust, Variable Insurance Trust, Strategy Shares, Mutual Fund Series Trust, Variable Insurance Trust, AlphaCentric Prime Meridian Income Fund and the TCG Financial Series Trusts I-X, each a registered investment company.

Officers*

<table>
<thead>
<tr>
<th>Name, Address, Year of Birth</th>
<th>Position(s) Held with Registrant</th>
<th>Term and Length Served*</th>
<th>Principal Occupation(s) During Past 5 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jerry Szilagyi, 36 N. New York Avenue Huntington, NY 11743</td>
<td>President</td>
<td>Since April 2016</td>
<td>President, Rational Advisors, Inc., 1/2016 - present; Chief Executive Officer, Catalyst Capital Advisors LLC, 1/2006- present; Member, AlphaCentric Advisors LLC, 2/2014 - present; Managing Member,</td>
</tr>
</tbody>
</table>
Year of Birth: 1962  

Erik Naviloff  
Treasurer  
Since April 2016  
Vice President – Fund Administration, Gemini Fund Services, LLC, since 2012.

80 Arkay Drive  
Hauppauge, New York 11788  
Year of Birth: 1968

Year of Birth: 1974

Treasurer  
Since April 2016  
Manager - Fund Administration, Gemini Fund Services, LLC, since 2012.

80 Arkay Drive.  
Hauppauge, New York 11788  
Year of Birth: 1974

Year of Birth: 1959

Chief Compliance Officer  
Since April 2016  
Director, MFund Services LLC since 5/2015; Director & Chief Compliance Officer, Citi Fund Services, 2010-2015.

36 N. New York Avenue  
Huntington, NY 11743  
Year of Birth: 1959

Year of Birth: 1968

Since April 2016  
Director of Legal Services, MFund Services LLC, 2/2012 - present.

36 N. New York Avenue  
Huntington, NY 11743  
Year of Birth: 1968

Year of Birth: 1983

Since June 2018  
Chief Operating Officer, Catalyst Capital Advisors LLC June 2017 to present; Chief Operating Officer, Rational Advisors, Inc., June 2017 - present; Portfolio Manager, Catalyst Capital Advisors LLC 12/2013 - present; Portfolio Manager, Rational Advisors, Inc. 1/2016 - 5/2018; Senior Analyst, Catalyst Capital Advisors LLC, 3/2013 - 12/2013.

Frederick J. Schmidt  
Chief Compliance Officer  
Since April 2016  
Director, MFund Services LLC since 5/2015; Director & Chief Compliance Officer, Citi Fund Services, 2010-2015.

Jennifer A. Bailey  
Secretary  
Since April 2016  
Director of Legal Services, MFund Services LLC, 2/2012 - present.

36 N. New York Avenue  
Huntington, NY 11743  
Year of Birth: 1968

Year of Birth: 1983

Since June 2018  
Chief Operating Officer, Catalyst Capital Advisors LLC June 2017 to present; Chief Operating Officer, Rational Advisors, Inc., June 2017 - present; Portfolio Manager, Catalyst Capital Advisors LLC 12/2013 - present; Portfolio Manager, Rational Advisors, Inc. 1/2016 - 5/2018; Senior Analyst, Catalyst Capital Advisors LLC, 3/2013 - 12/2013.

Michael Schoonover  
Vice President  
Since June 2018  
Chief Operating Officer, Catalyst Capital Advisors LLC June 2017 to present; Chief Operating Officer, Rational Advisors, Inc., June 2017 - present; Portfolio Manager, Catalyst Capital Advisors LLC 12/2013 - present; Portfolio Manager, Rational Advisors, Inc. 1/2016 - 5/2018; Senior Analyst, Catalyst Capital Advisors LLC, 3/2013 - 12/2013.

* Officers do not receive any compensation from the Trust.

Compensation of the Board of Trustees

The Independent Trustees are paid a quarterly retainer and receive compensation for each committee meeting, telephonic Board meeting, and special in-person Board meeting attended. Officers receive no compensation from the Trust. The Chairman of the Board and the Chairman of the Audit Committee receive an additional fee per quarter. The Trust reimburses each of the Independent Trustees for travel and other expenses incurred in connection with attendance at such meetings. The Trust has no retirement or pension plans.

The following table describes the compensation paid to the Trustees of the Trust during the most recent fiscal year ended December 31, 2018. The Fund was not in operation during the Trust’s fiscal year ended December 31, 2018. The compensation amounts provided in the table below for the Fund is the estimated compensation to be paid by the Fund to the Trustees for the fiscal year ending December 31, 2019.
<table>
<thead>
<tr>
<th>Name of Person</th>
<th>Aggregate Compensation from the Fund</th>
<th>Total Compensation from Fund Complex*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tobias Caldwell</td>
<td>$1,600</td>
<td>$214,250^1</td>
</tr>
<tr>
<td>Stephen Lachenauer</td>
<td>$1,600</td>
<td>$42,250^2</td>
</tr>
<tr>
<td>Donald McIntosh</td>
<td>$1,100</td>
<td>$31,800^2</td>
</tr>
</tbody>
</table>

* The “Fund Complex” includes the Trust, Strategy Shares, Mutual Fund Series Trust, AlphaCentric Prime Meridian Income Fund, and the TCG Financial Services Trusts I-X, each a registered investment company. Variable Insurance Trust is not currently operational and does not currently compensate its Trustees.

1 Does not include compensation from TCG Financial Series Trusts I-X, of which he does not serve on the Board.

2 Does not include compensation from Variable Insurance Trust or Mutual Fund Series Trust, of which he does not serve on the Board.

TRUSTEES OWNERSHIP OF SHARES IN THE FUND AND IN THE FUND COMPLEX AS OF DECEMBER 31, 2018

<table>
<thead>
<tr>
<th>Name of Trustee</th>
<th>Dollar Range of Shares Owned in the Fund</th>
<th>Dollar Range of Shares Owned in the Fund Complex*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tobias Caldwell</td>
<td>None</td>
<td>Over $100,000^1</td>
</tr>
<tr>
<td>Stephen Lachenauer</td>
<td>None</td>
<td>None^2</td>
</tr>
<tr>
<td>Donald McIntosh</td>
<td>None</td>
<td>None^2</td>
</tr>
</tbody>
</table>

* The “Fund Complex” includes the Trust, Strategy Shares, Mutual Fund Series Trust, AlphaCentric Prime Meridian Income Fund, Variable Insurance Trust, and the TCG Financial Services Trusts I-X, each a registered investment company. Variable Insurance Trust is not currently operational.

1 Does not include ownership of shares in TCG Financial Series Trusts I-X, of which he does not serve on the Board.

2 Does not include ownership of shares in Variable Insurance Trust or Mutual Fund Series Trust, of which he does not serve on the Board.

As of December 31, 2018, none of the Trustees (including their immediate family members) owned beneficially or of record securities of the Advisor, Sub-Advisor or the Fund’s Distributor (as defined below) or any entity directly or indirectly controlling, controlled by, or under common control with the Advisor, Sub-Advisor or Distributor.

Qualifications and Experience of the Trustees

The following provides an overview of the considerations that led the Board to conclude that each individual serving as a Trustee of the Trust should so serve. Generally, no one factor was decisive in the original selection of an individual to join the Board. Among the factors the Board considered when concluding that an individual should serve on the Board were the following: (1) the individual’s business and professional experience and accomplishments; (2) the individual’s prior experience serving on the boards of public companies, and other complex enterprises and organizations; and (3) how the individual’s skills, experience, and attributes would contribute to an appropriate mix of relevant skills and experience on the Board.

In respect of each current Trustee, the individual’s substantial professional accomplishments and prior experience, including, in some cases, in fields related to the operations of the Trust, were a significant factor in the determination that the individual should serve as a Trustee of the Trust.

In addition to the information set forth above, the following sets forth additional information about the qualifications and experience of each of the Trustees that lead to the conclusion that each Trustee should serve as Trustee of the Trust.

Tobias Caldwell
Mr. Caldwell is the manager of a real estate investment firm. Mr. Caldwell has served on the boards of mutual funds for over ten years, including as chair of the audit committee for over ten years. Mr. Caldwell also serves as a Trustee of other investment companies in the Fund Complex. His experience in the real estate and investment industries provides the Board with an additional perspective and understanding of investment strategies used by advisors to the funds.

Stephen Lachenauer
Mr. Lachenauer has been an attorney in private practice for over six years, providing advice and counsel to small businesses and individuals on business and financial matters. Mr. Lachenauer’s previous experience at large law firms and as an attorney at a large investment bank provides the Board with knowledge of financial and investment regulatory matters. Mr. Lachenauer also serves as a Trustee of other investment companies in the Fund Complex.

Donald McIntosh
Mr. McIntosh is a credit risk review analyst for a large international financial services company, and he has many years of credit analysis and loan servicing experience. Mr. McIntosh’s experience in evaluating companies’ financial condition would provide the Board with knowledge about investment strategies used by the advisors of the funds. Mr. McIntosh also serves as a Trustee of other investment companies in the Fund Complex.

Board Structure
The Board is responsible for overseeing the management and operations of the Trust. The Board consists of three Independent Trustees. The Chairperson of the Trust, Tobias Caldwell, is an Independent Trustee.

The Board holds four regular meetings each year to consider and address matters involving the Fund and the Trust. The Board also may hold special meetings to address matters arising between regular meetings. In addition, the Independent Trustees regularly meet outside the presence of management and are advised by independent legal counsel. These meetings may take place in-person or by telephone.

The Board reviews its structure regularly and believes that its leadership structure, including having only Independent Trustees, coupled with an Independent Chairperson, is appropriate and in the best interests of the Trust, given its specific characteristics. The Board of Trustees also believes its leadership structure facilitates the orderly and efficient flow of information to the Independent Trustees from Trust management.

When considering potential nominees to fill vacancies on the Board, and as part of its annual self-evaluation, the Board reviews the mix of skills and other relevant experiences of the Trustees.

COMMITTEES OF THE BOARD OF TRUSTEES
The Board has two standing committees, the Audit Committee and the Risk and Compliance Committee.

Audit Committee. The Audit Committee is comprised of each of the Trustees. The primary function of the Audit Committee is to assist the full Board in fulfilling its oversight responsibilities to the shareholders and the investment community relating to fund accounting, reporting practices and the quality and integrity of the financial reports. To satisfy these responsibilities, the Audit Committee reviews with the independent auditors the audit plan and results and recommendations following independent audits, reviews the performance of the independent auditors and recommends engagement or discharge of the auditors to the full Board, reviews the independence of the independent auditors, reviews the adequacy of the Fund’s internal controls and prepares and submits Committee meeting minutes and supporting documentation to the full Board. The Audit Committee met four times during the fiscal year ended December 31, 2018.

Risk and Compliance Committee. The Risk and Compliance Committee is comprised of each of the Trustees. The Risk and Compliance Committee is responsible for general oversight of the Trust’s compliance with the legal and regulatory requirements of the Trust’s operations. The Risk and Compliance Committee also serves as a means to provide feedback and guidance to the Trust’s Chief Compliance Officer (“CCO”) and assists the Board in
identifying and managing risks. The Risk and Compliance Committee is newly established and did not meet during the fiscal year ended December 31, 2018.

**Board Oversight of Risk**

An integral part of the Board’s overall responsibility for overseeing the management and operations of the Trust is the Board’s oversight of the risk management of the Trust’s investment programs and business affairs. The Fund is subject to a number of risks, such as investment risk, valuation risk, risk of operational failure or lack of business continuity, and legal, compliance and regulatory risk. The Fund, the Advisor, and other service providers to the Trust have implemented various processes, procedures, and controls to identify risks to the Fund, to lessen the probability of their occurrence, and to mitigate any adverse effect should they occur. Different processes, procedures, and controls are employed with respect to different types of risks.

The Board exercises oversight of the risk management process through the Audit Committee and through oversight by the Board itself. The Board holds four regular meetings each year to consider and address matters involving the Fund. In addition to adopting, and periodically reviewing, policies and procedures designed to address risks to the Fund, the Board requires management of the Advisor and the Trust, including the Trust’s CCO, to report to the Board and the Audit Committee on a variety of matters, including matters relating to risk management, at regular and special meetings. The Board and the Audit Committee receive regular reports from the Trust’s independent public accountants on internal control and financial reporting matters. On at least a quarterly basis, the Independent Trustees meet with the Trust’s CCO, including outside the presence of management, to discuss issues related to compliance. Furthermore, the Board receives a quarterly report from the Trust’s CCO regarding the operation of the compliance policies and procedures of the Trust and its primary service providers. The Board monitors the Fund’s investment policies and procedures as well as valuation of the Fund’s securities. The Board also receives quarterly reports from the Advisor and Sub-Advisor on the investments and securities trading of the Fund, including its investment performance and asset weightings compared to appropriate benchmarks, as well as reports regarding the valuation of the Fund’s securities. The Board also receives reports from the Trust’s primary service providers regarding their operations as they relate to the Fund.

**PRINCIPAL SHAREHOLDERS**

Persons owning 25% or more of the outstanding shares of the Fund (or a class of shares of the Fund) may be deemed to control the Fund (or class of the Fund). Persons controlling the Fund can determine the outcome of any proposal submitted to the shareholders for approval, including changes to the Fund's fundamental policies or the terms of the investment advisory agreement with the Advisor.

Because the Fund has not yet commenced operations as of the date of this SAI, no shareholders are known by the Trust to own of record 5% or more of the outstanding shares of the Fund.

Because the Fund has not yet commenced operations as of the date of this SAI, the officers and Trustees as a group did not own any outstanding shares of the Fund.

**ADVISOR AND SUB-ADVISOR**

Rational Advisors, Inc. has been retained by the Trust under a Management Agreement to act as the investment advisor to the Fund, subject to the authority of the Board of Trustees. The Advisor (formerly a wholly owned subsidiary of Huntington National Bank and known as Huntington Asset Advisors, Inc.) was organized under the laws of Ohio in 2001. The Advisor oversees the day-to-day investment decisions for the Fund and continuously reviews, supervises and administers the Fund’s investment program. The Advisor is under common control with Catalyst Capital Advisors LLC and AlphaCentric Advisors LLC, the investment advisors of other funds in the Fund Complex. The address of the Advisor is 36 North New York Avenue, Huntington, NY 11743.
The Management Agreement provides that the Advisor will provide the Fund with investment advice and supervision and will continuously furnish an investment program for the Fund consistent with the investment objectives and policies of the Fund.

For its services under the Management Agreement, the Advisor is paid a monthly management fee at the annual rate noted in the table below, based upon the average daily net assets of the Fund. The Advisor is responsible for the payment of the salaries and expenses of all of its personnel, office rent and the expenses of providing investment advisory services and related clerical expenses, except for costs of securities purchased for the Fund and other expenses described below.

<table>
<thead>
<tr>
<th>Fund</th>
<th>Contractual Advisory Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rational Special Situations Income Fund</td>
<td>1.50%</td>
</tr>
</tbody>
</table>

Except for the expenses described above that have been assumed by the Advisor, all expenses incurred in administration of the Fund will be charged to the Fund, including investment management fees; fees and expenses of the Board of Trustees; interest charges; taxes; brokerage commissions; expenses of valuing assets; expenses of continuing registration and qualification of the Fund and the shares under federal and state law; share issuance expenses; fees and disbursements of independent accountants and legal counsel; fees and expenses of custodians, including sub-custodians and securities depositories, transfer agents and shareholder account servicing organizations; expenses of preparing, printing and mailing prospectuses, reports, proxies, notices and statements sent to shareholders; expenses of shareholder meetings; costs of investing in underlying funds; and insurance premiums. The Fund is also liable for nonrecurring expenses, including litigation to which it may from time to time be a party. Expenses incurred for the operation of the Fund, including the expenses of communications with its shareholders, are paid by the Fund.

The Advisor has entered into an expense limitation agreement with the Fund (the “Expense Agreement”), under which the Advisor has contractually agreed to waive all or a portion of its investment advisory fee (based on average daily net assets) and/or reimburse certain operating expenses of the Fund to the extent necessary in order to limit the Fund’s total annual fund operating expenses (exclusive of acquired fund fees and expenses, brokerage costs, interest, taxes and dividends, extraordinary expenses and legal related costs and expenses in connection with litigation initiated (or threatened to be initiated) by the Sub-Advisor (defined below) on behalf of the Fund) to not more than the levels set forth in the table below (based on the average daily net assets of each class of the Fund) through April 30, 2021. Under certain conditions, the Advisor may recapture operating expenses waived and/or reimbursed under the Expense Agreement for a period of three years after the fees were waived or expenses paid, if the recoupment can be achieved without causing the expense ratio of the share class (after the recoupment is taken into account) to exceed (i) the expense limit in effect at the time the fees were waived or expenses paid, or (ii) the expense limit in place at the time of the recoupment. The Expense Agreement shall terminate automatically upon the termination of the Management Agreement. The Advisor may elect in its discretion to terminate the Expense Agreement for any period following the term period of the Expense Agreement, but no such termination shall affect the obligation (including the amount of the obligation) of the Fund to repay amounts of waived fees or reimbursed expenses with respect to periods prior to such termination.

<table>
<thead>
<tr>
<th>Fund</th>
<th>Expense Limitation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rational Special Situations Income Fund</td>
<td>1.75%, 2.00% and 2.75% of the average daily net assets of the Institutional Shares, Class A Shares and Class C Shares, respectively.</td>
</tr>
</tbody>
</table>

The Management Agreement with the Fund continues in effect for an initial two year term and then from year to year as long as its continuation is approved at least annually by the Board of Trustees, including a majority of the Independent Trustees, or by the shareholders of the Fund. The Management Agreement may be terminated at any time upon 60 days’ written notice by the Fund, by a majority vote of the outstanding shares of the Fund or upon 90 days’ written notice by the Advisor and will terminate automatically upon assignment. A discussion of the matters
considered by the Board in connection with the approval of the Management Agreement will be available in the Fund’s semi-annual report to shareholders for the fiscal period ending June 30, 2019.

The Management Agreement provides that the Advisor shall not be liable for any error of judgment or mistake of law or for any loss suffered by the Fund in connection with the performance of its duties, except a loss resulting from a breach of fiduciary duty with respect to the receipt of compensation for services or a loss resulting from willful misfeasance, bad faith, or gross negligence on the part of the Advisor in the performance of its duties, or from reckless disregard of its duties and obligations thereunder.

From time to time, the Advisor may use a portion of its reasonable resources and profits to pay for certain administrative services provided by financial institutions for shareholders of the Fund.

Sub-Advisor

ESM Management LLC, located at 262 West 38th Street, Suite 507, New York, NY 10018, has been retained to act as the sub-advisor to the Fund under an Investment Sub-Advisory Agreement (“Sub-Advisory Agreement”) with the Advisor. The Advisor and the Trustees have chosen to engage the Sub-Advisor’s services as sub-advisor to the Fund in part because of the Sub-Advisor’s prior expertise and performance in advising the Predecessor Fund.

As compensation for the sub-advisory services it provides to the Fund, the Advisor will pay the Sub-Advisor 100% of the net advisory fees paid by the Fund on net assets acquired in the Reorganization and 50% of the net advisory fees paid by the Fund on all other net assets of the Fund. For this purpose, “net advisory fees” mean advisory fees collected from the Fund (net of fee waivers due to expense caps) less any revenue sharing and asset-based fees paid to broker-dealers or custodians with assets in the Fund. The fee paid to the Sub-Advisor by the Advisor will be paid from the Advisor’s management fee and is not an additional cost to the Fund. The Sub-Advisory Agreement is effective for an initial two year period and continues in effect for successive twelve-month periods, provided that the Board of Trustees annually approves it for continuance. A discussion of the matters considered by the Board in connection with the approval of the Sub-Advisory Agreement will be available in the Fund’s semi-annual report to shareholders for the fiscal period ending June 30, 2019.

Portfolio Managers

Eric S. Meyer and William R. Van de Water are the portfolio managers of the Fund and are jointly and primarily responsible for the day-to-day management of the Fund’s portfolio.

Unless otherwise noted, the following information about the Fund’s portfolio managers is provided as of April 30, 2019.

<table>
<thead>
<tr>
<th>Total Other Accounts Managed</th>
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</thead>
<tbody>
<tr>
<td>Portfolio Manager</td>
</tr>
<tr>
<td>Eric S. Meyer</td>
</tr>
<tr>
<td>William R. Van de Water</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other Accounts Managed Subject to Performance-Based Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio Manager</td>
</tr>
<tr>
<td>Eric S. Meyer</td>
</tr>
<tr>
<td>William R. Van de Water</td>
</tr>
</tbody>
</table>
Compensation.
Dr. Meyer and Mr. Van de Water each have an ownership interest in the Sub-Advisor and receive as compensation a percent of the net profits of the Sub-Advisor.

Ownership.
Because the Fund has not yet commenced operations as of the date of this SAI, the portfolio managers do not own any shares of the Fund.

Potential Conflicts of Interest
Actual or apparent conflicts of interest may arise when a portfolio manager has day-to-day management responsibilities with respect to more than one fund or other accounts. More specifically, portfolio managers who manage multiple funds are presented with the following potential conflicts:

The management of multiple accounts may result in a portfolio manager devoting unequal time and attention to the management of each account. The management of multiple funds and accounts also may give rise to potential conflicts of interest if the funds and accounts have different objectives, benchmarks, time horizons, and fees as the portfolio manager must allocate his time and investment ideas across multiple funds and accounts.

- With respect to securities transactions for the Fund, the Advisor or Sub-Advisor determines which broker to use to execute each order, consistent with the duty to seek best execution of the transaction. The portfolio managers may execute transactions for another fund or account that may adversely impact the value of securities held by the Fund. Securities selected for funds or accounts other than the Fund may outperform the securities selected for the Fund.

- The appearance of a conflict of interest may arise where the Advisor or Sub-Advisor has an incentive, such as a performance-based management fee. The management of personal accounts may give rise to potential conflicts of interest; there is no assurance that the Fund’s, the Advisor’s or the Sub-Advisor’s codes of ethics will adequately address such conflicts. One of the portfolio manager's numerous responsibilities is to assist in the sale of Fund shares. Because the portfolio managers’ compensation is indirectly linked to the sale of Fund shares, they may have an incentive to devote time to marketing efforts designed to increase sales of Fund shares.

- The Fund may invest in affiliated funds advised by the Advisor. Conflicts of interest may arise in allocating the Fund’s assets among the affiliated funds. The Advisor will receive more revenue when it selects an affiliated fund rather than an unaffiliated fund for inclusion in the Fund’s portfolio. This conflict may provide an incentive for the Advisor to invest Fund assets in affiliated fund that do not perform as well as unaffiliated funds. The Advisor may have an incentive to allocate the Fund’s assets to those affiliated funds for which the net advisory fees payable to the Advisor are higher than the fees payable by other affiliated funds.

- The Fund, the Advisor and the Sub-Advisor have each adopted a code of ethics that, among other things, permits personal trading by its employees under conditions where it has been determined that such trades would not adversely impact client accounts. Nevertheless, the management of personal accounts may give rise to potential conflicts of interest, and there is no assurance that these codes of ethics will adequately address such conflicts.

Each of the Advisor, the Sub-Advisor and the Fund has adopted certain compliance procedures which are designed to address these types of conflicts. However, there is no guarantee that such procedures will detect each and every situation in which a conflict arises.

CODE OF ETHICS
The Advisor, Sub-Advisor, Northern Lights Distributors, LLC (the “Distributor”) and the Fund have adopted codes of ethics (each a “Code” and collectively the “Codes”) under Rule 17j-1(c) of the 1940 Act. The purpose of each Code is to avoid potential conflicts of interest and to prevent fraud, deception or misconduct with respect to the Fund. Each Code permit personnel covered by the codes to invest in securities that may be purchased by the Fund, subject to the restrictions of the Code. The Codes are filed as exhibits to the Trust’s registration statement.

TRANSFER AGENT, FUND ACCOUNTING AGENT AND ADMINISTRATOR

Gemini Fund Services, LLC (“GFS”), which has its principal office at 80 Arkay Drive., Hauppauge, New York 11788, serves as administrator, fund accountant and transfer agent for the Fund pursuant to a Fund Services Agreement (the “Fund Services Agreement”) with the Trust and subject to the supervision of the Board. GFS is primarily in the business of providing administrative, fund accounting and transfer agent services to retail and institutional mutual funds. GFS is an affiliate of the Distributor.

GFS may also provide persons to serve as officers of the Trust. Such officers may be directors, officers or employees of GFS or its affiliates.

The Fund Services Agreement will remain in effect for an initial term of three years from the effective date for the Fund, and will continue in effect for successive twelve-month periods provided that such continuance is specifically approved at least annually by a majority of the Board. The Fund Services Agreement is terminable by the Board or GFS on 90 days’ written notice and may be assigned by either party, provided that the Trust may not assign this agreement without the prior written consent of GFS. The Fund Services Agreement provides that GFS shall be without liability for any action reasonably taken or omitted pursuant to the Fund Services Agreement.

Under the Fund Services Agreement, GFS performs the following administrative services, among others: (1) monitor the performance of administrative and professional services rendered to the Fund by other service providers; (2) monitor Fund holdings and operations for post-trade compliance with the Fund’s registration statement and applicable laws and rules; (3) prepare and coordinate the printing of semi-annual and annual financial statements; (4) prepare selected management reports for performance and compliance analyses; (5) prepare and disseminate materials for and attend and participate in meetings of the Board; (6) determine income and capital gains available for distribution and calculate distributions required to meet regulatory, income, and excise tax requirements; (7) review the Trust's federal, state, and local tax returns as prepared and signed by the Trust's independent public accountants; (8) prepare and maintain the Trust's operating expense budget to determine proper expense accruals to be charged to each fund in the Trust to calculate the fund’s daily net asset value; (9) assist in and monitor the preparation, filing, printing and where applicable, dissemination of periodic reports to the Trustees, shareholders and the SEC, notices pursuant to Rule 24f-2, proxy materials and reports to the SEC on Forms N-SAR, N-CSR, N-Q and N-PX; (10) coordinate the Trust's audits and examinations by assisting the Fund’s independent public accountants; (11) determine, in consultation with others, the jurisdictions in which shares of the Trust shall be registered or qualified for sale and facilitate such registration or qualification; (12) monitor sales of shares and ensure that the shares are properly and duly registered with the SEC; (13) monitor the calculation of performance data for the Fund; (14) prepare, or cause to be prepared, expense and financial reports; (15) prepare authorization for the payment of Trust expenses and pay, from Trust assets, all bills of the Trust; (16) provide information typically supplied in the investment company industry to companies that track or report price, performance or other information with respect to investment companies; (17) upon request, assist the Fund in the evaluation and selection of other service providers, such as independent public accountants, printers, EDGAR providers and proxy solicitors (such parties may be affiliates of GFS); and (18) perform other services, recordkeeping and assistance relating to the affairs of the Trust as the Trust may, from time to time, reasonably request.

GFS also provides the Fund with accounting services, including: (i) daily computation of net asset value; (ii) maintenance of security ledgers and books and records as required by the 1940 Act; (iii) production of the Fund’s listing of portfolio securities and general ledger reports; (iv) reconciliation of accounting records; (v) calculation of yield and total return for the Fund; (vi) maintaining certain books and records described in Rule 31a-1 under the
1940 Act, and reconciling account information and balances among the Fund’s custodian and Advisor; and (vii) monitoring and evaluating daily income and expense accruals, and sales and redemptions of shares of the Fund.

GFS also acts as transfer, dividend disbursing, and shareholder servicing agent for the Fund pursuant to the Fund Services Agreement. Under the Fund Services Agreement, GFS 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 the services rendered to the Fund by GFS, the Fund pays GFS the greater of an annual minimum fee or an asset based fee, which scales downward based upon net assets. The Fund also pays GFS for any reasonable out-of-pocket expenses or advances incurred by GFS in the performance of its duties under the Fund Services Agreement.

Pursuant to a Management Services Agreement with the Trust, MFund Services LLC (“MFund”) provides the Fund with various management and administrative services. For these services, the Fund pays MFund an annual fixed fee and an asset-based fee, which scales downward based upon net assets, applied at the fund family level (i.e., all the funds in the Trust advised by the Advisor).

In addition, the Fund reimburses MFund for any reasonable out-of-pocket expenses incurred in the performance of its duties under the Management Services Agreement. Jerry Szilagyi is the controlling member of MFund Services, the controlling member of the Advisor, Catalyst Capital Advisors LLC and AlphaCentric Advisors LLC (each an investment advisor to certain series of the Trust), and a Trustee of the Trust.

COMPLIANCE SERVICES

Pursuant to a Compliance Services Agreement, MFund provides chief compliance officer services to the Fund. For these services, the Fund pays MFund a monthly base fee plus an asset-based fee. In addition, the Fund reimburses MFund for any reasonable out-of-pocket expenses incurred in the performance of its duties under the Compliance Services Agreement.

CUSTODIAN

The Huntington National Bank, 41 South High Street, Columbus, OH 43215, serves as the custodian of the Fund. The custodian has custody of all securities and cash of the Fund. The custodian, among other things, attends to the collection of principal and income and payment for and collection of proceeds of securities bought and sold by the Fund.

Brown Brothers Harriman & Co., 50 Post Office Square, Boston, MA 02110, serves as sub-custodian for the Fund’s foreign assets.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Fund’s independent registered public accounting firm is Cohen & Company, Ltd. (“Cohen”), located at 151 N. Franklin St, Suite 575, Chicago, IL 60606. Shareholders will receive annual financial statements, together with a report of independent accountants, and semiannual unaudited financial statements of the Fund. Cohen will report on the Fund’s annual financial statements, review certain regulatory reports and the Fund’s income tax returns, and perform other professional accounting, auditing, tax and advisory services when engaged to do so by the Fund.

COUNSEL

Stradley Ronon Stevens & Young, LLP, 2005 Market Street, Suite 2600, Philadelphia, PA 19103, serves as counsel for the Trust and the Independent Trustees.

DISTRIBUTOR
Northern Lights Distributors, LLC, located at 17645 Wright Street, Suite 200, Omaha, Nebraska 68130 (“Distributor”), serves as the principal underwriter and national distributor for the shares of the Fund pursuant to an Underwriting Agreement with the Trust (the “Underwriting Agreement”). The Distributor is registered as a broker-dealer under the Securities Exchange Act of 1934 and each state’s securities laws and is a member of FINRA. The offering of the Fund’s shares is continuous. The Underwriting Agreement provides that the Distributor, as agent in connection with the distribution of Fund shares, will use its reasonable efforts to facilitate the sale of the Fund’s shares.

The Underwriting Agreement provides that, unless sooner terminated, it will continue in effect for two years initially and thereafter shall continue from year to year, subject to annual approval by (a) the Board or a vote of a majority of the outstanding shares of the Fund, and (b) by a majority of the Trustees who are not interested persons of the Trust or of the Distributor by vote cast in person at a meeting called for the purpose of voting on such approval.

The Underwriting Agreement may be terminated by the Fund at any time, without the payment of any penalty, by vote of a majority of the entire Board, by vote of a majority of the outstanding shares of the Fund, or upon 60 days' written notice to the Distributor, or by the Distributor at any time, without the payment of any penalty, upon 60 days' written notice to the Fund. The Underwriting Agreement will automatically terminate in the event of its assignment.

12b-1 Plans

As a compensation-type plan, the Rule 12b-1 Plan (the “Plan”) is designed to pay a financial intermediary (including the Distributor, the Advisor and their affiliates) for activities principally intended to result in the sale of Shares such as advertising and marketing of Shares (including printing and disseminating prospectuses and sales literature to prospective shareholders and financial intermediaries) and providing incentives to financial intermediaries to sell Shares. The Plan is also designed to cover the cost of administrative services performed in conjunction with the sale of Shares, including, but not limited to, shareholder services, recordkeeping services and educational services, as well as the costs of implementing and operating the Plan. In accordance with the Plan, the Distributor or the Fund may enter into agreements with financial intermediaries and dealers relating to distribution and/or marketing services with respect to the Class A Shares, Class C Shares and Institutional Shares of the Fund. The Distributor or the Fund may also enter into Rule 12b-1 related agreements with financial institutions (including fiduciaries, custodians for public funds, and investment advisors) to provide distribution related and other services with respect to each class of shares. The Plan may benefit the Fund in a number of ways. For example, it is anticipated that the Plan may help the Fund attract and retain assets, thus providing cash for orderly portfolio management and Share redemptions and possibly helping to stabilize or reduce other operating expenses.

In addition, the Plan is integral to the multiple class structure of the Fund, which promotes the sale of Shares by providing a range of options to investors. The Fund’s service providers that receive asset-based fees also benefit from stable or increasing Fund assets.

Under the Plan, the Fund may compensate a financial intermediary more or less than its actual marketing and administrative expenses. In no event will the Fund pay for any expenses of a financial intermediary that exceed the maximum Rule 12b-1 fee permitted by the Plan for the applicable class of shares of the Fund.

The fee paid to the Advisor and/or Distributor by the Fund is computed on an annualized basis reflecting the average daily net assets of the class. The maximum distribution and service fee for Class A and Institutional Shares is 0.25% of the average daily net assets of such class. Class C Shares of the Fund pay a maximum distribution and service fee of 1.00% of their average daily net assets. Of this amount, 0.75% represents distribution 12b-1 fees and 0.25% represents shareholder servicing fees. The Plan has not been implemented for the Institutional Shares and there are no plans to impose these fees.

SHAREHOLDER SERVICES

With respect to Class A and Institutional Shares, the Fund may pay a shareholder servicing fee of up to 0.25% of the respective class’ average daily net assets to financial intermediaries, including the Distributor, the Advisor and their
affiliates for providing shareholder services and maintaining shareholder accounts. The financial intermediary may select others to perform these services for their customers and may pay them fees.

**ADDITIONAL COMPENSATION TO FINANCIAL INTERMEDIARIES**

The Fund may directly enter into agreements with “financial intermediaries” pursuant to which the Fund will pay the financial intermediary for services such as networking or sub-transfer agency, including the maintenance of “street name” or omnibus accounts and related sub-accounting, record-keeping and administrative services provided to such accounts. Payments made pursuant to such agreements are generally based on either: (1) a percentage of the average daily net assets of clients serviced by such financial intermediary, or (2) the number of accounts serviced by such financial intermediary. Any payments made pursuant to such agreements may be in addition to, rather than in lieu of, Rule 12b-1 or shareholder service fees the financial intermediary may also be receiving. From time to time, the Advisor or its affiliates may pay a portion of the fees for networking or sub-transfer agency at its or their own expense and out of its or their legitimate profits. These payments may be material to financial intermediaries relative to other compensation paid by the Fund and/or the Distributor, the Advisor and their affiliates. The payments described above may differ and may vary from amounts paid to the Fund’s transfer agent or other service providers for providing similar services to other accounts. The financial intermediaries are not audited by the Fund, the Advisor or their service providers to determine whether such intermediaries are providing the services for which they are receiving such payments.

The Advisor or affiliates of the Advisor may also, at their own expense and out of their own legitimate profits, provide additional cash payments to financial intermediaries who sell shares of the Fund. These additional cash payments are payments over and above sales commissions or reallocations, distribution fees or servicing fees (including networking, administration and sub-transfer agency fees) payable to a financial intermediary which are disclosed elsewhere in the Prospectus or this SAI. These additional cash payments are generally made to financial intermediaries that provide sub-accounting, sub-transfer agency, shareholder or administrative services or marketing support. Marketing support may include: (i) access to sales meetings or conferences, sales representatives and financial intermediary management representatives; (ii) inclusion of the Fund on a sales list, including a preferred or select sales list, or other sales programs to which financial intermediaries provide more marketing support than to other sales programs on which the Advisor or its affiliates may not need to make additional cash payments to be included; (iii) promotion of the sale of the Fund’s shares in communications with a financial intermediary’s customers, sales representatives or management representatives; and/or (iv) other specified services intended to assist in the distribution and marketing of the Fund’s shares. These additional cash payments also may be made as an expense reimbursement in cases where the financial intermediary provides shareholder services to Fund shareholders. The Advisor and its affiliates may also pay cash compensation in the form of finders’ fees or referral fees that vary depending on the dollar amount of shares sold.

The amount and value of additional cash payments vary for each financial intermediary. The availability of these additional cash payments, the varying fee structure within a particular additional cash payment arrangement and the basis for and manner in which a financial intermediary compensates its sales representatives may create a financial incentive for a particular financial intermediary and its sales representatives to recommend the Fund’s shares over the shares of other mutual funds based, at least in part, on the level of compensation paid. A financial intermediary and its sales representatives may have similar financial incentives to recommend a particular class of the Fund’s shares over other classes of the Fund’s shares. You should consult with your financial adviser and review carefully any disclosure by the financial firm as to compensation received by your financial adviser.

Although the Fund may use financial firms that sell its shares to effect portfolio transactions for the Fund, the Fund and the Advisor will not consider the sale of Fund shares as a factor when choosing financial firms to effect those transactions.

**PROXY VOTING POLICY**

48
The Board of Trustees of the Trust has delegated responsibilities for decisions regarding proxy voting for securities held by the Fund to the Sub-Advisor. The Sub-Advisor may delegate such proxy voting to a third party proxy voting service provider. The proxy voting delegate will vote such proxies in accordance with its proxy policies and procedures. In some instances, the proxy voting delegate may be asked to cast a proxy vote that presents a conflict between its interests and the interests of the Fund’s shareholders. In such a case, the Trust’s policy requires that the proxy voting delegate abstain from making a voting decision and to forward all necessary proxy voting materials to the Trust to enable the Board of Trustees to make a voting decision. When the Board of Trustees of the Trust is required to make a proxy voting decision, only the Trustees without a conflict of interest with regard to the security in question or the matter to be voted upon shall be permitted to participate in the decision of how the Fund’s vote will be cast. Each proxy voting delegate has developed a detailed proxy voting policy that has been approved by the Board of Trustees. The Sub-Advisor’s Proxy Voting Policies are attached hereto as Appendix B.

Information on how the Fund voted proxies relating to portfolio securities will be available without charge, upon request, by calling 800-253-0412 or on the SEC's Internet site at www.sec.gov. In addition, a copy of the Fund’s proxy voting policies and procedures will also be available by calling 800-253-0412 and will be sent within three business days of receipt of a request.

PORTFOLIO TURNOVER

Turnover rates are primarily a function of the Fund’s response to market conditions. Since the Fund has not commenced operations as of the end of the Trust's last fiscal year, it does not have any annual portfolio turnover data to report. Such information will be provided in future filings.

PORTFOLIO TRANSACTIONS

Purchases and sales of securities on a securities exchange are effected by brokers, and the Fund pays a brokerage commission for this service. In transactions on stock exchanges, these commissions are negotiated. In the over-the-counter market, securities (e.g., debt securities) are normally traded on a "net" basis with dealers acting as principal for their own accounts without a stated commission, although the price of the securities usually includes a profit to the dealer. In underwritten offerings, securities are purchased at a fixed price, which includes an amount of compensation to the underwriter, generally referred to as the underwriter's concession or discount.

The primary consideration in placing portfolio security transactions with broker-dealers for execution is to obtain and maintain the availability of execution at the most favorable prices and in the most effective manner possible. The Advisor attempts to achieve this result by selecting broker-dealers to execute portfolio transactions on behalf of the Fund on the basis of the broker-dealers' professional capability, the value and quality of their brokerage services and the level of their brokerage commissions.

Although commissions paid on every transaction will, in the judgment of the Advisor, be reasonable in relation to the value of the brokerage services provided, under the Management Agreement and as permitted by Section 28(e) of the Securities Exchange Act of 1934, the Advisor may cause the Fund to pay a commission to broker-dealers who provide brokerage and research services to the Advisor for effecting a securities transaction for the Fund. Such commission may exceed the amount other broker-dealers would have charged for the transaction, if the Advisor determines in good faith that the greater commission is reasonable relative to the value of the brokerage and the research and investment information services provided by the executing broker-dealer viewed in terms of either a particular transaction or the Advisor’s overall responsibilities to the Fund and to its other clients. Such research and investment information services may include advice as to the value of securities, the advisability of investing in, purchasing or selling securities, the availability of securities or of purchasers or sellers of securities, furnishing analyses and reports concerning issuers, industries, securities, economic factors and trends, portfolio strategy and the performance of accounts, and effecting securities transactions and performing functions incidental thereto such as clearance and settlement.

Research provided by brokers is used for the benefit of all of the clients of the Advisor and not solely or necessarily for the benefit of the Fund. The Advisor's investment management personnel attempt to evaluate the quality of research provided by brokers. Results of this effort are sometimes used by the Advisor as a consideration in the selection of brokers to execute portfolio transactions.
The investment advisory fees that the Fund pays to the Advisor will not be reduced as a consequence of the Advisor's receipt of brokerage and research services. To the extent the Fund's portfolio transactions are used to obtain such services, the brokerage commissions paid by the Fund will exceed those that might otherwise be paid, by an amount, which cannot be presently determined. Such services would be useful and of value to the Advisor in serving both the Fund and other clients and, conversely, such services obtained by the placement of brokerage business of other clients would be useful to the Advisor in carrying out its obligations to the Fund.

Certain investments may be appropriate for the Fund and also for other clients advised by the Advisor. Investment decisions for the Fund and other clients are made with a view to achieving their respective investment objectives and after consideration of such factors as their current holdings, availability of cash for investment and the size of their investments generally. To the extent possible, Fund transactions are traded separately from trades of other clients advised by the Advisor. Occasionally, a particular security may be bought or sold for one or more clients in different amounts. In such event, and to the extent permitted by applicable law and regulations, such transactions with respect to the Advisor will be allocated among the clients in a manner believed to be equitable to each. Ordinarily, such allocation will be made on the basis of the weighted average price of such transactions effected during a trading day.

The Fund has no obligation to deal with any broker or dealer in the execution of its transactions. However, the Fund may place substantially all or a significant portion of its transactions, both in stocks and options, with affiliates of the Advisor or the Distributor. As the level of securities trading increases, the level of commissions paid by the Fund to the affiliates increases. Such transactions will be executed at competitive commission rates through the affiliated broker’s clearing broker. Because the affiliates receive compensation based on the amount of transactions completed, there could be an incentive on the part of the Advisor to effect as many transactions as possible thereby maximizing the commissions and premiums it receives. In connection with the execution of transactions, subject to its policy of best execution, the Fund may pay higher brokerage commissions to the affiliate than it might pay to unaffiliated broker-dealers.

In order for the affiliated broker to effect any portfolio transactions for the Fund on an exchange, the commissions, fees or other remuneration received by the affiliated broker must be reasonable and fair compared to the commissions, fees or other remuneration paid to other brokers in connection with comparable transactions involving similar securities being purchased or sold on an exchange during a comparable period of time. This standard would allow the affiliated broker to receive no more than the remuneration that would be expected to be received by an unaffiliated broker in a commensurate arms-length transaction.

Under the 1940 Act, persons affiliated with the Advisor or the Distributor, or persons affiliated with an affiliate of the Advisor or the Distributor, may be prohibited from dealing with the Fund as a principal in the purchase and sale of securities. Therefore, affiliates of the Advisor or Distributor will not serve as the Fund’s dealer in connection with over-the-counter transactions. However, affiliates of the Advisor may serve as the Fund’s broker in over-the-counter transactions conducted on an agency basis and will receive brokerage commissions in connection with such transactions. Such agency transactions will be executed through the clearing broker.

The Fund will not effect any brokerage transactions in its portfolio securities with an affiliate if such transactions would be unfair or unreasonable to Fund shareholders, and the commissions will be paid solely for the execution of trades and not for any other services. The Management Agreement provides that affiliates of affiliates of the Advisor may receive brokerage commissions in connection with effecting such transactions for the Fund. In determining the commissions to be paid to an affiliated broker, it is the policy of the Trust that such commissions will, in the judgment of the Board of Trustees, be (a) at least as favorable to the Fund as those which would be charged by other qualified brokers having comparable execution capability and (b) at least as favorable to the Fund as commissions contemporaneously charged by the affiliated broker on comparable transactions for its most favored unaffiliated customers, except for customers of the affiliated broker considered by a majority of the Independent Trustees not to be comparable to the Fund. The Independent Trustees from time to time review, among other things, information relating to the commissions charged by an affiliated broker to the Fund and its other customers, and rates and other information concerning the commissions charged by other qualified brokers.

The Management Agreement does not provide for a reduction of the Distributor's or Advisor’s fee by the amount of any profits earned by an affiliated broker from brokerage commissions generated from portfolio transactions of the
Fund. While other brokerage business may be given from time to time to other firms, the affiliated brokers will not receive reciprocal brokerage business as a result of the brokerage business placed by the Fund with others.

The Fund will not acquire portfolio securities issued by, or enter into repurchase agreements or reverse repurchase agreements with, the Advisor, the Distributor or their affiliates.

**PURCHASE AND REDEMPTION OF SHARES**

Fund shares may be purchased from investment dealers who have sales agreements with the Fund’s Distributor or from the Distributor directly. As described in the Prospectus, the Fund provides you with alternative ways of purchasing Fund shares based upon your individual investment needs and preferences by offering multiple classes of shares. Additional information about sales charges (loads) for the purchase of Class A and Class C shares of the Fund is below.

Shares may be purchased at the public offering price through any securities dealer having a sales agreement with the Distributor. Shares may also be purchased through banks and certain other financial institutions that have agency agreements with the Distributor. These financial institutions will receive transaction fees that are the same as the commissions to dealers and may charge their customers service fees relating to investments in the Fund. Purchase requests should be addressed to the dealer or agent from which the Prospectus was received that has a sales agreement with the Distributor. Such dealer or agent may place a telephone order with the Distributor for the purchase of Fund shares. It is a dealer’s or broker’s responsibility to promptly forward payment and registration instructions (or completed applications) to the transfer agent for shares being purchased in order for investors to receive the next determined net asset value (or public offering price). Reference should be made to the wire order to ensure proper settlement of the trade.

Payment for redemptions of shares purchased by telephone will typically be processed within three business days. Payment must be received within seven days of the order or the trade may be canceled, and the dealer or broker placing the trade will be liable for any losses.

**Class A Shares**

You may purchase Class A shares at a public offering price equal to the applicable net asset value per share plus a front-end sales charge imposed at the time of purchase as set forth in the Prospectus.

**Class C Shares**

Class C shares are sold without an initial front-end sales charge so that the full amount of your purchase is invested in the Fund. A contingent deferred sales charge ("CDSC") of 1.00% applies, however, if Class C Shares are sold within 12 months of purchase, as set forth in the Prospectus.

**18f-1 Election**

The Trust has elected to be governed by Rule 18f-1 under the 1940 Act pursuant to which the Trust is obligated during any 90 day period to redeem shares for any one shareholder of record solely in cash up to the lesser of $250,000 or 1% of the NAV of the Fund at the beginning of such period. The Trust has made this election to permit certain funds of the Trust to deliver, in lieu of cash, readily marketable securities from its portfolio should a redemption exceed such limitations. The securities delivered will be selected at the sole discretion of such fund, will not necessarily be representative of the entire portfolio and may be securities, which the fund would otherwise sell. The redeeming shareholder will usually incur brokerage costs in converting the securities to cash. The method of valuing securities used to make the redemptions in kind will be the same as the method of valuing portfolio securities and such valuation will be made as of the same time the redemption price is determined. However, the Board of Trustees has determined that, until otherwise approved by the Board, all redemptions in the Fund be made in cash only. If the Board determines to allow the Fund to redeem in kind in the future, the Fund will provide shareholders with notice of such change to the redemption policy.
SALES CHARGE WAIVERS AND REDUCTIONS AVAILABLE THROUGH CERTAIN FINANCIAL INTERMEDIARIES

The availability of certain sales charge waivers and discounts may depend on whether you purchase your shares directly from the Fund or through a financial intermediary. Intermediaries may impose different sales charges other than those listed below for Class A and Class C shares and may have different policies and procedures regarding the availability of sales load and waivers or reductions. Such intermediary-specific sales charge variations are described in Appendix A to the Prospectus, titled “Intermediary-Specific Sales Charge Reductions and Waivers”.

In all instances, it is the shareholder’s responsibility to notify the Fund or the shareholder’s financial intermediary at the time of purchase of any relationship or other facts qualifying the shareholder for sales charge reductions or waivers. For reductions and waivers not available through a particular intermediary, shareholders will have to purchase Fund shares directly from the Fund or through another intermediary to receive these reductions or waivers.

WAIVERS AND REDUCTIONS OF UP-FRONT SALES CHARGE ON CLASS A SHARES

Letters of Intent

An investor may qualify for a reduced sales charge on Class A shares immediately by stating his or her intention to invest in Class A shares of the Fund, during a 13-month period, an amount that would qualify for a reduced sales charge shown in the Fund’s Prospectus under “How to Buy Shares — Class A Shares” and by signing a non-binding Letter of Intent, which may be signed at any time within 90 days after the first investment to be included under the Letter of Intent. After signing the Letter of Intent, each investment in Class A shares made by an investor will be entitled to the sales charge applicable to the total investment indicated in the Letter of Intent. If an investor does not complete the purchases under the Letter of Intent within the 13-month period, the sales charge will be adjusted upward, corresponding to the amount actually purchased. When an investor signs a Letter of Intent, Class A shares of the Fund with a value of up to 5% of the amount specified in the Letter of Intent will be restricted. If the total purchases of Class A shares made by an investor under the Letter of Intent, less redemptions, prior to the expiration of the 13-month period equals or exceeds the amount specified in the Letter of Intent, the restriction on the shares will be removed. In addition, if the total purchases of Class A shares exceed the amount specified and qualify for a further quantity discount, the Distributor will make a retroactive price adjustment and will apply the adjustment to purchase additional Class A shares at the then current applicable offering price. If an investor does not complete purchases under a Letter of Intent, the sales charge is adjusted upward, and, if after written notice to the investor, he or she does not pay the increased sales charge, sufficient Class A restricted shares will be redeemed at the current net asset value to pay such charge.

Rights of Accumulation

A right of accumulation ("ROA") permits an investor to aggregate shares owned by the investor, his spouse, children and grandchildren under 21 (cumulatively, the "Investor") in some or all funds in the Trust to reach a breakpoint discount. This includes accounts held with other financial institutions and accounts established for a single trust estate or single fiduciary account, including a qualified retirement plan such as an IRA, 401(k) or 403(b) plan (some restrictions may apply). The value of shares eligible for a cumulative quantity discount equals the cumulative cost of the shares purchased (not including reinvested dividends) or the current account market value; whichever is greater. The current market value of the shares is determined by multiplying:

(a) The number of shares in the investor's current purchase of Class A shares in the Fund by
(b) The net asset value (at the close of business on the previous day) of the Class A shares of the Fund held by the investor.

For example, if the investor owned Class A shares worth $40,000 at the current net asset value and purchased an additional $10,000 of Class A shares, the sales charge for the $10,000 purchase would be at the rate applicable to a single $50,000 purchase.

To qualify for a ROA on a purchase of Class A shares through a broker-dealer, when each purchase is made, the individual investor or the broker-dealer must provide the Fund with sufficient information to verify that the purchase qualifies for the discount.
Investments of $1 Million or More

With respect to Class A shares, if you invest $1 million or more, either as a lump sum or through our rights of accumulation quantity discount or letter of intent programs, you can buy Class A shares without an initial sales charge. However, you may be subject to a 1% CDSC on shares redeemed within two years of purchase (excluding shares purchased with reinvested dividends and/or distributions).

Waivers of Up-Front Sales Charge on Class A Shares

The Prospectus describes the classes of persons that may purchase Class A shares without an up-front sales charge. The elimination of the up-front sales charge for purchases by certain classes of persons is provided because of anticipated economies of scale and sales-related efforts.

To qualify for a waiver of the up-front sales charge on a purchase of Class A shares through a broker-dealer, when each purchase is made, the individual investor or the broker-dealer must provide the Fund with sufficient information to verify that the purchase qualifies for the discount.

The Fund makes available, free of charge, more information about sales charge reductions and waivers through the Prospectus.

WAIVERS OF DEFERRED SALES CHARGE ON CLASS C SHARES

Certain intermediaries may provide for sales charge discounts or waivers, including with respect to the CDSC assessed on certain sales of Class C shares, which are described in Appendix A to the Fund’s Prospectus, entitled “Intermediary-Specific Charge Reductions and Waivers.”

FRONT-END SALES CHARGE REALLOWANCES

The Distributor receives a front-end sales charge on certain Share sales. The Distributor generally pays a portion of this charge to eligible financial intermediaries for sales of Fund shares and/or administrative services. The Distributor retains any portion not paid to a financial intermediary, and makes this available for marketing and sales-related activities and expenses, including those of the Advisor and its affiliates.

Additional Information on Purchases, Exchanges and Redemptions

Class C Shares may be purchased, exchanged with other Class C Shares within the Fund Complex, or redeemed by contacting the Trust or your investment professional. Class C Shares may also be offered through other financial intermediaries.

Class A Shares of the Fund may be purchased, exchanged or redeemed by contacting the Trust or your investment professional. Class A Shares may also be offered through other financial intermediaries.

Institutional Shares may be purchased only through fiduciary, advisory, agency and other similar accounts maintained by or on behalf of the Advisor or its affiliates or correspondent banks as well as similar customers of third party financial institutions. Individuals who receive Institutional Shares as a result of a Trust distribution or similar transaction or by operation of law, will be permitted to retain such Shares, but may not purchase additional Institutional Shares, except by means of the reinvestment of dividends or distributions. Exchanges of Institutional Shares, if permitted by the account agreement, as well as redemptions of Institutional Shares, are made by contacting the Trust.

Telephone purchase, exchange or redemption requests may be recorded and will be binding upon an investor. Use of the telephone for exchanges or redemptions involves the possible risk of loss, since anyone providing the required information may be able to use the service without the shareholder’s permission. If reasonable procedures are not followed by the Trust, it may be liable for losses due to unauthorized or fraudulent telephone instructions.
In times of extreme economic or market conditions, shareholders may have difficulty making redemptions or exchanges by telephone. If a shareholder cannot make contact by telephone, redemption or exchange requests should be made in writing and sent by overnight mail to the Trust.

In connection with certain redemption or exchange requests, a shareholder may be required to obtain a signature guarantee for authentication purposes. Only New Technology Medallion imprints will be accepted as signature guarantees.

**Other Purchase Information**

Purchases of all classes of Shares are made at NAV, plus (for Class A Shares only) any applicable sales charge. All purchases are subject to minimum purchase requirements, but these requirements may be waived by the Distributor. Payment for Class A Shares and Class C Shares may not be by third party check, and any checks drawn from a bank located outside the U.S. will result in a delay in processing until the check has cleared.

If at any time the right to purchase Shares is suspended, although no new purchases may be made, in some circumstances existing shareholders may be permitted to purchase additional Shares and have dividends reinvested.

*Payment in Kind.* In addition to payment by check, Shares of the Fund may be purchased by customers of the Advisor in exchange for securities held by an investor which are acceptable to that Fund. Investors interested in exchanging securities must first telephone the Fund at 800-253-0412 for instructions regarding submission of a written description of the securities the investor wishes to exchange. Within five business days of the receipt of the written description, the Fund will advise the investor by telephone whether the securities to be exchanged are acceptable to the Fund whose Shares the investor desires to purchase and will instruct the investor regarding delivery of the securities. There is no charge for this review. Securities which have been accepted by the Fund must be delivered within five days following acceptance.

Securities accepted by the Fund are valued in the manner and on the days described in the section entitled “Determination of Net Asset Value” as of 4:00 p.m. (Eastern Time).

The value of the securities to be exchanged and of the Shares of the Fund may be higher or lower on the day Fund Shares are offered than on the date of receipt by the Fund of the written description of the securities to be exchanged. The basis of the exchange of such securities for Shares of the Fund will depend on the value of the securities and the NAV of Fund Shares next determined following acceptance on the day Fund Shares are offered. Securities to be exchanged must be accompanied by a transmittal form which is available from the Fund.

A gain or loss for federal income tax purposes may be realized by the investor upon the securities exchange depending upon the cost basis of the securities tendered. All interest, dividends, subscription or other rights with respect to accepted securities which go “ex” (the interval between the announcement and the payments of the next dividend or right) after the time of valuation become the property of the Fund and must be delivered to the Fund by the investor forthwith upon receipt from the issuer. Further, the investor must represent and agree that all securities offered to the Fund are not subject to any restrictions upon their sale by the Fund under the 1933 Act, or otherwise.

*Reinstatement Privilege.* Every shareholder has a one-time right within 60 days of redeeming Class A Shares the Fund, to reinvest the redemption proceeds at the next-determined NAV in Class A Shares without any sales charge. The investor must notify the Fund in writing of the reinvestment by the shareholder in order to eliminate a sales charge.

If the shareholder redeems Class A Shares and utilizes the reinstatement privilege, there may be tax consequences.

**Other Exchange Information**

Exchanges may only be made between Funds having identical shareholder registrations. For any other exchanges you must obtain a New Technology Medallion Signature Guarantee.

Unless otherwise specified in writing, the existing registration and reinvestment options relating to the Fund being exchanged will be used for any new fund accounts required to be opened in the exchange.

Exchanges will not be available for Shares purchased by check until the check has cleared.
Other Redemption Information

Redemptions of all classes of Shares are made at NAV, less any applicable CDSC. If you make exchanges of your Class C shares among the Fund Complex, the holding period for purposes of determining the applicable CDSC will be determined based on the purchase date of your original Shares.

If a shareholder wishes to wire redemption proceeds to a bank other than the one previously designated, redemption may be delayed by as much as seven days. To change the name of the bank account to which redemption proceeds will be wired, a shareholder should send a written request (and, if necessary, with a New Technology Medallion Signature Guarantee) to the Trust, P.O. Box 6110, Indianapolis, IN 46206-6110.

Proceeds from the redemption of Shares purchased by check will not be available until the check has cleared.

Redemption in kind. Although the Fund intends to pay Share redemptions in cash, it reserves the right, as described below, to pay the redemption price in whole or in part by a distribution of the Fund’s portfolio securities.

Because the Fund has elected to be governed by Rule 18f-1 under the 1940 Act, the Fund is obligated to pay Share redemptions to any one shareholder in cash only up to the lesser of $250,000 or 1% of the net assets represented by such Share class during any 90-day period.

Any Share redemption payment greater than this amount will also be in cash unless the Fund determines that payment should be in kind. In such a case, the Fund will pay all or a portion of the remainder of the redemption in portfolio securities, valued in the same way as the Fund determines its NAV. The portfolio securities will be selected in a manner that the Fund’s Trustees deem fair and equitable and, to the extent available, such securities will be readily marketable.

Redemption in kind is not as liquid as a cash redemption. If redemption is made in kind, shareholders receiving the portfolio securities and selling them before their maturity could receive less than the redemption value of the securities and could incur certain transaction costs.

SHAREHOLDER RIGHTS

The Trust is an open-end management investment company, whose Declaration of Trust permits the Trust to offer separate series of Shares of beneficial interest, representing interests in separate portfolios of securities. The Shares in any one portfolio may be offered in two or more separate classes. As of the date of this SAI, the Trustees have established three classes of shares, known as Class A Shares, Class C Shares and Institutional Shares. Class A Shares, Class C Shares and Institutional Shares of the Fund are fully transferable. Each class is entitled to dividends from the respective class assets of the Fund as declared by the Trustees, and if the Trust (or the Fund) were liquidated, the shareholders of each class would receive the net assets of the Fund attributable to each respective class.

All shareholders are entitled to one vote for each Share held on the record date for any action requiring a vote by the shareholders and a proportionate fractional vote for each fractional Share held. Shareholders of the Trust will vote in the aggregate and not by Fund or class except as otherwise expressly required by law or when the Trustees determine that the matter to be voted upon affects only the interests of the shareholders of the Fund or class. In addition, only holders of Class A shares, Class C shares and Institutional Shares will be entitled to vote on matters submitted to shareholder vote with respect to the Rule 12b-1 Plan applicable to such class.

The rights of shareholders cannot be modified without a majority vote.

The Trust is not required to hold annual meetings of shareholders for the purpose of electing Trustees except that (i) the Trust is required to hold a shareholder meeting for the election of Trustees at such time as less than a majority of the Trustees holding office have been elected by shareholders and (ii) if, as a result of a vacancy on the Board, less than two-thirds of the Trustees holding office have been elected by the shareholders, that vacancy may only be filled by a vote of the shareholders. In addition, a Trustee may be removed from office by a written consent signed by the holders of Shares representing two-thirds of the outstanding Shares of the Trust at a meeting duly called for the purpose, which meeting must be held upon written request of not less than 10% of the outstanding Shares of the Trust. Upon written request by the holders of Shares representing 1% of the outstanding Shares of the Trust stating that such shareholders wish to communicate with the other shareholders for the purpose of obtaining the signatures
necessary to demand a meeting to consider removal of a Trustee, the Trust will provide a list of shareholders or disseminate appropriate materials (at the expense of the requesting shareholders). Except as set forth above, a Trustee may continue to hold office and may appoint successor Trustees.

Shareholder inquiries regarding the Fund should be directed to the Trust, c/o Gemini Fund Service, LLC, 80 Arkay Drive, Suite 110, Hauppauge, NY 11788.

**NET ASSET VALUE**

Net asset value per share is determined by dividing the total value of the Fund's assets, less any liabilities, by the number of shares of the Fund outstanding.

The NAV per share of the Fund is determined by the Administrator as of the close of regular trading on the New York Stock Exchange (normally 4:00 p.m., EST) on each day when the New York Stock Exchange is open for trading. The New York Stock Exchange is closed on the following holidays: New Year's Day, Martin Luther King, Jr. Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day as observed.

Assets for which market quotations are available are valued as follows: (a) each listed security is valued at its closing price obtained from the respective primary exchange on which the security is listed, or, if there were no sales on that day, at its last reported current bid price; (b) each unlisted security is valued at the last current bid price obtained from the National Association of Securities Dealers Automated Quotation System; (c) United States Government and agency obligations are valued based upon bid quotations from the Federal Reserve Bank for identical or similar obligations; (d) short-term money market instruments (such as certificates of deposit, bankers' acceptances and commercial paper) are most often valued by bid quotation or by reference to bid quotations of available yields for similar instruments of issuers with similar credit ratings. All of these prices are obtained by the Administrator from services, which collect and disseminate such market prices. Bid quotations for short-term money market instruments reported by such a service are the bid quotations reported to it by the major dealers.

Certain securities may be valued on the basis of valuations provided by an independent pricing service when such prices the Advisor believes reflect the fair value of such securities. These securities would normally be those, which have no available recent market value, have few outstanding shares and therefore infrequent trades, or for which there is a lack of consensus on the value, with quoted prices covering a wide range. The lack of consensus would result from relatively unusual circumstances such as no trading in the security for long periods of time, or a company's involvement in merger or acquisition activity, with widely varying valuations placed on the company's assets or stock. Prices provided by an independent pricing service may be determined without exclusive reliance on quoted prices and may take into account appropriate factors such as institutional-size trading in similar groups of securities, yield, quality, coupon rate, maturity, type of issue, trading characteristics and other market data.

In the absence of an ascertainable market value, assets are valued at their fair value. Under the valuation procedures adopted by the Board, the Board has delegated day-to-day responsibility for fair value determinations to a Valuation Committee comprised of officers of the Trust and representatives from the Advisor/Sub-Advisor.

Short-term securities with remaining maturities of sixty days or less for which market quotations and information pricing service are not readily available are valued either at amortized cost or at original cost plus accrued interest, both of which approximate current value.

**Exchange Privilege**

As described in the Fund’s Prospectus under “How To Redeem Shares—Exchanging Shares,” the Fund offers an exchange privilege pursuant to which a shareholder in the Fund may exchange some or all of his shares in any of the funds in the Trust advised by the Advisor, in the same class shares at net asset value. The exchange privilege may be changed or discontinued upon 60 days’ written notice to shareholders and is available only to shareholders where such exchanges may be legally made. A shareholder considering an exchange should obtain and read the Prospectus of the Fund and consider the differences between it and the Fund whose shares he owns before making an exchange. For further information on how to exercise the exchange privilege, contact the transfer agent.
The following is a summary of certain additional tax considerations generally affecting the Fund (sometimes referred to as the Fund) and its shareholders that are not described in the Prospectus. No attempt is made to present a detailed explanation of the tax treatment of the Fund or its shareholders, and the discussion here and in the Prospectus is not intended as a substitute for careful tax planning.

This "Tax Information" section is based on the Internal Revenue Code of 1986, as amended ("Code") and applicable regulations in effect on the date of this SAI. Future legislative, regulatory or administrative changes including provisions of current law that sunset and thereafter no longer apply, or court decisions may significantly change the tax rules applicable to the Fund and its shareholders. Any of these changes or court decisions may have a retroactive effect.

This is for general information only and not tax advice. All investors should consult their own tax advisors as to the federal, state, local and foreign tax provisions applicable to them.

Taxation of the Fund. The Fund has elected and intends to qualify (or, if newly organized, intends to elect and qualify) each year as a "regulated investment company" (sometimes referred to as a regulated investment company, RIC or fund) under Subchapter M of the Code. If the Fund qualifies, the Fund will not be subject to federal income tax on the portion of its investment company taxable income (i.e., generally, taxable interest, dividends, net short-term capital gains and other taxable ordinary income net of expenses without regard to the deduction for dividends paid) and net capital gain (i.e., the excess of net long-term capital gains over net short-term capital losses) that it distributes to shareholders.

Qualification as a regulated investment company. In order to qualify for treatment as a regulated investment company, the Fund must satisfy the following requirements:

- **Distribution Requirement** – the Fund must distribute an amount equal to the sum of at least 90% of its investment company taxable income and 90% of its net tax-exempt income, if any, for the tax year (certain distributions made by the Fund after the close of its tax year are considered distributions attributable to the previous tax year for purposes of satisfying this requirement).
- **Income Requirement** – the Fund must derive at least 90% of its gross income from dividends, interest, certain payments with respect to securities loans, and gains from the sale or other disposition of stock, securities or foreign currencies, or other income (including, but not limited to, gains from options, futures or forward contracts) derived from its business of investing in such stock, securities or currencies and net income derived from qualified publicly traded partnerships (QPTPs).
- **Asset Diversification Test** – the Fund must satisfy the following asset diversification test at the close of each quarter of the Fund's tax year: (1) at least 50% of the value of the Fund's assets must consist of cash and cash items, U.S. Government Securities, securities of other regulated investment companies, and securities of other issuers (as to which the Fund has not invested more than 5% of the value of the Fund's total assets in securities of an issuer and as to which the Fund does not hold more than 10% of the outstanding voting securities of the issuer); and (2) no more than 25% of the value of the Fund's total assets may be invested in the securities of any one issuer (other than U.S. Government Securities or securities of other regulated investment companies) or of two or more issuers which the Fund controls and which are engaged in the same or similar trades or businesses, or, collectively, in the securities of QPTPs.

In some circumstances, the character and timing of income realized by the Fund for purposes of the Income Requirement or the identification of the issuer for purposes of the Asset Diversification Test is uncertain under current law with respect to a particular investment, and an adverse determination or future guidance by the Internal Revenue Service (IRS) with respect to such type of investment may adversely affect the Fund's ability to satisfy these requirements. See "Tax Treatment of Portfolio Transactions" with respect to the application of these requirements to certain types of investments. In other circumstances, the Fund may be required to sell portfolio holdings in order to meet the Income Requirement, Distribution Requirement, or Asset Diversification Test, which may have a negative impact on the Fund's income and performance.
The Fund may use "equalization accounting" (in lieu of making some cash distributions) in determining the portion of its income and gains that has been distributed. If the Fund uses equalization accounting, it will allocate a portion of its undistributed investment company taxable income and net capital gain to redemptions of Fund shares and will correspondingly reduce the amount of such income and gains that it distributes in cash. If the IRS determines that the Fund’s allocation is improper and that the Fund has under-distributed its income and gain for any taxable year, the Fund may be liable for federal income and/or excise tax. If, as a result of such adjustment, the Fund fails to satisfy the Distribution Requirement, the Fund will not qualify that year as a regulated investment company the effect of which is described in the following paragraph.

If for any taxable year the Fund does not qualify as a regulated investment company, all of its taxable income (including its net capital gain) would be subject to tax at the corporate income tax rate without any deduction for dividends paid to shareholders, and the dividends would be taxable to the shareholders as ordinary income (or possibly as qualified dividend income) to the extent of the Fund's current and accumulated earnings and profits. Failure to qualify as a regulated investment company thus would have a negative impact on the Fund's income and performance. Subject to savings provisions for certain inadvertent failures to satisfy the Income Requirement or Asset Diversification Test which, in general, are limited to those due to reasonable cause and not willful neglect, it is possible that the Fund will not qualify as a regulated investment company in any given tax year. Even if such savings provisions apply, the Fund may be subject to a monetary sanction of $50,000 or more. Moreover, the Board reserves the right not to maintain the qualification of the Fund as a regulated investment company if it determines such a course of action to be beneficial to shareholders.

*Portfolio turnover.* For investors that hold their Fund shares in a taxable account, a high portfolio turnover rate may result in higher taxes. This is because a fund with a high turnover rate may accelerate the recognition of capital gains and more of such gains are likely to be taxable as short-term rather than long-term capital gains in contrast to a comparable fund with a low turnover rate. Any such higher taxes would reduce the Fund's after-tax performance. See "Taxation of Fund Distributions — Capital gain dividends" below. For non-U.S. investors, any such acceleration of the recognition of capital gains that results in more short-term and less long-term capital gains being recognized by the Fund may cause such investors to be subject to increased U.S. withholding taxes. See “Non-US Investors — Capital gain dividends” and “— Interest-related dividends and short-term capital gain dividends” below.

*Capital loss carryovers.* The capital losses of the Fund, if any, do not flow through to shareholders. Rather, the Fund may use its capital losses, subject to applicable limitations, to offset its capital gains without being required to pay taxes on or distribute to shareholders such gains that are offset by the losses. If the Fund has a "net capital loss" (that is, capital losses in excess of capital gains), the excess (if any) of the Fund's net short-term capital losses over its net long-term capital gains is treated as a short-term capital loss arising on the first day of the Fund's next taxable year, and the excess (if any) of the Fund's net long-term capital losses over its net short-term capital gains is treated as a long-term capital loss arising on the first day of the Fund's next taxable year. Any such net capital losses of the Fund that are not used to offset capital gains may be carried forward indefinitely to reduce any future capital gains realized by the Fund in succeeding taxable years. However, for any net capital losses realized in taxable years of the Fund beginning on or before December 22, 2010, the Fund is permitted to carry forward such capital losses for eight years as a short-term capital loss. Capital losses arising in a taxable year beginning after December 22, 2010 must be used before capital losses realized in a taxable year beginning on or before December 22, 2010. The amount of capital losses that can be carried forward and used in any single year is subject to an annual limitation if there is a more than 50% "change in ownership" of the Fund. An ownership change generally results when shareholders owning 5% or more of the Fund increase their aggregate holdings by more than 50% over a three-year look-back period. An ownership change could result in capital loss carryovers being used at a slower rate (or, in the case of those realized in taxable years of the Fund beginning on or before December 22, 2010, to expire), thereby reducing the Fund's ability to offset capital gains with those losses. An increase in the amount of taxable gains distributed to the Fund's shareholders could result from an ownership change. The Fund undertakes no obligation to avoid or prevent an ownership change, which can occur in the normal course of shareholder purchases and redemptions or as a result of engaging in a tax-free reorganization with another fund. Moreover, because of circumstances beyond the Fund's control, there can be no assurance that the Fund will not experience, or has not already experienced, an ownership change.

58
**Deferral of late year losses.** The Fund may elect to treat part or all of any "qualified late year loss" as if it had been incurred in the succeeding taxable year in determining the Fund's taxable income, net capital gain, net short-term capital gain, and earnings and profits. The effect of this election is to treat any such "qualified late year loss" as if it had been incurred in the succeeding taxable year, which may change the timing, amount, or characterization of Fund distributions (see "Taxation of Fund Distributions — Capital gain dividends" below). A "qualified late year loss" includes:

(i) any net capital loss incurred after October 31 of the current taxable year, or, if there is no such loss, any net long-term capital loss or any net short-term capital loss incurred after October 31 of the current taxable year (post-October capital losses), and

(ii) the sum of (1) the excess, if any, of (a) specified losses incurred after October 31 of the current taxable year, over (b) specified gains incurred after October 31 of the current taxable year and (2) the excess, if any, of (a) ordinary losses incurred after December 31 of the current taxable year, over (b) the ordinary income incurred after December 31 of the current taxable year.

The terms "specified losses" and "specified gains" mean ordinary losses and gains from the sale, exchange, or other disposition of property (including the termination of a position with respect to such property), foreign currency losses and gains, and losses and gains resulting from holding stock in a passive foreign investment company (PFIC) for which a mark-to-market election is in effect. The terms "ordinary losses" and "ordinary income" mean other ordinary losses and income that are not described in the preceding sentence. Since the Fund has a fiscal year ending in December, the amount of qualified late-year losses (if any) is computed without regard to any items of ordinary income or losses that are incurred after December 31 of the taxable year.

**Undistributed capital gains.** The Fund may retain or distribute to shareholders its net capital gain for each taxable year. The Fund currently intends to distribute net capital gains. If the Fund elects to retain its net capital gain, the Fund will be taxed thereon (except to the extent of any available capital loss carryovers) at the corporate income tax rate. If the Fund elects to retain its net capital gain, it is expected that the Fund also will elect to have shareholders treated as if each received a distribution of its pro rata share of such gain, with the result that each shareholder will be required to report its pro rata share of such gain on its tax return as long-term capital gain, will receive a refundable tax credit for its pro rata share of tax paid by the Fund on the gain and will increase the tax basis for its shares by an amount equal to the deemed distribution less the tax credit.

**Asset allocation funds.** If the Fund is a fund of funds, asset allocation fund, or a feeder fund in a master-feeder structure (collectively referred to as a "fund of funds" which invests in one or more underlying funds taxable as regulated investment companies) distributions by the underlying funds, redemptions of shares in the underlying funds and changes in asset allocations may result in taxable distributions to shareholders of ordinary income or capital gains. A fund of funds (other than a feeder fund in a master-feeder structure) generally will not be able currently to offset gains realized by one underlying fund in which the fund of funds invests against losses realized by another underlying fund. If shareholders of an underlying fund are purchased within 30 days before or after redeeming at a loss other shares of that underlying fund (whether pursuant to a rebalancing of the Fund's portfolio or otherwise), all or a part of the loss will not be deductible by the Fund and instead will increase its basis for the newly purchased shares. Also, except with respect to a qualified fund of funds, a fund of funds (a) is not eligible to pass-through to shareholders foreign tax credits from an underlying fund that pays foreign income taxes and (b) is not eligible to pass-through to shareholders exempt-interest dividends from an underlying fund. A qualified fund of funds, i.e., a fund at least 50 percent of the value of the total assets of which (at the close of each quarter of the taxable year) is represented by interests in other RICs, is eligible to pass-through to shareholders (a) foreign tax credits and (b) exempt-interest dividends. Also a fund of funds, whether or not it is a qualified fund of funds, is eligible to pass-through to shareholders qualified dividends earned by an underlying fund (see "Taxation of Fund Distributions — Qualified dividend income for individuals" and — "Corporate dividends-received deduction" below). However, dividends paid to shareholders by a fund of funds from interest earned by an underlying fund on U.S. Government obligations are unlikely to be exempt from state and local income tax.

**Federal excise tax.** To avoid a 4% non-deductible excise tax, the Fund must distribute by December 31 of each year an amount equal to at least: (1) 98% of its ordinary income for the calendar year, (2) 98.2% of capital gain net
income (the excess of the gains from sales or exchanges of capital assets over the losses from such sales or exchanges) for the one-year period ended on October 31 of such calendar year (or, at the election of a regulated investment company having a taxable year ending November 30 or December 31, for its taxable year), and (3) any prior year undistributed ordinary income and capital gain net income. The Fund may elect to defer to the following year any net ordinary loss incurred for the portion of the calendar year which is after the beginning of the Fund's taxable year. Also, the Fund will defer any "specified gain" or "specified loss" which would be properly taken into account for the portion of the calendar after October 31. Any net ordinary loss, specified gain, or specified loss deferred shall be treated as arising on January 1 of the following calendar year. Generally, the Fund may make sufficient distributions to avoid liability for federal income and excise tax, but can give no assurances that all or a portion of such liability will be avoided. In addition, under certain circumstances temporary timing or permanent differences in the realization of income and expense for book and tax purposes can result in the Fund having to pay an excise tax.

**Foreign income tax.** Investment income received by the Fund from sources within foreign countries may be subject to foreign income tax withheld at the source, and the amount of tax withheld generally will be treated as an expense of the Fund. The United States has entered into tax treaties with many foreign countries that entitle the Fund to a reduced rate of, or exemption from, tax on such income. Some countries require the filing of a tax reclaim or other forms to receive the benefit of the reduced tax rate; whether or when the Fund will receive the tax reclaim is within the control of the individual country. Information required on these forms may not be available such as shareholder information; therefore, the Fund may not receive the reduced treaty rates or potential reclaims. Other countries have conflicting and changing instructions and restrictive timing requirements which may cause the Fund not to receive the reduced treaty rates or potential reclaims. Other countries may subject capital gains realized by the Fund on sale or disposition of securities of that country to taxation. It is impossible to determine the effective rate of foreign tax in advance since the amount of the Fund's assets to be invested in various countries is not known. Under certain circumstances, the Fund may elect to pass-through foreign taxes paid by the Fund to shareholders, although it reserves the right not to do so. If the Fund makes such an election and obtains a refund of foreign taxes paid by the Fund in a prior year, the Fund may be eligible to reduce the amount of foreign taxes reported by the Fund to its shareholders, generally by the amount of the foreign taxes refunded, for the year in which the refund is received.

**Taxation of Fund Distributions.** The Fund anticipates distributing substantially all of its investment company taxable income and net capital gain for each taxable year. Distributions by the Fund will be treated in the manner described regardless of whether such distributions are paid in cash or reinvested in additional shares of the Fund (or of another Fund). The Fund will send you information annually as to the federal income tax consequences of distributions made (or deemed made) during the year.

**Distributions of ordinary income.** The Fund receives income generally in the form of dividends and/or interest on its investments. The Fund may also recognize ordinary income from other sources, including, but not limited to, certain gains on foreign currency-related transactions. This income, less expenses incurred in the operation of the Fund, constitutes the Fund's net investment income from which dividends may be paid to you. If you are a taxable investor, distributions of net investment income generally are taxable as ordinary income to the extent of the Fund's earnings and profits. In the case of the Fund whose strategy includes investing in stocks of corporations, a portion of the income dividends paid to you may be qualified dividends eligible to be taxed at reduced rates.

**Capital gain dividends.** Taxes on distributions of capital gains are determined by how long the Fund owned the investments that generated them, rather than how long a shareholder has owned his or her shares. In general, the Fund will recognize long-term capital gain or loss on the sale or other disposition of assets it has owned for more than one year, and short-term capital gain or loss on investments it has owned for one year or less. Distributions of net capital gain (the excess of net long-term capital gain over net short-term capital loss) that are properly reported by the Fund to shareholders as capital gain dividends generally will be taxable to a shareholder receiving such distributions as long-term capital gain. Long-term capital gain rates applicable to individuals are 0%, 15%, 20% or 25% depending on the nature of the capital gain and the individual's taxable income. Distributions of net short-term capital gains for a taxable year in excess of net long-term capital losses for such taxable year generally will be taxable to a shareholder receiving such distributions as ordinary income.

**Qualified dividend income for individuals.** Ordinary income dividends reported by the Fund to shareholders as derived from qualified dividend income will be taxed in the hands of individuals and other noncorporate
shareholders at the rates applicable to long-term capital gain. Qualified dividend income means dividends paid to the Fund (a) by domestic corporations, (b) by foreign corporations that are either (i) incorporated in a possession of the United States, or (ii) are eligible for benefits under certain income tax treaties with the United States that include an exchange of information program, or (c) with respect to stock of a foreign corporation that is readily tradable on an established securities market in the United States. Both the Fund and the investor must meet certain holding period requirements to qualify Fund dividends for this treatment. Income derived from investments in derivatives, fixed-income securities, U.S. REITs, PFICs, CFCs (such as the Subsidiary) and income received “in lieu of” dividends in a securities lending transaction generally is not eligible for treatment as qualified dividend income. If the qualifying dividend income received by the Fund is equal to 95% (or a greater percentage) of the Fund's gross income (exclusive of net capital gain) in any taxable year, all of the ordinary income dividends paid by the Fund will be qualifying dividend income.

Qualified REIT dividends. Under 2017 legislation commonly known as the Tax Cuts and Jobs Act (“TCJA”) “qualified REIT dividends” (i.e., ordinary REIT dividends other than capital gain dividends and portions of REIT dividends designated as qualified dividend income) are treated as eligible for a 20% deduction by noncorporate taxpayers. This deduction, if allowed in full, equates to a maximum effective tax rate of 29.6% (37% top rate applied to income after 20% deduction). Proposed regulations issued by the IRS, which can be relied upon currently, enable the Fund to pass through the special character of “qualified REIT dividends” to a shareholder, provided both the Fund and a shareholder meet certain holding period requirements with respect to their shares. A noncorporate shareholder receiving such dividends would treat them as eligible for the 20% deduction, provided the RIC shares were held by the shareholder for more than 45 days during the 91-day period beginning on the date that is 45 days before the date on which the shares become ex-dividend with respect to such dividend. The amount of a RIC’s dividends eligible for the 20% deduction for a taxable year is limited to the excess of the RIC’s qualified REIT dividends for the taxable year over allocable expenses.

Corporate dividends-received deduction. Ordinary income dividends reported by the Fund to shareholders as derived from qualified dividends from domestic corporations will qualify for the 50% dividends-received deduction generally available to corporations. The availability of the dividends-received deduction is subject to certain holding period and debt financing restrictions imposed under the Code on the corporation claiming the deduction. Income derived by the Fund from investments in derivatives, fixed-income and foreign securities generally is not eligible for this treatment.

Return of capital distributions. Distributions by the Fund that are not paid from earnings and profits will be treated as a return of capital to the extent of (and in reduction of) the shareholder’s tax basis in his shares; any excess will be treated as gain from the sale of his shares. Thus, the portion of a distribution that constitutes a return of capital will decrease the shareholder’s tax basis in his Fund shares (but not below zero), and will result in an increase in the amount of gain (or decrease in the amount of loss) that will be recognized by the shareholder for tax purposes on the later sale of such Fund shares. Return of capital distributions can occur for a number of reasons including, among others, the Fund overestimates the income to be received from certain investments such as those classified as partnerships or equity REITs. See "Tax Treatment of Portfolio Transactions — Investments in U.S. REITs."

Impact of realized but undistributed income and gains, and net unrealized appreciation of portfolio securities. At the time of your purchase of shares, the Fund’s net asset value may reflect undistributed income, undistributed capital gains, or net unrealized appreciation of portfolio securities held by the Fund. A subsequent distribution to you of such amounts, although constituting a return of your investment, would be taxable and would be taxed as either ordinary income (some portion of which may be taxed as qualified dividend income) or capital gain unless you are investing through a tax-advantaged arrangement, such as a 401(k) plan or an individual retirement account. The Fund may be able to reduce the amount of such distributions by utilizing its capital loss carryovers, if any.

Pass-through of foreign tax credits. If more than 50% of the value of the Fund’s total assets at the end of a fiscal year is invested in foreign securities, or if the Fund is a qualified fund of funds (i.e., a fund at least 50 percent of the value of the total assets of which, at the close of each quarter of the taxable year, is represented by interests in other RICs), the Fund may elect to “pass-through” to the Fund’s shareholders the amount of foreign income tax paid by the Fund (the Foreign Tax Election) in lieu of deducting such amount in determining its investment company taxable income. Pursuant to the Foreign Tax Election, shareholders will be required (i) to include in gross income, even though not actually received, their respective pro-rata shares of the foreign income tax paid by the Fund that are
attributable to any distributions they receive; and (ii) either to deduct their pro-rata share of foreign tax in computing their taxable income or to use it (subject to various Code limitations) as a foreign tax credit against federal income tax (but not both). No deduction for foreign tax may be claimed by a noncorporate shareholder who does not itemize deductions or who is subject to the alternative minimum tax. Shareholders may be unable to claim a credit for the full amount of their proportionate shares of the foreign income tax paid by the Fund due to certain limitations that may apply. The Fund reserves the right not to pass-through to its shareholders the amount of foreign income taxes paid by the Fund. Additionally, any foreign tax withheld on payments made "in lieu of" dividends or interest will not qualify for the pass-through of foreign tax credits to shareholders. See "Tax Treatment of Portfolio Transactions - Securities lending" below.

**Tax credit bonds.** If the Fund holds, directly or indirectly, one or more "tax credit bonds" (including build America bonds, clean renewable energy bonds and qualified tax credit bonds) on one or more applicable dates during a taxable year, the Fund may elect to permit its shareholders to claim a tax credit on their income tax returns equal to each shareholder's proportionate share of tax credits from the applicable bonds that otherwise would be allowed to the Fund. In such a case, shareholders must include in gross income (as interest) their proportionate share of the income attributable to their proportionate share of those offsetting tax credits. A shareholder's ability to claim a tax credit associated with one or more tax credit bonds may be subject to certain limitations imposed by the Code. (Under the TCJA, build America bonds, clean renewable energy bonds and certain other qualified bonds may no longer be issued after December 31, 2017.) Even if the Fund is eligible to pass-through tax credits to shareholders, the Fund may choose not to do so.

**U.S. Government interest.** Income earned on certain U.S. Government obligations is exempt from state and local personal income taxes if earned directly by you. States also grant tax-free status to dividends paid to you from interest earned on direct obligations of the U.S. Government, subject in some states to minimum investment or reporting requirements that must be met by the Fund. Income on investments by the Fund in certain other obligations, such as repurchase agreements collateralized by U.S. Government obligations, commercial paper and federal agency-backed obligations (e.g., GNMA or FNMA obligations), generally does not qualify for tax-free treatment. The rules on exclusion of this income are different for corporations. If the Fund is a fund of funds, see "Taxation of the Fund — Asset allocation funds."

**Dividends declared in December and paid in January.** Ordinarily, shareholders are required to take distributions by the Fund into account in the year in which the distributions are made. However, dividends declared in October, November or December of any year and payable to shareholders of record on a specified date in such a month will be deemed to have been received by the shareholders (and made by the Fund) on December 31 of such calendar year if such dividends are actually paid in January of the following year. Shareholders will be advised annually as to the U.S. federal income tax consequences of distributions made (or deemed made) during the year in accordance with the guidance that has been provided by the IRS.

**Medicare tax.** A 3.8% Medicare tax is imposed on net investment income earned by certain individuals estates and trusts. "Net investment income," for these purposes, means investment income, including ordinary dividends and capital gain distributions received from the Fund and net gains from redemptions or other taxable dispositions of Fund shares, reduced by the deductions properly allocable to such income. In the case of an individual, the tax will be imposed on the lesser of (1) the shareholder's net investment income or (2) the amount by which the shareholder's modified adjusted gross income exceeds $250,000 (if the shareholder is married and filing jointly or a surviving spouse), $125,000 (if the shareholder is married and filing separately) or $200,000 (in any other case). This Medicare tax, if applicable, is reported by you on, and paid with, your federal income tax return.

**Sale or Redemption of Fund Shares.** A shareholder will recognize gain or loss on the sale or redemption of shares of the Fund in an amount equal to the difference between the proceeds of the sale or redemption and the shareholder's adjusted tax basis in the shares. If you owned your shares as a capital asset, any gain or loss that you realize will be considered capital gain or loss and will be long-term capital gain or loss if the shares were held for longer than one year. Capital losses in any year are deductible only to the extent of capital gains plus, in the case of a noncorporate taxpayer, $3,000 of ordinary income.

**Tax basis information.** The Fund is required to report to you and the IRS annually on Form 1099-B the cost basis of shares purchased or acquired on or after January 1, 2012 where the cost basis of the shares is known by the Fund.
(referred to as "covered shares") and which are disposed of after that date. However, cost basis reporting is not required for certain shareholders, including shareholders investing in the Fund through a tax-advantaged retirement account, such as a 401(k) plan or an individual retirement account. When required to report cost basis, the Fund will calculate it using the Fund's default method of average cost, unless you instruct the Fund to use a different calculation method. In general, average cost is the total cost basis of all your shares in an account divided by the total number of shares in the account. To determine whether short-term or long-term capital gains taxes apply, the IRS presumes you redeem your oldest shares first.

The IRS permits the use of several methods to determine the cost basis of mutual fund shares. The method used will determine which specific shares are deemed to be sold when there are multiple purchases on different dates at differing share prices, and the entire position is not sold at one time. The Fund does not recommend any particular method of determining cost basis, and the use of other methods may result in more favorable tax consequences for some shareholders. It is important that you consult with your tax advisor to determine which method is best for you and then notify the Fund if you intend to utilize a method other than average cost for covered shares.

The Fund will compute and report the cost basis of your Fund shares sold or exchanged by taking into account all of the applicable adjustments to cost basis and holding periods as required by the Code and Treasury regulations for purposes of reporting these amounts to you and the IRS. However, the Fund is not required to, and in many cases the Fund does not possess the information to, take all possible basis, holding period or other adjustments into account in reporting cost basis information to you. Therefore, shareholders should carefully review the cost basis information provided by the Fund. If you hold your Fund shares through a broker (or other nominee), please contact that broker (nominee) with respect to the reporting of cost basis and available elections for your account.

**Wash sale rule.** All or a portion of any loss so recognized may be deferred under the wash sale rules if the shareholder purchases other shares of the Fund within 30 days before or after the sale or redemption.

**Sales at a loss within six months of purchase.** Any capital loss arising from the sale or redemption of shares held for six months or less will be treated as a long-term capital loss to the extent of the amount of capital gain dividends received on such shares.

**Deferral of basis.** If a shareholder (a) incurs a sales load in acquiring shares of the Fund, (b) disposes of such shares less than 91 days after they are acquired, and (c) subsequently acquires shares of the Fund or another Fund by January 31 of the calendar year following the calendar year in which the disposition of the original shares occurred at a reduced sales load pursuant to a right to reinvest at such reduced sales load acquired in connection with the acquisition of the shares disposed of, then the sales load on the shares disposed of (to the extent of the reduction in the sales load on the shares subsequently acquired) shall not be taken into account in determining gain or loss on the shares disposed of, but shall be treated as incurred on the acquisition of the shares subsequently acquired. The wash sale rules may also limit the amount of loss that may be taken into account on disposition after such adjustment.

**Conversion of shares of the Fund into other shares of the same Fund.** The conversion of shares of one class of the Fund into shares of another class of the same Fund is not taxable for federal income tax purposes and no gain or loss will be reported on the transaction. This is true whether the conversion occurs automatically pursuant to the terms of the class or is initiated by the shareholder. Shareholders should consult their tax advisors regarding the state and local tax consequences of a conversion of shares.

**Exchange of shares of the Fund for shares of another Fund.** The exchange of shares in one Fund for shares of another Fund is taxable for federal income tax purposes and the exchange will be reported as a taxable sale. An exchange occurs when the purchase of shares of the Fund is made using the proceeds from a redemption of shares of another Fund and is effectuated on the same day as the redemption. Shareholders should consult their tax advisors regarding the state and local tax consequences of an exchange of shares.

**Reportable transactions.** Under Treasury regulations, if a shareholder recognizes a loss with respect to the Fund's shares of $2 million or more for an individual shareholder or $10 million or more for a corporate shareholder (or certain greater amounts over a combination of years), the shareholder must file with the IRS a disclosure statement on Form 8886. The fact that a loss is reportable under these regulations does not affect the legal determination of
whether the taxpayer's treatment of the loss is proper. Shareholders should consult their tax advisors to determine the applicability of these regulations in light of their individual circumstances.

**Tax Treatment of Portfolio Transactions.** Set forth below is a general description of the tax treatment of certain types of securities, investment techniques and transactions that may apply to a fund. This section should be read in conjunction with the discussion under “Description of the Fund and its Investments and Risks — Investment Strategies and Risks" for a detailed description of the various types of securities and investment techniques that apply to the Fund.

*In general.* In general, gain or loss recognized by a fund on the sale or other disposition of portfolio investments will be a capital gain or loss. Such capital gain and loss may be long-term or short-term depending, in general, upon the length of time a particular investment position is maintained and, in some cases, upon the nature of the transaction. Property held for more than one year generally will be eligible for long-term capital gain or loss treatment. The application of certain rules described below may serve to alter the manner in which the holding period for a security is determined or may otherwise affect the characterization as long-term or short-term, and also the timing of the realization and/or character, of certain gains or losses.

*Certain fixed-income investments.* Gain recognized on the disposition of a debt obligation purchased by a fund at a market discount (generally, at a price less than its principal amount) will be treated as ordinary income to the extent of the portion of the market discount that accrued during the period of time the fund held the debt obligation unless the fund made a current inclusion election to accrue market discount into income as it accrues. If the Fund purchases a debt obligation (such as a zero-coupon security or pay-in-kind security) that was originally issued at a discount, the fund generally is required to include in gross income each year the portion of the original issue discount that accrues during such year. Therefore, the Fund's investment in such securities may cause the fund to recognize income and make distributions to shareholders before it receives any cash payments on the securities. To generate cash to satisfy those distribution requirements, the Fund may have to sell portfolio securities that it otherwise might have continued to hold or to use cash flows from other sources such as the sale of fund shares.

*Investments in debt obligations that are at risk of or in default present tax issues for the Fund.* Tax rules are not entirely clear about issues such as whether and to what extent the Fund should recognize market discount on a debt obligation, when the Fund may cease to accrue interest, original issue discount or market discount, when and to what extent the Fund may take deductions for bad debts or worthless securities and how the Fund should allocate payments received on obligations in default between principal and income. These and other related issues will be addressed by the Fund in order to ensure that it distributes sufficient income to preserve its status as a regulated investment company.

*Options, futures, forward contracts, swap agreements and hedging transactions.* In general, option premiums received by the Fund are not immediately included in the income of the fund. Instead, the premiums are recognized when the option contract expires, the option is exercised by the holder, or the fund transfers or otherwise terminates the option (e.g., through a closing transaction). If an option written by the Fund is exercised and the fund sells or delivers the underlying stock, the fund generally will recognize capital gain or loss equal to (a) the sum of the strike price and the option premium received by the fund minus (b) the fund's basis in the stock. Such gain or loss generally will be short-term or long-term depending upon the holding period of the underlying stock. If securities are purchased by the Fund pursuant to the exercise of a put option written by it, the fund generally will subtract the premium received from its cost basis in the securities purchased. The gain or loss with respect to any termination of a fund's obligation under an option other than through the exercise of the option and related sale or delivery of the underlying stock generally will be short-term gain or loss depending on whether the premium income received by the fund is greater or less than the amount paid by the fund (if any) in terminating the transaction. Thus, for example, if an option written by the Fund expires unexercised, the fund generally will recognize short-term gain equal to the premium received.

The tax treatment of certain futures contracts entered into by the Fund as well as listed non-equity options written or purchased by the fund on U.S. exchanges (including options on futures contracts, broad-based equity indices and debt securities) may be governed by section 1256 of the Code (section 1256 contracts). Gains or losses on section 1256 contracts generally are considered 60% long-term and 40% short-term capital gains or losses (60/40), although certain foreign currency gains and losses from such contracts may be treated as ordinary in character. Also, any
section 1256 contracts held by the Fund at the end of each taxable year (and, for purposes of the 4% excise tax, on certain other dates as prescribed under the Code) are “marked-to-market” with the result that unrealized gains or losses are treated as though they were realized and the resulting gain or loss is treated as ordinary or 60/40 gain or loss, as applicable. Section 1256 contracts do not include any interest rate swap, currency swap, basis swap, interest rate cap, interest rate floor, commodity swap, equity swap, equity index swap, credit default swap, or similar agreement.

In addition to the special rules described above in respect of options and futures transactions, the Fund's transactions in other derivative instruments (including options, forward contracts and swap agreements) as well as its other hedging, short sale, or similar transactions, may be subject to one or more special tax rules (including the constructive sale, notional principal contract, straddle, wash sale and short sale rules). These rules may affect whether gains and losses recognized by the Fund are treated as ordinary or capital or as short-term or long-term, accelerate the recognition of income or gains to the fund, defer losses to the fund, and cause adjustments in the holding periods of the fund's securities. These rules, therefore, could affect the amount, timing and/or character of distributions to shareholders. Moreover, because the tax rules applicable to derivative financial instruments are in some cases uncertain under current law, an adverse determination or future guidance by the IRS with respect to these rules (which determination or guidance could be retroactive) may affect whether the Fund has made sufficient distributions and otherwise satisfied the relevant requirements to maintain its qualification as a regulated investment company and avoid a fund-level tax.

Certain of the Fund's investments in derivatives and foreign currency-denominated instruments, and the fund's transactions in foreign currencies and hedging activities, may produce a difference between its book income and its taxable income. If the Fund's book income is less than the sum of its taxable income and net tax-exempt income (if any), the fund could be required to make distributions exceeding book income to qualify as a regulated investment company. If the Fund's book income exceeds the sum of its taxable income and net tax-exempt income (if any), the distribution of any such excess will be treated as (i) a dividend to the extent of the fund's remaining earnings and profits (including current earnings and profits arising from tax-exempt income, reduced by related deductions), (ii) thereafter, as a return of capital to the extent of the recipient's basis in the shares, and (iii) thereafter, as gain from the sale or exchange of a capital asset.

Foreign currency transactions. The Fund's transactions in foreign currencies, foreign currency- denominated debt obligations and certain foreign currency options, futures contracts and forward contracts (and similar instruments) may give rise to ordinary income or loss to the extent such income or loss results from fluctuations in the value of the foreign currency concerned. This treatment could increase or decrease the Fund's ordinary income distributions to you, and may cause some or all of the fund's previously distributed income to be classified as a return of capital. In certain cases, the Fund may make an election to treat such gain or loss as capital.

PFIC investments. The Fund may invest in securities of foreign companies that may be classified under the Code as PFICs. In general, a foreign company is classified as a PFIC if at least one-half of its assets constitute investment-type assets or 75% or more of its gross income is investment-type income. When investing in PFIC securities, the Fund intends to mark-to-market these securities under certain provisions of the Code and recognize any unrealized gains as ordinary income at the end of the fund's fiscal and excise tax years. Deductions for losses are allowable only to the extent of any current or previously recognized gains. These gains (reduced by allowable losses) are treated as ordinary income that the Fund is required to distribute, even though it has not sold or received dividends from these securities. You should also be aware that the designation of a foreign security as a PFIC security will cause its income dividends to fall outside of the definition of qualified foreign corporation dividends. These dividends generally will not qualify for the reduced rate of taxation on qualified dividends when distributed to you by the Fund. Foreign companies are not required to identify themselves as PFICs. Due to various complexities in identifying PFICs, the Fund can give no assurances that it will be able to identify portfolio securities in foreign corporations that are PFICs in time for the fund to make a mark-to-market election. If the Fund is unable to identify an investment as a PFIC and thus does not make a mark-to-market election, the fund may be subject to U.S. federal income tax on a portion of any "excess distribution" or gain from the disposition of such shares even if such income is distributed as a taxable dividend by the fund to its shareholders. Additional charges in the nature of interest may be imposed on the Fund in respect of deferred taxes arising from such distributions or gains.
**Investments in non-U.S. REITs.** While non-U.S. REITs often use complex acquisition structures that seek to minimize taxation in the source country, an investment by the Fund in a non-U.S. REIT may subject the fund, directly or indirectly, to corporate taxes, withholding taxes, transfer taxes and other indirect taxes in the country in which the real estate acquired by the non-U.S. REIT is located. The fund's pro rata share of any such taxes will reduce the fund's return on its investment. The Fund's investment in a non-U.S. REIT may be considered an investment in a PFIC, as discussed above in "Tax Treatment of Portfolio Transactions — PFIC investments." Additionally, foreign withholding taxes on distributions from the non-U.S. REIT may be reduced or eliminated under certain tax treaties, as discussed above in "Taxation of the Fund — Foreign income tax." Also, the fund in certain limited circumstances may be required to file an income tax return in the source country and pay tax on any gain realized from its investment in the non-U.S. REIT under rules similar to those in the United States which tax foreign persons on gain realized from dispositions of interests in U.S. real estate.

**Investments in U.S. REITs.** A U.S. REIT is not subject to federal income tax on the income and gains it distributes to shareholders. Dividends paid by a U.S. REIT, other than capital gain distributions, will be taxable as ordinary income up to the amount of the U.S. REIT’s current and accumulated earnings and profits. Capital gain dividends paid by a U.S. REIT to the Fund will be treated as long-term capital gains by the fund and, in turn, may be distributed by the fund to its shareholders as a capital gain distribution. Because of certain noncash expenses, such as property depreciation, an equity U.S. REIT’s cash flow may exceed its taxable income. The equity U.S. REIT, and in turn the Fund, may distribute this excess cash to shareholders in the form of a capital gain distribution. However, if a U.S. REIT is operated in a manner that fails to qualify as a REIT, an investment in the U.S. REIT would become subject to double taxation, meaning the taxable income of the U.S. REIT would be subject to federal income tax at the corporate income tax rate without any deduction for dividends paid to shareholders and the dividends would be taxable to shareholders as ordinary income (or possibly as qualified dividend income) to the extent of the U.S. REIT’s current and accumulated earnings and profits. Also, see "Tax Treatment of Portfolio Transactions — Investment in taxable mortgage pools (excess inclusion income)" and "Non-U.S. Investors — Investments in U.S. Real Property" with respect to certain other tax aspects of investing in U.S. REITs.

**Investment in taxable mortgage pools (excess inclusion income).** Under a Notice issued by the IRS, the Code and Treasury regulations to be issued, a portion of the Fund’s income from a U.S. REIT that is attributable to the REIT’s residual interest in a real estate mortgage investment conduit (REMIC) or equity interests in a "taxable mortgage pool" (referred to in the Code as an excess inclusion) will be subject to federal income tax in all events. The excess inclusion income of a regulated investment company, such as the Fund, will be allocated to shareholders of the regulated investment company in proportion to the dividends received by such shareholders, with the same consequences as if the shareholders held the related REMIC residual interest or, if applicable, taxable mortgage pool directly. In general, excess inclusion income allocated to shareholders (i) cannot be offset by net operating losses (subject to a limited exception for certain thrift institutions), (ii) will constitute unrelated business taxable income (UBTI) to entities (including qualified pension plans, individual retirement accounts, 401(k) plans, Keogh plans or other tax-exempt entities) subject to tax on UBTI, thereby potentially requiring such an entity that is allocated excess inclusion income, and otherwise might not be required to file a tax return, to file a tax return and pay tax on such income, and (iii) in the case of a foreign stockholder, will not qualify for any reduction in U.S. federal withholding tax. In addition, if at any time during any taxable year a "disqualified organization" (which generally includes certain cooperatives, governmental entities, and tax- exempt organizations not subject to UBTI) is a record holder of a share in a regulated investment company, then the regulated investment company will be subject to a tax equal to that portion of its excess inclusion income for the taxable year that is allocable to the disqualified organization, multiplied by the corporate income tax rate. The Notice imposes certain reporting requirements upon regulated investment companies that have excess inclusion income. There can be no assurance that the Fund will not allocate to shareholders excess inclusion income.

These rules are potentially applicable to the Fund with respect to any income it receives from the equity interests of certain mortgage pooling vehicles, either directly or, as is more likely, through an investment in a U.S. REIT. It is unlikely that these rules will apply to the Fund that has a non-REIT strategy.

**Investments in partnerships and QPTPs.** For purposes of the Income Requirement, income derived by the Fund from a partnership that is not a QPTP will be treated as qualifying income only to the extent such income is attributable to
items of income of the partnership that would be qualifying income if realized directly by the fund. While the rules are not entirely clear with respect to the Fund investing in a partnership outside a master-feeder structure, for purposes of testing whether the Fund satisfies the Asset Diversification Test, the fund generally is treated as owning a pro rata share of the underlying assets of a partnership. See "Taxation of the Fund — Qualification as a regulated investment company." In contrast, different rules apply to a partnership that is a QPTP. A QPTP is a partnership (a) the interests in which are traded on an established securities market, (b) that is treated as a partnership for federal income tax purposes, and (c) that derives less than 90% of its income from sources that satisfy the Income Requirement (e.g., because it invests in commodities). All of the net income derived by the Fund from an interest in a QPTP will be treated as qualifying income but the fund may not invest more than 25% of its total assets in one or more QPTPs. However, there can be no assurance that a partnership classified as a QPTP in one year will qualify as a QPTP in the next year. Any such failure to annually qualify as a QPTP might, in turn, cause the Fund to fail to qualify as a regulated investment company. Although, in general, the passive loss rules of the Code do not apply to RICs, such rules do apply to the Fund with respect to items attributable to an interest in a QPTP. Fund investments in partnerships, including in QPTPs, may result in the fund being subject to state, local or foreign income, franchise or withholding tax liabilities.

If an MLP is treated as a partnership for U.S. federal income tax purposes (whether or not a QPTP), all or portion of the dividends received by the Fund from the MLP likely will be treated as a return of capital for U.S. federal income tax purposes because of accelerated deductions available with respect to the activities of such MLPs. Further, because of these accelerated deductions, on the disposition of interests in such an MLP, the Fund likely will realize taxable income in excess of economic gain with respect to those MLP interests (or if the fund does not dispose of the MLP, the fund could realize taxable income in excess of cash flow with respect to the MLP in a later period), and the fund must take such income into account in determining whether the fund has satisfied its Distribution Requirement. The Fund may have to borrow or liquidate securities to satisfy its Distribution Requirement and to meet its redemption requests, even though investment considerations might otherwise make it undesirable for the fund to sell securities or borrow money at such time. In addition, any gain recognized, either upon the sale of the Fund’s MLP interest or sale by the MLP of property held by it, including in excess of economic gain thereon, treated as so-called “recapture income,” will be treated as ordinary income. Therefore, to the extent the Fund invests in MLPs, fund shareholders might receive greater amounts of distributions from the fund taxable as ordinary income than they otherwise would in the absence of such MLP investments.

Although MLPs are generally expected to be treated as partnerships for U.S. federal income tax purposes, some MLPs may be treated as PFICs or “regular” corporations for U.S. federal income tax purposes. The treatment of particular MLPs for U.S. federal income tax purposes will affect the extent to which the Fund can invest in MLPs and will impact the amount, character, and timing of income recognized by the Fund.

Investments in commodities — structured notes, corporate subsidiary and certain ETFs. Gains from the disposition of commodities, including precious metals, will neither be considered qualifying income for purposes of satisfying the Income Requirement nor qualifying assets for purposes of satisfying the Asset Diversification Test. See "Taxation of the Fund — Qualification as a regulated investment company." Also, the IRS has issued a revenue ruling which holds that income derived from commodity-linked swaps is not qualifying income for purposes of the Income Requirement. In a subsequent revenue ruling, as well as in a number of follow-on private letter rulings (upon which only the fund that received the private letter ruling may rely), the IRS provides that income from certain alternative investments which create commodity exposure, such as certain commodity-linked or structured notes or a corporate subsidiary (such as the Subsidiary) that invests in commodities, may be considered qualifying income under the Code. In September 2016, the IRS announced that it will no longer issue private letter rulings on questions relating to the treatment of a corporation as a RIC that require a determination of whether a financial instrument or position, such as a commodity-linked or structured note, is a security under section 2(a)(36) of the 1940 Act. (A financial instrument or position that constitutes a security under section 2(a)(36) of the 1940 Act generates qualifying income for a corporation taxed as a regulated investment company.) This caused the IRS to revoke the portion of any rulings that required such a determination, some of which were revoked retroactively and others of which were revoked prospectively as of a date agreed upon with the IRS. In addition, a RIC may gain exposure to commodities through investment in a QPTP, such as an exchange-traded fund or ETF that is classified as a partnership and which invests in commodities, or through investment in a wholly-owned subsidiary that is treated as a controlled foreign corporation for federal income tax purposes. Applicable regulations treat "Subpart F" income (defined in Section 951 of the Code to include passive income such as income from commodity-linked
derivatives) as qualifying income, even if a foreign corporation, such as a Subsidiary, does not make a distribution of such income. If a distribution is made, such income will be treated as a dividend by the Fund to the extent that, under applicable provisions of the Code, there is a distribution out of the earnings and profits of the foreign corporation attributable to the distribution. The Fund anticipates that its respective Subsidiary will distribute the “Subpart F” income earned by such Subsidiary each year, which the Fund will treat as dividend income to the extent attributable to the earnings and profits of the foreign corporation and, therefore, as qualifying income to the Fund. Accordingly, the extent to which the Fund directly invests in commodities or commodity-linked derivatives may be limited by the Income Requirement and the Asset Diversification Test, which the fund must continue to satisfy to maintain its status as a regulated investment company. The Fund also may be limited in its ability to sell its investments in commodities, commodity-linked derivatives, and certain ETFs or be forced to sell other investments to generate income due to the Income Requirement. If the Fund does not appropriately limit such investments or if such investments (or the income earned on such investments) were to be recharacterized for U.S. tax purposes, the fund could fail to qualify as a regulated investment company. In lieu of potential disqualification, the Fund is permitted to pay a tax for certain failures to satisfy the Asset Diversification Test or Income Requirement, which, in general, are limited to those due to reasonable cause and not willful neglect.

Securities lending. While securities are loaned out by the Fund, the fund generally will receive from the borrower amounts equal to any dividends or interest paid on the borrowed securities. For federal income tax purposes, payments made "in lieu of" dividends are not considered dividend income. These distributions will neither qualify for the reduced rate of taxation for individuals on qualified dividends nor the 50% dividends-received deduction for corporations. Also, any foreign tax withheld on payments made "in lieu of" dividends or interest will not qualify for the pass-through of foreign tax credits to shareholders. Additionally, in the case of the Fund with a strategy of investing in tax-exempt securities, any payments made "in lieu of" tax-exempt interest will be considered taxable income to the fund, and thus, to the investors, even though such interest may be tax-exempt when paid to the borrower.

Investments in convertible securities. Convertible debt is ordinarily treated as a "single property" consisting of a pure debt interest until conversion, after which the investment becomes an equity interest. If the security is issued at a premium (i.e., for cash in excess of the face amount payable on retirement), the creditor-holder may amortize the premium over the life of the bond. If the security is issued for cash at a price below its face amount, the creditor-holder must accrue original issue discount in income over the life of the debt. The creditor-holder's exercise of the conversion privilege is treated as a nontaxable event. Mandatorily convertible debt (e.g., an exchange-traded note or ETN issued in the form of an unsecured obligation that pays a return based on the performance of a specified market index, exchange currency, or commodity) is often, but not always, treated as equity rather than debt. Dividends received generally are qualified dividend income and eligible for the corporate dividends-received deduction. In general, conversion of preferred stock for common stock of the same corporation is tax-free. Conversion of preferred stock for cash is a taxable redemption. Any redemption premium for preferred stock that is redeemable by the issuing company might be required to be amortized under original issue discount principles. A change in the conversion ratio or conversion price of a convertible security on account of a dividend paid to the issuer’s other shareholders may result in a deemed distribution of stock to the holders of the convertible security equal to the value of their increased interest in the equity of the issuer. Thus, an increase in the conversion ratio of a convertible security can be treated as a taxable distribution of stock to a holder of the convertible security (without a corresponding receipt of cash by the holder) before the holder has converted the security.

Tax Certification and Backup Withholding. Tax certification and backup withholding tax laws may require that you certify your tax information when you become an investor in the Fund. For U.S. citizens and resident aliens, this certification is made on IRS Form W-9. Under these laws, the Fund must withhold a portion of your taxable distributions and sales proceeds unless you:

- provide your correct Social Security or taxpayer identification number,
- certify that this number is correct,
- certify that you are not subject to backup withholding, and
- certify that you are a U.S. person (including a U.S. resident alien).
The Fund also must withhold if the IRS instructs it to do so. When withholding is required, the amount will be 24% of any distributions or proceeds paid. Backup withholding is not an additional tax. Any amounts withheld may be credited against the shareholder's U.S. federal income tax liability, provided the appropriate information is furnished to the IRS. Certain payees and payments are exempt from backup withholding and information reporting.

Non-U.S. investors have special U.S. tax certification requirements. See "Non-U.S. Investors – U.S. tax certification rules."

**Non-U.S. Investors.** Non-U.S. investors (shareholders who, as to the U.S., are nonresident alien individuals, foreign trusts or estates, foreign corporations, or foreign partnerships) may be subject to U.S. withholding and estate tax and are subject to special U.S. tax certification requirements. Non-U.S. investors should consult their tax advisors about the applicability of U.S. tax withholding and the use of the appropriate forms to certify their status.

*In general.* The U.S. imposes a flat 30% withholding tax (or a withholding tax at a lower treaty rate) on U.S. source dividends, including on income dividends paid to you by the Fund, subject to certain exemptions described below. However, notwithstanding such exemptions from U.S. withholding at the source, any dividends and distributions of income and capital gains, including the proceeds from the sale of your Fund shares, will be subject to backup withholding at a rate of 24% if you fail to properly certify that you are not a U.S. person.

*Capital gain dividends.* In general, capital gain dividends reported by the Fund to shareholders as paid from its net long-term capital gains, other than long-term capital gains realized on disposition of U.S. real property interests (see the discussion below), are not subject to U.S. withholding tax unless you are a nonresident alien individual present in the U.S. for a period or periods aggregating 183 days or more during the calendar year.

*Interest-related dividends and short-term capital gain dividends.* Generally, dividends reported by the Fund to shareholders as interest-related dividends and paid from its qualified net interest income from U.S. sources are not subject to U.S. withholding tax. “Qualified interest income” includes, in general, U.S. source (1) bank deposit interest, (2) short-term original discount, (3) interest (including original issue discount, market discount, or acquisition discount) on an obligation that is in registered form, unless it is earned on an obligation issued by a corporation or partnership in which the Fund is a 10-percent shareholder or is contingent interest, and (4) any interest-related dividend from another regulated investment company. Similarly, short-term capital gain dividends reported by the Fund to shareholders as paid from its net short-term capital gains, other than short-term capital gains realized on the disposition of certain U.S. real property interests (see the discussion below), are not subject to U.S. withholding tax unless you were a nonresident alien individual present in the U.S. for a period or periods aggregating 183 days or more during the calendar year. The Fund reserves the right to not report interest-related dividends or short-term capital gain dividends. Additionally, the Fund’s reporting of interest-related dividends or short-term capital gain dividends may not be passed through to shareholders by intermediaries who have assumed tax reporting responsibilities for this income in managed or omnibus accounts due to systems limitations or operational constraints.

*Net investment income from dividends on stock and foreign source interest income continue to be subject to withholding tax.* Ordinary dividends paid by the Fund to non-U.S. investors on the income earned on portfolio investments in (i) the stock of domestic and foreign corporations and (ii) the debt of foreign issuers continue to be subject to U.S. withholding tax.

*Income effectively connected with a U.S. trade or business.* If the income from the Fund is effectively connected with a U.S. trade or business carried on by a foreign shareholder, then ordinary income dividends, capital gain dividends and any gains realized upon the sale or redemption of shares of the Fund will be subject to U.S. federal income tax at the rates applicable to U.S. citizens or domestic corporations and require the filing of a nonresident U.S. income tax return.

*Investment in U.S. real property.* The Foreign Investment in Real Property Tax Act of 1980 (“FIRPTA”) makes non-U.S. persons subject to U.S. tax on the disposition of a U.S. real property interest (“USRPI”) as if he or she were a U.S. person. Such gain is sometimes referred to as FIRPTA gain. The Fund may invest in equity securities of
corporations that invest in USRPI, including U.S. REITs, which may trigger FIRPTA gain to the Fund’s non-U.S. shareholders.

The Code provides a look-through rule for distributions of FIRPTA gain when a RIC is classified as a qualified investment entity. A RIC will be classified as a qualified investment entity if, in general, 50% or more of the RIC’s assets consist of interests in U.S. REITs and other U.S. real property holding corporations (“USRPHC”). If a RIC is a qualified investment entity and the non-U.S. shareholder owns more than 5% of a class of Fund shares at any time during the one-year period ending on the date of the FIRPTA distribution, the FIRPTA distribution to the non-U.S. shareholder is treated as gain from the disposition of a USRPI, causing the distribution to be subject to U.S. withholding tax at the applicable corporate income tax rate (unless reduced by future regulations), and requiring the non-U.S. shareholder to file a nonresident U.S. income tax return. In addition, even if the non-U.S. shareholder does not own more than 5% of a class of Fund shares, but the Fund is a qualified investment entity, the FIRPTA distribution will be taxable as ordinary dividends (rather than as a capital gain or short-term capital gain dividend) subject to withholding at 30% or lower treaty rate.

Because the Fund expects to invest less than 50% of its assets at all times, directly or indirectly, in U.S. real property interests, the Fund expects that neither gain on the sale or redemption of Fund shares nor Fund dividends and distributions would be subject to FIRPTA reporting and tax withholding.

**U.S. estate tax.** Transfers by gift of shares of the Fund by a foreign shareholder who is a nonresident alien individual will not be subject to U.S. federal gift tax. An individual who, at the time of death, is a non-U.S. shareholder will nevertheless be subject to U.S. federal estate tax with respect to Fund shares at the graduated rates applicable to U.S. citizens and residents, unless a treaty exemption applies. If a treaty exemption is available, a decedent’s estate may nonetheless need to file a U.S. estate tax return to claim the exemption in order to obtain a U.S. federal transfer certificate. The transfer certificate will identify the property (i.e., Fund shares) as to which the U.S. federal estate tax lien has been released. In the absence of a treaty, there is a $13,000 statutory estate tax credit (equivalent to U.S. situs assets with a value of $60,000). For estates with U.S. situs assets of not more than $60,000, the Fund may accept, in lieu of a transfer certificate, an affidavit from an appropriate individual evidencing that decedent’s U.S. situs assets are below this threshold amount.

**U.S. tax certification rules.** Special US tax certification requirements may apply to non-U.S. shareholders both to avoid U.S. backup withholding imposed at a rate of 24% and to obtain the benefits of any treaty between the U.S. and the shareholder’s country of residence. In general, if you are a non-U.S. shareholder, you must provide a Form W-8 BEN (or other applicable Form W-8) to establish that you are not a U.S. person, to claim that you are the beneficial owner of the income and, if applicable, to claim a reduced rate of, or exemption from, withholding as a resident of a country with which the U.S. has an income tax treaty. A Form W-8 BEN provided without a U.S. taxpayer identification number will remain in effect for a period beginning on the date signed and ending on the last day of the third succeeding calendar year unless an earlier change of circumstances makes the information on the form incorrect. Certain payees and payments are exempt from backup withholding.

The tax consequences to a non-U.S. shareholder entitled to claim the benefits of an applicable tax treaty may be different from those described herein. Non-US shareholders are urged to consult their own tax advisors with respect to the particular tax consequences to them of an investment in the Fund, including the applicability of foreign tax.

**Foreign Account Tax Compliance Act (FATCA).** Under FATCA, the Fund will be required to withhold a 30% tax on income dividends made by the Fund to certain foreign entities, referred to as foreign financial institutions (FFI) or non-financial foreign entities (NFFE). After December 31, 2018, FATCA withholding also would have applied to certain capital gain distributions, return of capital distributions and the proceeds arising from the sale of Fund shares; however, based on proposed regulations issued by the IR, which can be relied upon currently, such withholding is no longer required unless final regulations provide otherwise (which is not expected). The FATCA withholding tax generally can be avoided: (a) by an FFI, if it reports certain direct and indirect ownership of foreign financial accounts held by U.S. persons with the FFI and (b) by an NFFE, if it: (i) certifies that it has no substantial U.S. persons as owners or (ii) if it does have such owners, reporting information relating to them. The U.S. Treasury has negotiated intergovernmental agreements (IGA) with certain countries and is in various stages of negotiations with a number of other foreign countries with respect to one or more alternative approaches to implement FATCA.
An FFI can avoid FATCA withholding if it is deemed compliant or by becoming a “participating FFI,” which requires the FFI to enter into a U.S. tax compliance agreement with the IRS under section 1471(b) of the Code (FFI agreement) under which it agrees to verify, report and disclose certain of its U.S. accountholders and meet certain other specified requirements. The FFI will either report the specified information about the U.S. accounts to the IRS, or, to the government of the FFI’s country of residence (pursuant to the terms and conditions of applicable law and an applicable IGA entered into between the U.S. and the FFI’s country of residence), which will, in turn, report the specified information to the IRS. An FFI that is resident in a country that has entered into an IGA with the U.S. to implement FATCA will be exempt from FATCA withholding provided that the FFI shareholder and the applicable foreign government comply with the terms of such agreement.

An NFFE that is the beneficial owner of a payment from the Fund can avoid the FATCA withholding tax generally by certifying that it does not have any substantial U.S. owners or by providing the name, address and taxpayer identification number of each substantial U.S. owner. The NFFE will report the information to the Fund or other applicable withholding agent, which will, in turn, report the information to the IRS.

Such foreign shareholders also may fall into certain exempt, excepted or deemed compliant categories as established by U.S. Treasury regulations, IGAs, and other guidance regarding FATCA. An FFI or NFFE that invests in the Fund will need to provide the Fund with documentation properly certifying the entity’s status under FATCA in order to avoid FATCA withholding. Non-U.S. investors should consult their own tax advisors regarding the impact of these requirements on their investment in the Fund. The requirements imposed by FATCA are different from, and in addition to, the U.S. tax certification rules to avoid backup withholding described above. Shareholders are urged to consult their tax advisors regarding the application of these requirements to their own situation.

U.S. estate tax. Transfers by gift of shares of the Fund by a foreign shareholder who is a nonresident alien individual will not be subject to U.S. federal gift tax. An individual who, at the time of death, is a foreign shareholder will nevertheless be subject to U.S. federal estate tax with respect to shares at the graduated rates applicable to U.S. citizens and residents, unless a treaty exemption applies. If a treaty exemption is available, a decedent's estate may nonetheless need to file a U.S. estate tax return to claim the exemption in order to obtain a U.S. federal transfer certificate. The transfer certificate will identify the property (i.e., Fund shares) as to which the U.S. federal estate tax lien has been released. In the absence of a treaty, there is a $13,000 statutory estate tax credit (equivalent to an estate with assets of $60,000).

Local Tax Considerations. Rules of state and local taxation of ordinary income, qualified dividend income and capital gain dividends may differ from the rules for U.S. federal income taxation described above. Distributions may also be subject to additional state, local and foreign taxes depending on each shareholder’s particular situation.

DIVIDENDS AND DISTRIBUTIONS

The Fund intends to declare and distribute dividends from net investment income of each class of Shares, if any, monthly, and may distribute its net realized capital gains, with respect to each class of Shares, if any, at least annually. The Fund may distribute income dividends and capital gains more frequently, if necessary, in order to reduce or eliminate federal excise or income taxes on the Fund. The amount of any distribution will vary, and there is no guarantee the Fund will pay either income dividends or capital gain distributions.

FINANCIAL STATEMENTS

The Fund has not yet commenced operations and, therefore, has not produced financial statements. Once produced, you can obtain a copy of the financial statements contained in the Fund’s Annual or Semi-Annual Report without charge by calling the Fund at 1-800-253-0412.

The Predecessor Fund’s audited financial statements for the fiscal years ended December 31, 2017 and December 31, 2018 are attached as Appendix C. The audited financial statements of the Predecessor Fund
have been audited by Sandler & Co., P.C., the independent auditor for the Predecessor Fund for the fiscal years ended December 31, 2017 and December 31, 2018.
APPENDIX A

INVESTMENT RATINGS

A.M. BEST

LONG-TERM DEBT RATINGS
Investment Grade
Aaa: Exceptional
aa: Very Strong
a: Strong
bbb: Adequate

Non-Investment Grade
Bb: Speculative
b: Very Speculative
ccc, cc, c: Extremely Speculative
d: In Default

SHORT-TERM DEBT RATINGS

Investment Grade
AMB-1+: Strongest
AMB-1: Outstanding
AMB-2: Satisfactory
AMB-3: Adequate

Non-Investment Grade
AMB-4: Speculative
D: In Default

FITCH

LONG-TERM DEBT RATINGS
Investment grade
AAA: the best quality companies, reliable and stable
AA: quality companies, a bit higher risk than AAA
A: economic situation can affect finance
BBB: medium class companies, which are satisfactory at the moment

Non-investment grade
BB: more prone to changes in the economy
B: financial situation varies noticeably
CCC: currently vulnerable and dependent on favorable economic conditions to meet its commitments
CC: highly vulnerable, very speculative bonds
C: highly vulnerable, perhaps in bankruptcy or in arrears but still continuing to pay out on obligations
D: has defaulted on obligations and Fitch believes that it will generally default on most or all obligations
NR: not publicly rated

SHORT-TERM DEBT RATINGS
Fitch's short-term ratings indicate the potential level of default within a 12-month period.
F1+: best quality grade, indicating exceptionally strong capacity of obligor to meet its financial commitment
F1: best quality grade, indicating strong capacity of obligor to meet its financial commitment
F2: good quality grade with satisfactory capacity of obligor to meet its financial commitment
F3: fair quality grade with adequate capacity of obligor to meet its financial commitment but near term adverse conditions could impact the obligor's commitments
B: of speculative nature and obligor has minimal capacity to meet its commitment and vulnerability to short term adverse changes in financial and economic conditions
C: possibility of default is high and the financial commitment of the obligor are dependent upon sustained, favorable business and economic conditions
D: the obligor is in default as it has failed on its financial commitments.

Fitch also uses intermediate +/- modifiers for each category between AA and CCC (e.g., AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB-, etc.).

MOODY’S

GLOBAL LONG-TERM RATING SCALE
Aaa: Obligations rated Aaa are judged to be of the highest quality, subject to the lowest level of 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 judged to be upper-medium grade and are subject to low credit risk.
Baa: Obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics.
B: Obligations rated B are considered speculative and are subject to high credit risk.
Ba: Obligations rated Ba are judged to be speculative 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 speculative 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 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. Additionally, a “(hyb)” indicator is appended to all ratings of hybrid securities issued by banks, insurers, finance companies, and securities firms.

Moody’s differentiates structured finance ratings from fundamental ratings (i.e., ratings on nonfinancial corporate, financial institution, and public sector entities) on the global long-term scale by adding (sf ) to all structured finance ratings. The (sf ) indicator was introduced on August 11, 2010 and explained in a special comment entitled, “Moody’s Structured Finance Rating Scale.” The addition of (sf ) to structured finance ratings should eliminate any presumption that such ratings and fundamental ratings at the same letter grade level will behave the same. The (sf ) indicator for structured finance security ratings indicates that otherwise similarly rated structured finance and fundamental securities may have different risk characteristics.

GLOBAL SHORT-TERM RATING SCALE
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.

US MUNICIPAL SHORT-TERM DEBT OBLIGATION RATINGS
MIG 1: This designation denotes superior credit 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 credit quality. Margins of protection are ample, although not as large as in the preceding group.
MIG 3: This designation denotes acceptable credit 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.
STANDARD AND POORS

AAA: An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. 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.

BB; B; CCC;CC; and C
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 arrears 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, unless Standard & Poor's believes that such payments will be made within five business days, irrespective of any 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.

NR: 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.

*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.*
APPENDIX B

ESM PROXY VOTING POLICIES

1. General

As a fiduciary, an investment adviser with proxy voting authority has a duty to monitor corporate events and to vote proxies, as well as a duty to cast votes in the best interest of clients and not subrogate client interests to its own interests. Rule 206(4)-6 under the Advisers Act (the “Proxy Voting Rule”) places specific requirements on registered investment advisers with proxy voting authority. Because ESM Management, LLC (“ESM,” the “Firm” or the “Company”) has discretionary authority over the securities held by the clients that it manages as well as pooled investment vehicles, pension and profit-sharing plans, ESM is viewed as having proxy voting authority and is subject to the Proxy Voting Rule. To meet the obligations under this rule, ESM has adopted and implemented policies and procedures reasonably designed to ensure ESM votes proxies in the best interest of its clients and addresses how it will resolve any conflict of interest that may arise when voting proxies. Additionally, ESM will: (i) maintain certain records required to be maintained by the Proxy Voting Rule relating to all voted proxies; (ii) disclose its proxy voting policies and procedures to clients and upon request providing clients with a copy of it; and (iii) inform clients as to how they can obtain information from ESM as to how their securities were voted.

ESM has adopted the following Proxy Voting Guidelines (the “Guidelines”) in an effort to comply with the Proxy Voting Rule.

2. Application; General Principles

The Company, on behalf of its clients coordinates and vote all proxies in a manner in which is consistent with the ESM’s fiduciary duties and the general principals applicable to ESM as outlined below. ESM shall vote all proxies in respect of securities owned by or on behalf of a client in the client’s and pooled investment vehicle investors’ best economic interests and without regard to the interests of ESM, any other client or any other pooled investment vehicle investor. If the client does not grant direct voting authority to ESM, clients will not receive information about their proxies from ESM. Instead, clients will be instructed to receive proxies from their custodian or other third-party service providers such as their proxy service provider.

ESM and its clients subject to ERISA, shall exercise ESM’s fiduciary duty by voting proxies solely in the best interest of the participants and beneficiaries of such plans. ESM recognizes that the exercise of voting rights on securities held by ERISA plans (if applicable) for which ESM has voting responsibility is a fiduciary duty that must be exercised with care, skill, prudence and diligence. In voting proxies for ERISA accounts, ESM will exercise fiduciary responsibility to vote all proxies for shares for which ESM has investment discretion as investment manager unless the power to vote such shares has been retained by the appointing fiduciary as set forth in the documents in which the named fiduciary has appointed ESM as investment manager.

In voting proxies for securities held by a client, ESM shall consider only the interests of the client and shall vote such proxies in the best economic interests of such client. ESM resolves the conflict of interest by generally following the proxy voting recommendation of a disinterested third party such as our proxy voting firm, or another institutional proxy research firm, unless the applicable portfolio manager determines that voting contrary to such recommendation is in the best interest of a particular client.
3. **Determination of Vote**

ESM’s proxy voting procedures are designed to ensure that proxies are voted in a manner that is in the best interest of the client. The Company monitors corporate actions of those securities it has purchased on behalf of its clients. Receipt of proxy materials are logged into a proxy control sheet.

The majority of proxy-related issues generally fall within the following five (5) categories: (i) corporate governance; (ii) takeover defenses; (iii) compensation plans; (iv) capital structure; and (v) social responsibility. The Company will generally vote in favor of matters that follow an agreeable corporate strategic direction, support an ownership structure that enhances shareholder value without diluting management’s accountability to shareholders and/or present compensation plans that are commensurate with enhanced manager performance and market practices.

While proxy voting on all issues presented should be considered, voting on all issues is not required. Some issues presented for a proxy vote of security holders are not deemed relevant to ESM’s voting objective, or it is not reasonably possible to ascertain what effect, if any, a vote on a given issue may have on a client’s investment. Additionally, ESM may decide that avoiding further expense and investigation and not voting at all on a presented proposal may be in the best interest of a client. Accordingly, ESM may abstain from voting in certain circumstances.

The Company will not accept direction as to how to vote individual proxies for which it has voting responsibility from any other person or organization (other than the research and information provided by ISS). Subject to specific provisions in a client’s account documentation related to exception voting, ESM only accepts direction from a client to vote proxies for that client’s account pursuant to the Guidelines. In addition, a client may instruct ESM in its investment management agreement to vote all proxies strictly in accordance with the Taft-Hartley voting guidelines (the “Taft-Hartley Guidelines”).

4. **Conflicts of Interest**

The CCO is responsible for monitoring and resolving possible conflicts with respect to proxy voting. Because the Guidelines are designed to be in the best interests of shareholders, application of the Guidelines to vote client proxies should, in most cases, adequately address any possible conflicts of interest. Similarly, for clients who have instructed ESM to vote proxies in accordance with the Taft-Hartley Guidelines, these guidelines are pre-determined. As a result, application of the Guidelines and Taft-Hartley Guidelines to vote client proxies should, in most cases, adequately address any possible conflicts of interest.

The Firm shall review records of votes that were cast. This review shall be conducted by sampling proxy votes to ensure whether they complied with the Guidelines and if votes that were cast inconsistently with the Guidelines, the related rationale for such votes. The review may entail a sample of proxy votes that relate to certain proposals that may require more analysis. Should the Firm determine that its recommendations were based on a material factual error, the CCO will take reasonable steps to investigate the error, taking into account, among other things, the nature of the error and the related recommendation. Additionally, and in instances where an employee has discretion to vote differently than the Guidelines and proposes to vote a proxy inconsistent with the Guidelines and a potential conflict of interest is identified, the Firm reviews such proxy votes to determine whether the Employee voting rationale appears reasonable and no conflict exists.
A conflict of interest may exist, for example, if ESM or its affiliates have a business relationship with (or is actively soliciting business from) either the company soliciting the proxy or a third party that has a material interest in the outcome of a proxy vote or that is actively lobbying for a particular outcome of a proxy vote. In addition, any Employee with knowledge of a personal conflict of interest (i.e., a family member in a company’s management) relating to a particular referral item shall disclose that conflict to the CCO and may be required to recuse himself or herself from the proxy voting process. Issues raising possible conflicts of interest may be referred to the CCO for resolution. If the CCO does not agree that the employee’s rationale is reasonable, the CCO will refer the matter to the Firm’s senior management to vote the proxy. If a matter is referred to the senior management the decision made and basis for the decision will be documented by the CCO.

5. **Recordkeeping**

Pursuant to the Proxy Voting Rule, ESM shall retain the following five (5) types of records relating to proxy voting: (i) proxy voting policy and procedures, including any proxy advisory firm’s proxy voting policy and procedures; (ii) proxy statements received for client securities; (iii) records of votes cast on behalf of clients; (iv) written client requests for proxy voting information and written adviser responses to any client request (whether oral or written) for proxy voting information; and (v) any documents prepared by ESM that were material to making a proxy voting decision or that memorialized the basis for the decision.

These records shall be maintained and preserved in an easily accessible place for a period of not less than six (6) years from the end of ESM’s fiscal year during which the last entry was made in the records, the first two (2) years in an appropriate office of ESM. The Company may rely on proxy statements filed on the SEC’s EDGAR system or on proxy statements and records of votes cast by ESM maintained by a third party, where applicable, such as a proxy voting service (provided ESM had obtained an undertaking from the third party to provide a copy of the proxy statement or record promptly on request). The Firm is responsible for ensuring all clients, who have given ESM proxy voting authority, are voted and for maintaining a record of all proxies voted.
# ESM FUND I, L.P.
## FINANCIAL STATEMENTS
### DECEMBER 31, 2017

## CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Report of Independent Auditors</td>
<td>1-2</td>
</tr>
<tr>
<td><strong>Financial Statements</strong></td>
<td></td>
</tr>
<tr>
<td>Statement of Financial Condition</td>
<td>3</td>
</tr>
<tr>
<td>Statement of Operations</td>
<td>4</td>
</tr>
<tr>
<td>Statement of Changes in Partners’ Capital</td>
<td>5</td>
</tr>
<tr>
<td>Statement of Cash Flows</td>
<td>6</td>
</tr>
<tr>
<td>Notes to Financial Statements</td>
<td>7-16</td>
</tr>
<tr>
<td>Schedule of Investments</td>
<td>17-20</td>
</tr>
</tbody>
</table>
Report of Independent Auditors

To the Managing Members of
ESM Management LLC
Newton, Massachusetts

We have audited the accompanying financial statements of ESM Fund I, L.P., which comprise the statement of financial condition, including the schedule of investments, as of December 31, 2017, and the related statements of operations, changes in partners’ capital, and cash flows for the year then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial condition of ESM Fund I, L.P. as of December 31, 2017, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Revision of Previously Issued Financial Statements

The 2017 financial statements that were previously issued on or about April 27, 2018 have been revised to include additional information and for certain other matters, as described in Note 7. Our opinion is not modified with respect to these revisions.

Comparative Information for 2016

One of the revisions to the 2017 financial statements is the addition of changes in partners’ capital for the prior year ended December 31, 2016 to the statement of changes in partners’ capital. We previously audited the financial statements of ESM Fund I, L.P. as of December 31, 2016 and for the year then ended, and our audit report dated April 28, 2017 was unqualified. The presentation of changes in partners’ capital for the year ended December 31, 2016 included in the current year financial statements has been taken from and is consistent with the 2016 financial statements.

Needham, Massachusetts
April 27, 2018, except for the revisions described in Note 7, which are as of June 27, 2019
ESM FUND I, L.P.
STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2017

ASSETS

Investments in securities, at fair value
   (amortized cost $15,954,235) $ 21,333,536
Deposits with broker 1,986,437
Cash at bank 969,478
Principal and interest payments due 66,472

Total assets $ 24,355,923

LIABILITIES AND PARTNERS' CAPITAL

Liabilities:
   Accounts payable and accrued expenses $ 32,600
   Accrued management fees 49,655
   Withdrawal payable 3,832

Total liabilities 86,087

Partners' capital 24,269,836

Total liabilities and partners' capital $ 24,355,923

The accompanying notes are an integral part of these financial statements.
ESM FUND I, L.P.
STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017

Investment income - interest  $1,112,792

Expenses:
  Management fees  206,689
  Legal fees  42,695
  Audit fees  19,500
  Administrator fees  14,400
  Other expenses  33

  Total expenses  283,317

Net investment income  829,475

Realized and unrealized gains and losses on investments:
  Net realized gains and losses  1,399,406
  Net change in unrealized gains and losses  1,147,230

  Net realized and unrealized gains and losses on investments  2,546,636

Net increase in partners' capital resulting from operations  $3,376,111

The accompanying notes are an integral part of these financial statements.
<table>
<thead>
<tr>
<th>Year ended December 31, 2016</th>
<th>Total</th>
<th>General Partner</th>
<th>Limited Partners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partners' capital at December 31, 2015</td>
<td>$ 21,286,266</td>
<td>$ 897,644</td>
<td>$ 20,388,622</td>
</tr>
<tr>
<td>Capital contributions</td>
<td>201,782</td>
<td>201,782</td>
<td>-</td>
</tr>
<tr>
<td>Capital withdrawals</td>
<td>(1,180,741)</td>
<td>-</td>
<td>(1,180,741)</td>
</tr>
<tr>
<td>Increase in partners' capital from operations:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net investment income</td>
<td>926,374</td>
<td>56,294</td>
<td>870,080</td>
</tr>
<tr>
<td>Net realized gains and losses</td>
<td>473,136</td>
<td>23,513</td>
<td>449,623</td>
</tr>
<tr>
<td>Net change in unrealized gains and losses</td>
<td>(568,933)</td>
<td>(25,018)</td>
<td>(543,915)</td>
</tr>
<tr>
<td>Net increase in partners' capital from operations</td>
<td>830,577</td>
<td>54,789</td>
<td>775,788</td>
</tr>
<tr>
<td>Partners' capital at December 31, 2016</td>
<td>21,137,884</td>
<td>1,154,215</td>
<td>19,983,669</td>
</tr>
<tr>
<td>Year ended December 31, 2017</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital contributions</td>
<td>507,380</td>
<td>207,380</td>
<td>300,000</td>
</tr>
<tr>
<td>Capital withdrawals</td>
<td>(751,539)</td>
<td>-</td>
<td>(751,539)</td>
</tr>
<tr>
<td>Net increase in partners' capital from operations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net investment income</td>
<td>829,475</td>
<td>63,112</td>
<td>766,363</td>
</tr>
<tr>
<td>Net realized gains and losses</td>
<td>1,399,406</td>
<td>85,023</td>
<td>1,314,383</td>
</tr>
<tr>
<td>Net change in unrealized gains and losses</td>
<td>1,147,230</td>
<td>70,717</td>
<td>1,076,513</td>
</tr>
<tr>
<td>Net increase in partners' capital from operations</td>
<td>3,376,111</td>
<td>218,852</td>
<td>3,157,259</td>
</tr>
<tr>
<td>Partners' capital at December 31, 2017</td>
<td>$ 24,269,836</td>
<td>$ 1,580,447</td>
<td>$ 22,689,389</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
Cash flows from operating activities:

Net increase in partners' capital resulting from operations $3,376,111

Adjustments to reconcile net increase in partners' capital resulting from operations to net cash provided by operating activities:

- Net change in unrealized gains and losses (1,147,230)
- Net realized gains and losses (1,399,406)
- Accrual of interest income (1,099,373)
- Purchases of investments (4,190,114)
- Proceeds from sales of investments 1,563,998
- Principal and interest payments received 5,144,434

Net Changes in operating assets and liabilities:

- Principal and interest payments due (38,984)
- Accounts payable and accrued expenses 1,700
- Accrued management fees (691)

Total adjustments (1,165,666)

Net cash provided by operating activities 2,210,445

Cash flows from financing activities:

Capital contributions received 507,380
Partner withdrawals paid (753,741)

Net cash used by financing activities (246,361)

Net increase in cash 1,964,084

Cash at beginning of period 991,831

Cash at end of period $2,955,915

Cash on Cash Flow statement consists of:

<table>
<thead>
<tr>
<th>Deposits with broker</th>
<th>December 31, 2016</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ 831,537</td>
<td>$ 1,986,437</td>
</tr>
<tr>
<td>Cash at bank</td>
<td>160,294</td>
<td>969,478</td>
</tr>
<tr>
<td></td>
<td>$ 991,831</td>
<td>$ 2,955,915</td>
</tr>
</tbody>
</table>

The Fund records interest income on the accrual basis, with corresponding increase to the amortized cost basis of the securities. Cash collected from borrowers is applied to reduce amortized cost of securities, with no separate accounting for cash applied to accrued interest or to principal. Total cash collected from borrowers during the year exceeded the $1,099,373 amount of interest income accrued during the year.

The accompanying notes are an integral part of these financial statements.
1. Nature of Operations

ESM Fund I, L.P. (the “Fund”) was organized as a limited partnership in 2009, pursuant to the provisions of the Delaware Revised Uniform Limited Partnership Act. Limited partnership interests are sold on a continuing basis through private offerings to institutional investors as well as selected high net-worth individuals.

The investment objective of the Fund is to provide capital appreciation by investing primarily in non-agency residential mortgage backed securities (“MBS”), taking advantage of perceived mispricings within the market, particularly those which were originally rated AAA. Non-agency MBS are securities backed by pools of residential mortgages which are not insured by government sponsored enterprises or agencies.

The Fund’s general partner is ESM Management LLC, a Delaware limited liability company. The managing members of the general partner are Eric S. Meyer and William R. Van de Water, who are responsible for making all investment decisions on behalf of the Fund.

The Fund is not required to register with the Securities Exchange Commission as an investment company because it has fewer than 100 investors.

2. Significant Accounting Policies

Basis of Presentation

The financial statements are expressed in United States dollars and have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

Use of Estimates

The preparation of financial statements in conformity with GAAP requires the general partner to make estimates and assumptions that affect the amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Cash at Bank and Deposits with Broker

Cash in banks consists of checking accounts which are available for withdrawal at any time.

Deposits with broker include money market funds at the Fund’s broker that are available for immediate withdrawal. Deposits with broker are considered to be cash for purposes of the statement of cash flows.
2. Significant Accounting Policies – continued

Valuation of Investments

The Fund values investments in securities at fair value. The value for less actively traded MBS, representing substantially the entire portfolio, is determined by the Fund’s management using analytical tools on observable inputs such as relative value to other securities, yield analysis and reviewing recent transactions of comparable securities between willing market participants while adjusting for changes in current market conditions. In each analysis, items such as prevailing interest rates, forward yield curve, prepayment speeds, probable outcomes, and, if available, recent market transactions or negotiations related to similar or comparable securities are considered for reasonableness. These estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined.

Fair Value

In accordance with GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the “exit price”) in an orderly transaction between willing market participants at the measurement date. In determining fair value, the Fund uses various valuation approaches. A hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Fund. Unobservable inputs reflect the Fund’s assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets that the Fund has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 – Valuations based on one or more of the following: quoted prices in active markets for securities which are not identical to those being valued; quoted prices for securities in markets which are not active; inputs other than quoted prices that are observable for the asset or liability being valued, either directly or indirectly.
2. Significant Accounting Policies – continued

Fair Value (continued)

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Most of the Fund’s investments are valued using primarily Level 2 observable inputs. However, for certain investments unobservable inputs are a significant factor in determining valuation, and those valuations are classified as Level 3 valuations.

Investment Transactions and Related Income

All MBS held by the Fund currently have been purchased at a discount from the face amount. At the time of purchase, the Fund estimates the amount and timing of cash which will be received from a particular security over its expected repayment period, including both interest and principal payments. The estimate includes the effects of expected defaults, liquidation losses, and prepayments in the underlying portfolio of mortgage loans. An interest rate is determined which equates the expected future cash flows with the purchase price. Interest income is recognized during each accounting period by accruing interest using the interest rate determined as above, multiplied by the amortized cost of the security. All cash received from the security is applied to reduce the amortized cost, including payments designated by the servicing agent as interest and as principal. The balance of amortized cost thus represents the original purchase price, plus all accrued interest, minus all cash received from a security. Interest rates used in accruing interest income may be adjusted if the estimates of future cash flows change.

Securities are adjusted to fair value at the end of each accounting period. The difference between the fair value and the amortized cost is treated as unrealized gains and losses. Changes in unrealized gains and losses are recognized in income. If a security is sold, the difference between the proceeds and the amortized cost is treated as a realized gain or loss.

Income Taxes

The Fund prepares U.S. and state partnership tax returns and reports to the partners their allocable shares of the Fund’s income, expenses, and trading gains or losses. No provision for income taxes has been made in these financial statements because each partner is individually responsible for reporting income or loss based on its respective share of the Fund’s income and expenses as reported for income tax purposes.
2. Significant Accounting Policies – continued

Income Taxes (continued)

The Partnership recognizes unrealized gains and losses on investments for financial statement purposes but not for income tax purposes. The difference between the Partnership’s basis in its assets and liabilities for financial statement and for income tax purposes is the net unrealized gains and losses on investments.

The Fund files tax returns as prescribed by the laws of the jurisdiction in which it operates. In the normal course of business, the Fund is subject to examination by federal and state authorities. As of December 31, 2017, the earliest tax year that remains subject to examination by the federal and state jurisdictions under the statute of limitations is the tax year ended December 31, 2014.

3. Investments in Securities

The Fund invests primarily in non-agency mortgaged backed securities (“MBS”). These are securities collateralized by pools of residential mortgages which are not insured by government sponsored enterprises (“GSEs”) or government agencies, including the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. Most of the mortgages underlying the non-agency MBS are non-conforming (not eligible for GSE or agency purchase). The underlying mortgages can be non-conforming for a variety of reasons, including loan size above GSE limits, incomplete documentation of assets or income, excessive borrower debt-to-income ratio (as defined by the GSEs), or unusual loan terms for which GSEs have not established programs.

The MBS invested in by the Fund have a wide variety of payment characteristics and preferences. In addition, the interest rates can be fixed or floating. Each MBS will have specified preference for payment within a given cash flow stream. Most of the Fund’s MBS investments are the super-senior or senior tier of a senior-subordinate credit structure, they have floating interest rates, and the underlying collateral is primarily adjustable-rate mortgages. The maturity date of an MBS corresponds to the maturity dates of the underlying mortgage pool. However, the expected life of the MBS is generally shorter than the maturity date, because of anticipated prepayments in the underlying mortgage pool.

In 2017, the Fund’s purchases of investments amounted to $4,190,114 and its proceeds from sales of investments were $1,563,998.
3. Investments in Securities - continued

The securities in the Fund’s portfolio are subject to both credit and market risks. The Fund purchases securities at a discount from face value based on estimated future payment streams from the underlying collateral mortgages which may be insufficient to pay the entire principal and interest specified by the security terms. The credit risk is that the actual future payments will be lower than the estimates, reducing the return on the securities and their fair value. The portfolio is subject to the risk that the market for MBS may fluctuate, based on the availability of mortgage credit, changes in interest rates, and changes in the shape of the yield curve. Additionally, market conditions may require more or less yield relative to United States Treasury securities in order to induce buyers to enter this market segment.

4. Fair Value Measurements

The Fund’s assets recorded at fair value have been categorized based upon a fair value hierarchy in accordance with GAAP. See Note 2 for a discussion of the Fund’s policies.

The following table presents information about the Fund’s investments in securities measured at fair value as of December 31, 2017:

<table>
<thead>
<tr>
<th>Quoted Prices in Active Markets for Identical Assets (Level 1)</th>
<th>Significant Other Observable Inputs (Level 2)</th>
<th>Significant Unobservable Inputs (Level 3)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage Backed Securities</td>
<td>$ 15,766,759</td>
<td>$ 5,412,652</td>
<td>$ 21,179,411</td>
</tr>
<tr>
<td>Municipal Bonds</td>
<td>$ 154,125</td>
<td>-</td>
<td>154,125</td>
</tr>
<tr>
<td>Total Investments</td>
<td>$ 15,920,884</td>
<td>$ 5,412,652</td>
<td>$ 21,333,536</td>
</tr>
</tbody>
</table>

Both observable and unobservable inputs were used to determine the Fund’s investments in securities. As a result, the unrealized gains and losses on investments in securities include changes in fair value that were attributable to both observable (e.g., changes in current market interest rates, transaction activity, market yield on related securities) and unobservable inputs.
4. Fair Value Measurements - continued

Changes in Level 3 assets measured at fair value for the year ended December 31, 2017 are summarized as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amortized Cost</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at January 1, 2017</td>
<td>$15,973,774</td>
<td>$20,205,845</td>
</tr>
<tr>
<td>Transferred to Level 2</td>
<td>(14,151,059)</td>
<td>(15,686,346)</td>
</tr>
<tr>
<td>Securities purchased</td>
<td>479,303</td>
<td>479,303</td>
</tr>
<tr>
<td>Proceeds from sale of securities</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Principal and interest payments received</td>
<td>(827,555)</td>
<td>(827,555)</td>
</tr>
<tr>
<td>Accrual of interest income</td>
<td>100,129</td>
<td>100,129</td>
</tr>
<tr>
<td>Net change in unrealized gains and losses</td>
<td>-</td>
<td>896,971</td>
</tr>
<tr>
<td>Net realized gains and losses</td>
<td>244,305</td>
<td>244,305</td>
</tr>
<tr>
<td>Balance at December 31, 2017</td>
<td>$1,818,897</td>
<td>$5,412,652</td>
</tr>
</tbody>
</table>

The change in unrealized gains and losses is reported in the statement of operations.

The following table summarizes the valuation techniques and significant unobservable inputs used for the Fund’s investments that are categorized in Level 3 of the fair value hierarchy as of December 31, 2017:

<table>
<thead>
<tr>
<th>Level 3 Assets</th>
<th>Fair Value at December 31, 2017</th>
<th>Valuation Technique</th>
<th>Unobservable Inputs</th>
<th>Range of Inputs (Weighted Average)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage backed securities</td>
<td>$5,412,652</td>
<td>Discounted future cash flows</td>
<td>Discount to proposed or anticipated settlements for loan representation or warranty breach lawsuits</td>
<td>30%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Loan prepayment assumptions</td>
<td>3%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Discounted value of a claim against a bond insurer (rate)</td>
<td>8%</td>
</tr>
</tbody>
</table>
5. **Partners’ Capital**

With the consent of the general partner, limited partners may be admitted to the Fund on the first day of each calendar month and at such other times as the general partner will, in its sole discretion, permit. The general partner may admit additional general partners (i) as of the first day of any calendar quarter upon 75 days’ prior written notice to all limited partners, (ii) at any time with the consent of the majority in interest of the limited partners or (iii) at any time if such additional general partners are affiliates of the general partner or are entities controlled by Eric S. Meyer, one of the managing members of the general partner.

Profits and losses for each accounting period are allocated to the partners in proportion to their capital accounts at the beginning of the period. Upon 45 days’ prior written notice to the Fund, any limited partner may withdraw all or any part of his capital account on the last business day of the calendar quarter occurring on or after the first anniversary of such limited partner’s investment in the Fund, and on the last business day of each calendar quarter thereafter. The general partner may waive any provision relating to withdrawals if it determines that such waiver will not adversely affect the Fund. The general partner may withdraw all or any part of its capital account on the last day of each quarter. Notwithstanding the foregoing, the general partner will not make a withdrawal to the extent that the withdrawal would reduce its capital account balance below the lesser of $100,000 or 1% of the total capital of the Fund.

Limited partners who make partial or entire withdrawals of their capital account will be paid as promptly as reasonably practicable, generally within 30 days. Withdrawals are subject to retention by the Fund of a reserve, in such amount as the general partner will determine, in its sole discretion, for Fund liabilities and contingencies, or as deemed appropriate by the general partner pending completion of the next year-end audit.

6. **Related Party Transactions**

The general partner receives a quarterly management fee calculated at an annual rate based upon the applicable percentage of each partner’s capital account. The annual rate of the management fee is 1.5% for limited partners with an investment of less than one million dollars and 1.0% for limited partners with an investment of one million dollars or more. The management fee will be paid quarterly in arrears based on the value of each partner’s capital account as of the first day of such calendar quarter (adjusted for contributions and withdrawals made during the quarter). The management fee will be prorated for any period that is less than a full calendar quarter. The general partner, in its sole discretion, may waive or reduce the management fee with respect to any limited partner. Management fees were $206,689 in 2017.
6. Related Party Transactions - continued

During the year, management fees due to the general partner were credited to the general partner’s capital account rather than being paid in cash, as summarized below:

<table>
<thead>
<tr>
<th></th>
<th>Dec. 31, 2016</th>
<th>Fees Earned</th>
<th>Dec. 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued management fees</td>
<td>$ 50,346</td>
<td>$ 206,689</td>
<td>$ 49,655</td>
</tr>
<tr>
<td>(207,380)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

One of the managing members of the general partner, Eric S. Meyer, has invested in the Fund as a limited partner. Eric S. Meyer’s investment in the Fund represents approximately 40% of total limited partner interests at December 31, 2017. Limited partners related to Eric S. Meyer have also invested in the Fund and their investment in the Fund represents 33% of total limited partner interests at December 31, 2017.

7. Planned Fund Conversion and Revision of Financial Statements

During June 2019 the Fund began the process of filing a registration statement with the Securities Exchange Commission to convert the Fund from a limited partnership into a 1940 Act fund (also known as a conventional mutual fund), which will be subject to regulation by the Securities Exchange Commission. Prior to the conversion, certain securities for which valuations are difficult to establish will be transferred to a new limited partnership. At the time of the conversion, limited partners of the Fund will receive shares of common stock in the mutual fund and will also receive limited partnership interests in the new limited partnership.

The financial statements as of December 31, 2017 and for the year then ended, which were originally issued in April 2018, have been revised to include additional information. Some additional information, although not required by generally accepted accounting principles for privately held companies, is deemed to be appropriate for purposes of financial statements included in a registration statement filed with the Securities Exchange Commission. The additional information includes a complete list of individual investment securities with detailed disclosure of interest rates and scheduled maturities. Changes in partners’ capital for the year ended December 31, 2016 have been added for comparative purposes to the statement of changes in partners’ capital. The disclosure of financial highlights has been expanded to include highlights for four prior years. The statement of cash flows was modified to be comparative with the 2018 statement of cash flows. Disclosure of the planned fund conversion was added as a significant subsequent event.
7. Planned Fund Conversion and Revision of Financial Statements - continued

The disclosures in Note 4 concerning the fair value levels have been revised to reflect management’s determination that most of the Fund’s investments are more appropriately classified as Level 2 rather than Level 3 valuations, due to the increased availability of observable inputs as investments of this type became more frequently traded. An additional disclosure has been added about the detail of significant unobservable inputs used in fair value measurements of Level 3 assets.

The revisions to the financial statements had no effect on the statement of financial condition as of December 31, 2017 or on the statements of operations for the year then ended.

8. Financial Highlights

Financial highlights for limited partner interests for the years ended December 31, 2013 through 2017 are shown below.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Return</td>
<td>15.95%</td>
<td>4.08%</td>
<td>3.87%</td>
<td>10.22%</td>
<td>18.97%</td>
</tr>
<tr>
<td>Ratio to Average Net Assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenses</td>
<td>1.30%</td>
<td>1.20%</td>
<td>1.16%</td>
<td>1.18%</td>
<td>1.15%</td>
</tr>
<tr>
<td>Net Investment Income</td>
<td>3.60%</td>
<td>4.40%</td>
<td>4.72%</td>
<td>5.09%</td>
<td>5.23%</td>
</tr>
<tr>
<td>Portfolio Turnover</td>
<td>8%</td>
<td>4%</td>
<td>13%</td>
<td>1%</td>
<td>4%</td>
</tr>
</tbody>
</table>

Ratios are calculated for the limited partner class taken as a whole. An individual partner’s return may vary based on timing of capital transactions, and on the rate of management fees charged.
9. Subsequent Events

As explained in Note 7, in June 2019 the Fund began the process of converting from a limited partnership to a mutual fund, and the Fund’s 2017 financial statements have been revised for purposes of inclusion in the registration statement for the conversion.

Management has evaluated all subsequent events through June 27, 2019, the date the revised 2017 financial statements were available to be issued, and has determined that there are no other subsequent events which occurred that require recognition or additional disclosure in these financial statements.
## ESM FUND I, L.P.
### SCHEDULE OF INVESTMENTS
#### DECEMBER 31, 2017

<table>
<thead>
<tr>
<th>Securities</th>
<th>Interest Rate at 12/31/2017</th>
<th>Stated Maturity Date</th>
<th>Remaining Principal Balance</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments in Securities, at fair value - 87.8%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Mortgage backed securities - 87.2%</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AFC Mortgage Loan Asset Backed Certificates 1998-3 Series 1998-3 CL 1A-2, 1M Libor + 0.72%</td>
<td>2.27</td>
<td>9/22/2028</td>
<td>112,446</td>
<td>103,527</td>
</tr>
<tr>
<td>Adjustable Rate MTG 2005-10 Series 2005-10 CL 6-A-1 - 1M Libor + 0.54%</td>
<td>2.09</td>
<td>1/25/2036</td>
<td>351,475</td>
<td>302,268</td>
</tr>
<tr>
<td>Aegis Asset Backed Securities Trust Series 2004-6 CL M2, 1M Libor + 1.0%</td>
<td>2.55</td>
<td>3/25/2035</td>
<td>99,718</td>
<td>91,741</td>
</tr>
<tr>
<td>American Home Mortgage 2004-4 Series 2004-4 CL VII-A, 1M Libor + 0.2%</td>
<td>1.75</td>
<td>9/25/2030</td>
<td>57,690</td>
<td>50,767</td>
</tr>
<tr>
<td>American Home Mortgage Series 2006-2 CL III-A1, 1M Libor + 0.22%</td>
<td>1.77</td>
<td>6/25/2036</td>
<td>456,102</td>
<td>88,940</td>
</tr>
<tr>
<td>Asset Backed Securities Corporation Home Equity Loan Trust Series 2007-HE2 CL A2, 1M Libor + 0.08%</td>
<td>1.63</td>
<td>5/25/2037</td>
<td>10,875</td>
<td>7,286</td>
</tr>
<tr>
<td>Bear Stearns Series 2006-SD3 CL II-1A1, Variable</td>
<td>3.40</td>
<td>7/25/2036</td>
<td>160,471</td>
<td>154,111</td>
</tr>
<tr>
<td>Bear Stearns ABS TR Series 2006-SD4 CL 3A-1, 12 MTA + 0.98%</td>
<td>1.98</td>
<td>10/25/2036</td>
<td>415,239</td>
<td>166,495</td>
</tr>
<tr>
<td>Bear Stearns Asset Backed Securities Trust Series 2007-SD1 CL II-2A1, Variable</td>
<td>2.56</td>
<td>10/25/2036</td>
<td>133,656</td>
<td>97,762</td>
</tr>
<tr>
<td>Bella Vista Mortgage Trust Series 2005-1 CL II-A, 1M Libor + 0.54%</td>
<td>2.07</td>
<td>2/22/2035</td>
<td>127,533</td>
<td>113,504</td>
</tr>
<tr>
<td>C-Bass Series 2004-CB4 CI M-1, STEP Coupon Bond</td>
<td>4.68</td>
<td>5/25/2035</td>
<td>220,630</td>
<td>209,698</td>
</tr>
<tr>
<td>CRD BASED ASSET Series VICING &amp; SEC Series 2006-CB2 CL AF-4, STEP</td>
<td>3.43</td>
<td>12/25/2036</td>
<td>376,509</td>
<td>271,087</td>
</tr>
<tr>
<td>CitiMortgage Alternative Loan TR Series 2007-A1 CL IA-1, Fixed</td>
<td>6.00</td>
<td>1/25/2037</td>
<td>43,860</td>
<td>38,201</td>
</tr>
<tr>
<td>Countrywide Asset-Backed Certificate Trust Series 2002-S3 CL M2, Variable</td>
<td>5.09</td>
<td>5/25/2032</td>
<td>14,084</td>
<td>14,084 *</td>
</tr>
<tr>
<td>CWABS Revolving HEQ 2004-J Series 2004-J CL 2-A, 1M Libor + 0.29%</td>
<td>1.77</td>
<td>12/15/2033</td>
<td>57,074</td>
<td>52,508</td>
</tr>
<tr>
<td>Countrywide Alternative Loan Trust 2005-17 Series 2005-17 CL 1-A-2, 1M Libor + 0.56%</td>
<td>1.83</td>
<td>7/25/2035</td>
<td>188,565</td>
<td>113,139</td>
</tr>
<tr>
<td>Countrywide Home Loans Series 2004-25 CL 1-A-2, 1M Libor + 0.78%</td>
<td>2.33</td>
<td>2/25/2035</td>
<td>6,652</td>
<td>5,189</td>
</tr>
<tr>
<td>Countrywide Home Loans Series 2005-4 CL 4-A-1, 1M Libor + 0.58%</td>
<td>2.13</td>
<td>2/25/2035</td>
<td>24,914</td>
<td>20,429</td>
</tr>
<tr>
<td>Countrywide Home Loans Series 2005-7 CL 2-A-2, 1M Libor + 0.72%</td>
<td>2.27</td>
<td>3/25/2035</td>
<td>8,411</td>
<td>2,523</td>
</tr>
<tr>
<td>Countrywide Home Loans Series 2005-11 CL 4-A-2, 1M Libor + 0.32%</td>
<td>2.19</td>
<td>4/25/2035</td>
<td>10,775</td>
<td>5,388</td>
</tr>
<tr>
<td>Carrington Mortgage Loan Trust Series 2006-NC5 CL A-5, 1M Libor + 0.06%</td>
<td>1.61</td>
<td>1/25/2037</td>
<td>15,992</td>
<td>12,793</td>
</tr>
<tr>
<td>Centex Home Equity Loan Trust 2004-C Series 2004-C CL M-2, 1M Libor + 0.795%</td>
<td>2.35</td>
<td>6/25/2034</td>
<td>265,426</td>
<td>238,883</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
## SCHEDULE OF INVESTMENTS
### DECEMBER 31, 2017

<table>
<thead>
<tr>
<th>Securities</th>
<th>Interest Rate at 12/31/2017</th>
<th>Stated Maturity Date</th>
<th>Remaining Principal Balance</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mortgage backed securities - continued</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conti mortgage Home Equity Loan Trust 97-4 Series 1997-4 CL B, Variable</td>
<td>7.33</td>
<td>10/15/2028</td>
<td>83,761</td>
<td>108,890</td>
</tr>
<tr>
<td>Credit Suisse First Boston Mortgage 2002-AR31 Series 2002-AR31 CL C-B-1, Variable</td>
<td>3.51</td>
<td>11/25/2032</td>
<td>134,027</td>
<td>122,105</td>
</tr>
<tr>
<td>Home Equity Mortgage Trust Series 2004-1 CL B, 1M Libor + 2.5%</td>
<td>4.05</td>
<td>6/25/2034</td>
<td>215,112</td>
<td>278,559</td>
</tr>
<tr>
<td>CWHEQ, Inc. Home Equity Loan Trust 2006-S4 Series 2006-S4 CL A-6, Fixed</td>
<td>5.83</td>
<td>7/25/2034</td>
<td>156,067</td>
<td>786,891 *</td>
</tr>
<tr>
<td>DSLA Mortgage Loan Trust Series 2004-AR1 CL A-2A, 1M Libor + 0.82%</td>
<td>2.32</td>
<td>9/19/2044</td>
<td>90,932</td>
<td>86,385</td>
</tr>
<tr>
<td>Delta Funding Home Equity Loan Trust Series 1995-2 CL A-5, Fixed</td>
<td>7.10</td>
<td>1/25/2027</td>
<td>76,836</td>
<td>72,994</td>
</tr>
<tr>
<td>Deutsche Mortgage Securities Inc Series 2004-1 CL B-2, Variable</td>
<td>5.44</td>
<td>9/25/2033</td>
<td>82,212</td>
<td>74,057</td>
</tr>
<tr>
<td>Equity One ABS, Inc. Series 2004-2 CL M-1, STEP Coupon Bond</td>
<td>4.93</td>
<td>7/25/2034</td>
<td>185,443</td>
<td>181,734</td>
</tr>
<tr>
<td>First Horizon Mortgage Trust Series 2000-H CL IV-B-2, Variable</td>
<td>3.18</td>
<td>5/25/2030</td>
<td>76,814</td>
<td>62,988</td>
</tr>
<tr>
<td>GMACM Home Equity Trust Series 2005-HE1 CL A1VN, 1M Libor + 0.5%</td>
<td>2.05</td>
<td>8/25/2035</td>
<td>63,543</td>
<td>70,866</td>
</tr>
<tr>
<td>GSR Mortgage Loan Trust Series 06-AR1 CL B1</td>
<td>3.80</td>
<td>1/25/2036</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Ginnie Mae interest only Gnr 2013-43 Io, Variable</td>
<td>0.63</td>
<td>8/16/2048</td>
<td>10,554,652</td>
<td>294,555</td>
</tr>
<tr>
<td>GreenPoint Manufactured Housing Credit Trust Series 2001-2 CL I-A-2, Variable</td>
<td>4.74</td>
<td>2/20/2032</td>
<td>1,014,518</td>
<td>964,250</td>
</tr>
<tr>
<td>GreenPoint Mortgage Funding Trust Series 2007-Ar1Series 2006-AR5 CL I-A-1, Variable</td>
<td>1.07</td>
<td>10/25/2046</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>GreenPoint Mortgage Funding Trust Series 2005-AR4 CL I-A-1, 1M Libor + 0.52%</td>
<td>2.07</td>
<td>10/25/2045</td>
<td>1,028,724</td>
<td>955,746</td>
</tr>
<tr>
<td>GreenPoint Mortgage Funding Trust Series 2005-AR4 CL Giva1B, 1M Libor +</td>
<td>1.75</td>
<td>10/25/2045</td>
<td>772,515</td>
<td>618,199</td>
</tr>
<tr>
<td>GreenPoint Mortgage Funding Trust Series 2005-AR5 CL iiii-A1, 1M Libor +</td>
<td>2.11</td>
<td>11/25/2045</td>
<td>405,025</td>
<td>303,769</td>
</tr>
<tr>
<td>Harborview Mortgage Loan Trust Series 2005-1 CL 2-A1B, 1M Libor + 0.66%</td>
<td>2.15</td>
<td>3/19/2035</td>
<td>13,258</td>
<td>6,629</td>
</tr>
<tr>
<td>Harborview Mortgage Loan Trust Series 2005-8 CL 1-A2A, 1M Libor + 0.66%</td>
<td>1.83</td>
<td>9/19/2035</td>
<td>57,226</td>
<td>47,497</td>
</tr>
<tr>
<td>Impac CMB Trust Series 2003-8 CL 2-M-2, 1M Libor + 2.625%</td>
<td>4.18</td>
<td>10/25/2033</td>
<td>66,239</td>
<td>63,614</td>
</tr>
<tr>
<td>Impac CMB Trust Series 2003-8 CL 2-B-1, 1M Libor + 4.5%</td>
<td>6.05</td>
<td>10/25/2033</td>
<td>120,602</td>
<td>120,602</td>
</tr>
<tr>
<td>Impac CMB Trust Series 2003-11 CL 2-B-1, 1M Libor + 4.5%</td>
<td>6.05</td>
<td>10/25/2033</td>
<td>124,133</td>
<td>124,133</td>
</tr>
<tr>
<td>IndyMac INDX Mortgage Loan Trust Series 05-A1 CL B1, Variable</td>
<td>7.66</td>
<td>11/25/2035</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Lehman XS Trust Series 2006-10N CL 2-A1, 1M Libor + 0.12%</td>
<td>1.67</td>
<td>5/25/2036</td>
<td>740,574</td>
<td>555,431</td>
</tr>
<tr>
<td>Lehman XS Trust Series 2006-8 CL 3-A3, STEP Coupon Bond</td>
<td>5.23</td>
<td>6/25/2036</td>
<td>250,371</td>
<td>225,537</td>
</tr>
<tr>
<td>Lehman XS Trust Series 2007-5H CL 3-A4, Variable</td>
<td>3.29</td>
<td>5/25/2037</td>
<td>251,844</td>
<td>211,548 *</td>
</tr>
<tr>
<td>Long Beach Mortgage Loan Trust Series 2006-WL2 CL II-A3, Variable</td>
<td>1.95</td>
<td>1/25/2036</td>
<td>7,855</td>
<td>7,388</td>
</tr>
<tr>
<td>MASTR Adjustable Rate Mortgage Trust Series 2006-Oa2 CL 1-A-1, 12 MTA + 0.8%</td>
<td>1.86</td>
<td>12/25/2046</td>
<td>1,421,069</td>
<td>1,493,118 *</td>
</tr>
<tr>
<td>MASTR Adjustable Rate Mortgage Trust Series 2006-Oa2 CL 1-A-2, 12 MTA + 0.8%</td>
<td>0.00</td>
<td>12/25/2046</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>MASTR Adjustable Rate Mortgage Trust Series 06-OA2 CL 3A2, Cofi 11 + 1.5%</td>
<td>0.00</td>
<td>12/25/2046</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>MASTR Adjustable Rate Mortgage Trust Series 2006-Oa2 CL 4-A-1A, 12 MTA + 0.85%</td>
<td>1.91</td>
<td>12/25/2046</td>
<td>1,390,392</td>
<td>1,593,515 *</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
<table>
<thead>
<tr>
<th>Securities</th>
<th>Interest Rate at 12/31/2017</th>
<th>Stated Maturity Date</th>
<th>Remaining Principal Balance</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>MASTR Adjustable Rate Mortgage Trust Series 2006-Oa2 Cl 4-A-1B, 12 MTA + 1.2%</td>
<td>2.26</td>
<td>12/25/2046</td>
<td>892,078</td>
<td>1,024,123</td>
</tr>
<tr>
<td>MASTR Adjustable Rate Mortgage Trust Series 2007-1 Cl 1-2A1, 1M Libor + 0.16%</td>
<td>1.71</td>
<td>1/25/2047</td>
<td>86,044</td>
<td>77,439</td>
</tr>
<tr>
<td>MASTR Adjustable Rate Mortgages Trust 2006-OA1 Cl 1-A-1, 12 MTA + 0.8%</td>
<td>1.76</td>
<td>4/25/2046</td>
<td>283,306</td>
<td>218,194</td>
</tr>
<tr>
<td>MASTR Adjustable Rate Mortgage Trust Series 2007-3 Cl 2-2A5, 1M Libor + 0.68%</td>
<td>1.89</td>
<td>5/25/2047</td>
<td>195,761</td>
<td>113,543</td>
</tr>
<tr>
<td>MASTR Adjustable Rate Mortgage Trust Series 2007-1 Cl 2A1, 1M Libor + 0.27%</td>
<td>1.87</td>
<td>4/25/2035</td>
<td>25,210</td>
<td>23,445</td>
</tr>
<tr>
<td>Merrill Lynch Mortgage Investors Trust, Series 2007-SL1 Cl A-1, Variable</td>
<td>2.15</td>
<td>2/25/2037</td>
<td>954,381</td>
<td>100,304</td>
</tr>
<tr>
<td>Morgan Stanley Mortgage Loan Trust Series 2006-16Ax Cl 2-A-2, 1M Libor + 0.17%</td>
<td>1.72</td>
<td>11/25/2036</td>
<td>135,712</td>
<td>61,138</td>
</tr>
<tr>
<td>Morgan Stanley Mortgage Loan Trust SER 2006-7 Cl 1-A, Fixed</td>
<td>5.00</td>
<td>6/25/2021</td>
<td>33,301</td>
<td>29,998</td>
</tr>
<tr>
<td>Novastar Capital Series 2005-QA3 Cl NB-II, Variable</td>
<td>3.81</td>
<td>3/25/2035</td>
<td>144,733</td>
<td>123,432</td>
</tr>
<tr>
<td>Novastar Home Equity Loan Series 2002-3 Cl A-2, 1M Libor + 0.38%</td>
<td>2.09</td>
<td>7/25/2033</td>
<td>954</td>
<td>945</td>
</tr>
<tr>
<td>Novastar Mortgage Series 2006-Mta1 Cl 2A-1A, 1M Libor + 0.38%</td>
<td>1.74</td>
<td>9/25/2046</td>
<td>431,249</td>
<td>366,562</td>
</tr>
<tr>
<td>Provident Home Equity Loan Trust 2000-2 Series 2000-2 Cl A-2</td>
<td>2.09</td>
<td>8/25/2031</td>
<td>181,207</td>
<td>130,469</td>
</tr>
<tr>
<td>Residential Accred Loan Inc. Series 2006-QS12 Cl II-A-11, Fixed</td>
<td>5.00</td>
<td>9/25/2036</td>
<td>145,848</td>
<td>113,958</td>
</tr>
<tr>
<td>Residential Accred Loan Inc. Series 2006-QS10 Cl A-1, Fixed</td>
<td>6.00</td>
<td>8/25/2036</td>
<td>206,854</td>
<td>175,826</td>
</tr>
<tr>
<td>Saco I Trust Series 2005-Wm2 Cl M 1, 1M Libor + 0.825%</td>
<td>2.15</td>
<td>7/25/2035</td>
<td>253,811</td>
<td>640,084</td>
</tr>
<tr>
<td>Saco I Trust Series 2005-9 Cl M 1, 1M Libor + 0.69%</td>
<td>2.24</td>
<td>12/25/2035</td>
<td>74,619</td>
<td>181,751</td>
</tr>
<tr>
<td>Salomon Brothers Mortgage Secs 97-HUD2 Series 1997-HUD2 Cl A-WAC, Variable</td>
<td>0.00</td>
<td>7/25/2024</td>
<td>304,811</td>
<td>229,037</td>
</tr>
<tr>
<td>Sequoia Mortgage Trust Series 2007-1 Cl 3-A1, Variable</td>
<td>3.78</td>
<td>1/20/2047</td>
<td>185,321</td>
<td>164,936</td>
</tr>
<tr>
<td>Structured Asset Mortgage Investments II Trust Series 2006-Ar2 Cl A-1, 1M Libor + 0.23%</td>
<td>1.78</td>
<td>2/25/2036</td>
<td>303,267</td>
<td>272,940</td>
</tr>
<tr>
<td>Structured Asset Mortgage Investments II Trust Series 2006-Ar5 Cl 2-A-1, 1M Libor + 0.21%</td>
<td>1.76</td>
<td>5/25/2036</td>
<td>74,300</td>
<td>60,926</td>
</tr>
<tr>
<td>Structured Asset Mortgage Investments II Trust Series 2006-Ar3 Cl Ii-2A1, Variable</td>
<td>2.95</td>
<td>5/25/2036</td>
<td>235,091</td>
<td>176,372</td>
</tr>
<tr>
<td>Structured Asset Mortgage Investments II Trust Series 2006-Ar6 Cl I-A-3, 1M Libor + 0.19%</td>
<td>1.74</td>
<td>7/25/2036</td>
<td>122,077</td>
<td>106,207</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
## ESM FUND I, L.P.
### SCHEDULE OF INVESTMENTS
#### DECEMBER 31, 2017

<table>
<thead>
<tr>
<th>Securities</th>
<th>Interest Rate at 12/31/2017</th>
<th>Stated Maturity Date</th>
<th>Remaining Principal Balance</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mortgage backed securities - continued</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Washington Mutual Mortgage Pass-Through Certificates Series 2007_OA5 Cl 1A-1B, STEP Coupon Bond</td>
<td>1.75</td>
<td>6/25/2047</td>
<td>224,263</td>
<td>58,239</td>
</tr>
<tr>
<td>Washington Mutual Mortgage Securities Corporation Series 2002-Ar9 Cl I-B-1, 12 MTA + 1.4%</td>
<td>1.80</td>
<td>8/25/2042</td>
<td>194,657</td>
<td>155,975</td>
</tr>
<tr>
<td>Washington Mutual Mortgage Pass-Through Certificates Series 2006-AR4 Cl DA, 1M Libor + 0.25%</td>
<td>1.97</td>
<td>6/25/2046</td>
<td>48,090</td>
<td>27,479</td>
</tr>
<tr>
<td>Washington Mutual Mortgage Pass-Through Certificates Series 2006-Ar1 Cl A-1A, 1M Libor + 0.25%</td>
<td>1.80</td>
<td>2/25/2036</td>
<td>15,567</td>
<td>12,142</td>
</tr>
<tr>
<td>Washington Mutual Mortgage Pass-Through Certificates Series 2006-Ar5 Cl 3A, 12 MTA + 0.94%</td>
<td>1.94</td>
<td>7/25/2046</td>
<td>80,779</td>
<td>51,698</td>
</tr>
<tr>
<td><strong>Total mortgage backed securities (Amortized cost $15,710,195)</strong></td>
<td></td>
<td></td>
<td>33,777,718</td>
<td>21,179,411</td>
</tr>
<tr>
<td><strong>Municipal Bonds - 0.6%</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Puerto Rico Commonwealth Highway Series A B/E /R/ Defaulted, Fixed (Amortized cost $244,036)</td>
<td>5.25</td>
<td>7/1/2023</td>
<td>683,806</td>
<td>154,125</td>
</tr>
<tr>
<td><strong>Investments in Securities, at Fair Value (Amortized cost $15,954,235)</strong></td>
<td></td>
<td></td>
<td><strong>$ 34,461,524</strong></td>
<td><strong>$ 21,333,536</strong></td>
</tr>
</tbody>
</table>

The Fund's portfolio of mortgage backed securities is collateralized by pools of residential mortgages with average nominal rates ranging from 0.28% to 7.66%, and stated maturities ranging from 2021 to 2047. At December 31, 2017, approximately 76% of the investments are floating rate bonds. The remainder are either fixed or hybrid rate bonds. Approximately 82% of the portfolio is invested in senior, super senior or senior mezzanine bonds (i.e. the highest or second highest bonds in the capital structure of a given deal). The range of interest rates used for recognizing interest income was 3.00% to 37.4% during 2017. The period over which the securities will be generating cash is expected to be substantially shorter than the stated maturities.

* Level 3 securities within the fair value hierarchy with the combined fair value of $5,412,652 and amortized cost of $1,818,897. These securities were fair valued using significant unobservable inputs. Refer to Note 4 for further detail.
CONTENTS

Report of Independent Auditors                    1-2

Financial Statements

  Statement of Financial Condition               3
  Statement of Operations                        4
  Statement of Changes in Partners’ Capital      5
  Statement of Cash Flows                        6
  Notes to Financial Statements                  7-16
  Schedule of Investments                        17-20
Report of Independent Auditors

To the Managing Members of
ESM Management LLC
Newton, Massachusetts

We have audited the accompanying financial statements of ESM Fund I, L.P., which comprise the statement of financial condition, including the schedule of investments, as of December 31, 2018, and the related statements of operations, changes in partners’ capital, and cash flows for the year then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial condition of ESM Fund I, L.P. as of December 31, 2018, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Revision of Previously Issued Financial Statements

The 2018 financial statements that were previously issued on April 17, 2019 have been revised to include additional information and for certain other matters, as described in Note 8. Our opinion is not modified with respect to these revisions.

Comparative Information for 2017

The statement of changes in partners’ capital for the year ended December 31, 2018 is presented for comparative purposes together with changes in partners’ capital for the year ended December 31, 2017. We previously audited the financial statements of ESM Fund I, L.P. as of December 31, 2017 and for the year then ended, and our audit report dated April 27, 2018 was unqualified. The presentation of changes in partners’ capital for the year ended December 31, 2017 included in the current year financial statements has been taken from and is consistent with the 2017 financial statements.

Needham, Massachusetts
April 17, 2019, except for the revisions described in Note 8, which is as of June 27, 2019
## ESM FUND I, L.P.
### STATEMENT OF FINANCIAL CONDITION
### DECEMBER 31, 2018

### ASSETS

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments in securities, at fair value (amortized cost $17,450,192)</td>
<td>$23,436,617</td>
</tr>
<tr>
<td>Deposits with broker</td>
<td>3,258,235</td>
</tr>
<tr>
<td>Cash at bank</td>
<td>550,259</td>
</tr>
<tr>
<td>Principal and interest payments due</td>
<td>87,342</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$27,332,453</strong></td>
</tr>
</tbody>
</table>

### LIABILITIES AND PARTNERS' CAPITAL

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities:</td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>$29,000</td>
</tr>
<tr>
<td>Accrued management fees</td>
<td>57,234</td>
</tr>
<tr>
<td>Withdrawal payable</td>
<td>293</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>86,527</td>
</tr>
<tr>
<td>Partners' capital</td>
<td>27,245,926</td>
</tr>
<tr>
<td><strong>Total liabilities and partners' capital</strong></td>
<td><strong>$27,332,453</strong></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
## ESM Fund I, L.P.
### Statement of Operations
#### Year Ended December 31, 2018

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment income - interest</td>
<td>$1,179,965</td>
</tr>
<tr>
<td>Expenses:</td>
<td></td>
</tr>
<tr>
<td>Management fees</td>
<td>218,364</td>
</tr>
<tr>
<td>Audit fees</td>
<td>19,500</td>
</tr>
<tr>
<td>Legal fees</td>
<td>11,600</td>
</tr>
<tr>
<td>Administrator fees</td>
<td>14,400</td>
</tr>
<tr>
<td>Other expenses</td>
<td>1,292</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>265,156</td>
</tr>
<tr>
<td>Net investment income</td>
<td>914,809</td>
</tr>
<tr>
<td>Realized and unrealized gains and losses on investments:</td>
<td></td>
</tr>
<tr>
<td>Net realized gains and losses</td>
<td>1,243,372</td>
</tr>
<tr>
<td>Net change in unrealized gains and losses</td>
<td>607,124</td>
</tr>
<tr>
<td><strong>Net realized and unrealized gains and losses on investments</strong></td>
<td>1,850,496</td>
</tr>
<tr>
<td>Net increase in partners’ capital resulting from operations</td>
<td>$2,765,305</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
## ESM Fund I, L.P.

**STATEMENT OF CHANGES IN PARTNERS' CAPITAL**

**YEAR ENDED DECEMBER 31, 2018**

**WITH COMPARATIVE INFORMATION FOR**

**YEAR ENDED DECEMBER 31, 2017**

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>General Partner</th>
<th>Limited Partners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partners' capital at December 31, 2016</td>
<td>$21,137,884</td>
<td>$1,154,215</td>
<td>$19,983,669</td>
</tr>
</tbody>
</table>

**Year ended December 31, 2017**

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital contributions</td>
<td>507,380</td>
<td>207,380</td>
<td>300,000</td>
</tr>
<tr>
<td>Capital withdrawals</td>
<td>(751,539)</td>
<td>-</td>
<td>(751,539)</td>
</tr>
</tbody>
</table>

Increase in partners' capital from operations:

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net investment income</td>
<td>829,475</td>
<td>63,112</td>
<td>766,363</td>
</tr>
<tr>
<td>Net realized gains and losses</td>
<td>1,399,406</td>
<td>85,023</td>
<td>1,314,383</td>
</tr>
<tr>
<td>Net change in unrealized gains and losses</td>
<td>1,147,230</td>
<td>70,717</td>
<td>1,076,513</td>
</tr>
</tbody>
</table>

Net increase in partners' capital from operations | 3,376,111 | 218,852 | 3,157,259 |

Partners' capital at December 31, 2017 | 24,269,836 | 1,580,447 | 22,689,389 |

**Year ended December 31, 2018**

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital contributions</td>
<td>210,785</td>
<td>210,785</td>
<td>-</td>
</tr>
</tbody>
</table>

Increase in partners' capital from operations:

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net investment income</td>
<td>914,809</td>
<td>79,956</td>
<td>834,853</td>
</tr>
<tr>
<td>Net realized gains and losses</td>
<td>1,243,372</td>
<td>87,457</td>
<td>1,155,915</td>
</tr>
<tr>
<td>Net change in unrealized gains and losses</td>
<td>607,124</td>
<td>38,251</td>
<td>568,873</td>
</tr>
</tbody>
</table>

Net increase in partners' capital from operations | 2,765,305 | 205,664 | 2,559,641 |

Partners' capital at December 31, 2018 | $27,245,926 | $1,996,896 | $25,249,030 |

The accompanying notes are an integral part of these financial statements.
Cash flows from operating activities
Net increase in partners' capital resulting from operations $2,765,305

Adjustments to reconcile net increase in partners' capital resulting from operations to net cash provided by operating activities:
Net change in unrealized gains and losses $(607,124)
Net realized gains and losses $(1,243,372)
Accrual of interest income $(1,165,398)
Purchases of investments $(6,750,245)
Proceeds from sales of investments 1,385,771
Principal and interest payments received 6,277,287
Capital contribution for proposed LTIC investment $(3,000,000)
Return of capital contribution for proposed LTIC investment 3,000,000

Changes in operating assets and liabilities:
 Principal and interest payments due $(20,870)
 Accounts payable and accrued expenses $(3,600)
 Accrued management fees 7,579

Total adjustments $(2,119,972)

Net cash provided by operating activities 645,333

Cash flows from financing activities:
Capital contributions received 210,785
Partner withdrawals paid $(3,539)
Net cash provided by financing activities 207,246

Net increase in cash 852,579
Cash at beginning of period 2,955,915
Cash at end of period $3,808,494

Cash on Cash Flow statement consists of:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2017</th>
<th>December 31, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits with broker</td>
<td>$1,986,437</td>
<td>$3,258,235</td>
</tr>
<tr>
<td>Cash at Bank</td>
<td>969,478</td>
<td>550,259</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$2,955,915</td>
<td>$3,808,494</td>
</tr>
</tbody>
</table>

The Fund records interest income on the accrual basis, with corresponding increase to the amortized cost basis of the securities. Cash collected from borrowers is applied to reduce amortized cost of securities, with no separate accounting for cash applied to accrued interest or principal. Total cash collected from borrowers during the year exceeded the $1,165,398 amount of interest income accrued during the year.

The accompanying notes are an integral part of these financial statements.
1. Nature of Operations

ESM Fund I, L.P. (the “Fund”) was organized as a limited partnership in 2009, pursuant to the provisions of the Delaware Revised Uniform Limited Partnership Act. Limited partnership interests are sold on a continuing basis through private offerings to institutional investors as well as selected high net-worth individuals.

The investment objective of the Fund is to provide capital appreciation by investing primarily in non-agency residential mortgage backed securities (“MBS”), taking advantage of perceived mispricings within the market, particularly those which were originally rated AAA. Non-agency MBS are securities backed by pools of residential mortgages which are not insured by government sponsored enterprises or agencies.

The Fund’s general partner is ESM Management LLC, a Delaware limited liability company. The managing members of the general partner are Eric S. Meyer and William R. Van de Water, who are responsible for making all investment decisions on behalf of the Fund.

The Fund is not required to register with the Securities Exchange Commission as an investment company because it has fewer than 100 investors.

2. Significant Accounting Policies

Basis of Presentation

The financial statements are expressed in United States dollars and have been prepared in conformity with accounting principles generally accepted in the United States of America that are applicable to investment companies. (“GAAP”).

Use of Estimates

The preparation of financial statements in conformity with GAAP requires the general partner to make estimates and assumptions that affect the amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Cash at Bank and Deposits with Broker

Cash at bank consists of checking accounts which are available for withdrawal at any time.

Deposits with broker include money market funds at the Fund’s broker that are available for immediate withdrawal. Deposits with broker are considered to be cash for purposes of the statement of cash flows.
2. Significant Accounting Policies – continued

Valuation of Investments

The Fund values investments in securities at fair value. Substantially all of the Fund’s investments are MBS that are not actively traded and consequently do not have readily determinable market values. Fair value for these investments is determined by the Fund’s management using analytical tools such as relative value to other securities, yield analysis and reviewing recent transactions of comparable securities between willing market participants while adjusting for changes in current market conditions. In each analysis, items such as prevailing interest rates, forward yield curve, prepayment speeds, probable outcomes, and, if available, recent market transactions or negotiations related to similar or comparable securities are considered for reasonableness. These estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined.

Fair Value

In accordance with GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the “exit price”) in an orderly transaction between willing market participants at the measurement date. In determining fair value, the Fund uses various valuation approaches. A hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Fund. Unobservable inputs reflect the Fund’s assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets that the Fund has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 – Valuations based on one or more of the following: quoted prices in active markets for securities which are not identical to those being valued; quoted prices for securities in markets which are not active; inputs other than quoted prices that are observable for the asset or liability being valued, either directly or indirectly.
2. Significant Accounting Policies – continued

Fair Value - continued

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Most of the Fund’s investments are valued using primarily Level 2 observable inputs. However, for certain investments unobservable inputs are a significant factor in determining valuation, and those valuations are classified as Level 3 valuations.

Investment Transactions and Related Income

All MBS held by the Fund currently have been purchased at a discount from the face amount. At the time of purchase, the Fund estimates the amount and timing of cash which will be received from a particular security over its expected repayment period, including both interest and principal payments. The estimate includes the effects of expected defaults, liquidation losses, and prepayments in the underlying portfolio of mortgage loans. An interest rate is determined which equates the expected future cash flows with the purchase price. Interest income is recognized during each accounting period by accruing interest using the interest rate determined as above, multiplied by the amortized cost of the security. The interest accrual is applied to reduce the discount and thereby increase the amortized cost of the security. All cash received from the security is applied to reduce the amortized cost, including payments designated by the servicing agent as interest and as principal. The balance of amortized cost thus represents the original purchase price, plus all accrued interest, minus all cash received from a security. Interest rates used in accruing interest income may be adjusted if the estimates of future cash flows change.

Securities are adjusted to fair value at the end of each accounting period. The difference between the fair value and the amortized cost is treated as unrealized gains and losses. Changes in unrealized gains and losses are recognized in income. If a security is sold, the difference between the proceeds and the amortized cost is treated as a realized gain or loss.

Income Taxes

The Fund prepares U.S. and state partnership tax returns and reports to the partners their allocable shares of the Fund’s income, expenses, and trading gains or losses. No provision for income taxes has been made in these financial statements because each partner is individually responsible for reporting income or loss based on its respective share of the Fund’s income and expenses as reported for income tax purposes.
2. **Significant Accounting Policies – continued**

   **Income Taxes - continued**

   The Partnership recognizes unrealized gains and losses on investments for financial statement purposes but not for income tax purposes. The difference between the Partnership’s basis in its assets and liabilities for financial statement and for income tax purposes is the net unrealized gains and losses on investments.

   The Fund files tax returns as prescribed by the laws of the jurisdiction in which it operates. In the normal course of business, the Fund is subject to examination by federal and state authorities. As of December 31, 2018, the earliest tax year that remains subject to examination by the federal and state jurisdictions under the statute of limitations is the tax year ended December 31, 2015.

3. **Investments in Securities**

   The Fund invests primarily in non-agency mortgage-backed securities (“MBS”). These are securities collateralized by pools of residential mortgages which are not insured by government sponsored enterprises (“GSEs”) or government agencies including the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. Most of the mortgages underlying the non-agency MBS are nonconforming (not eligible for GSE or agency purchase). The underlying mortgages can be nonconforming for a variety of reasons, including loan size above GSE limits, incomplete documentation of assets or income, excessive borrower debt-to-income ratio (as defined by the GSEs), or unusual loan terms for which GSEs have not established programs.

   The MBS invested in by the Fund have a wide variety of payment characteristics and preferences. In addition, the interest rates can be fixed or floating. Each MBS will have specified preference for payment within a given cash flow stream. Most of the Fund’s MBS investments are the super-senior or senior tier of a senior-subordinate credit structure, they have floating interest rates, and the underlying collateral is primarily adjustable-rate mortgages. The maturity date of an MBS corresponds to the maturity dates of the underlying mortgage pool. However, the expected life of the MBS is generally shorter than the maturity date, because of anticipated prepayments in the underlying mortgage pool.

   In 2018, the Fund’s purchases of investments amounted to $6,750,245 and its proceeds from sales of investments were $1,385,771.
4. Fair Value Measurements

The Fund’s assets recorded at fair value have been categorized based upon a fair value hierarchy in accordance with GAAP. See Note 2 for a discussion of the Fund’s policies.

The following table presents information about the Fund’s investments in securities measured at fair value as of December 31, 2018:

<table>
<thead>
<tr>
<th>Quoted Prices in Active Markets for Identical Assets (Level 1)</th>
<th>Significant Other Observable Inputs (Level 2)</th>
<th>Significant Unobservable Inputs (Level 3)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage Backed Securities</td>
<td>$ -</td>
<td>$ 14,336,323</td>
<td>$ 5,768,832</td>
</tr>
<tr>
<td>Reinsurance Bond</td>
<td>-</td>
<td>-</td>
<td>3,000,000</td>
</tr>
<tr>
<td>Municipal Bond</td>
<td>-</td>
<td>328,800</td>
<td>-</td>
</tr>
<tr>
<td>Limited Liability Company</td>
<td>-</td>
<td>-</td>
<td>2,662</td>
</tr>
<tr>
<td>Total Investments</td>
<td>$ -</td>
<td>$ 14,665,123</td>
<td>$ 8,771,494</td>
</tr>
</tbody>
</table>

Both observable and unobservable inputs were used to determine the fair value of the Fund’s investments in securities. As a result, the unrealized gains and losses on investments in securities include changes in fair value that were attributable to both observable inputs (such as, changes in current market interest rates, transaction activity, market yield on related securities) and unobservable inputs.

Changes in Level 3 assets measured at fair value for the year ended December 31, 2018 are summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>Amortized Cost</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at January 1, 2018</td>
<td>$ 1,818,897</td>
<td>$ 5,412,652</td>
</tr>
<tr>
<td>Securities purchased</td>
<td>3,672,716</td>
<td>3,672,716</td>
</tr>
<tr>
<td>Proceeds from sale of securities</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Principal and interest payments</td>
<td>(1,512,960)</td>
<td>(1,512,960)</td>
</tr>
<tr>
<td>Accrual of interest income</td>
<td>193,118</td>
<td>193,118</td>
</tr>
<tr>
<td>Net change in unrealized gains and losses</td>
<td>-</td>
<td>678,096</td>
</tr>
<tr>
<td>Net realized gains and losses</td>
<td>327,872</td>
<td>327,872</td>
</tr>
<tr>
<td>Balance at December 31, 2018</td>
<td>$ 4,499,643</td>
<td>$ 8,771,494</td>
</tr>
</tbody>
</table>

The change in unrealized gains and losses is reported in the statement of operations.
4. Fair Value Measurements – continued

The following table summarizes the valuation techniques and significant unobservable inputs used for the Fund’s investments that are categorized in Level 3 of the fair value hierarchy as of December 31, 2018:

<table>
<thead>
<tr>
<th>Level 3 Assets</th>
<th>Fair Value at December 31, 2018</th>
<th>Valuation Technique</th>
<th>Unobservable Inputs</th>
<th>Range of Inputs (Weighted Average)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage Backed Securities</td>
<td>$ 5,768,832</td>
<td>Discounted future cash flows</td>
<td>Discount to proposed or anticipated settlements for loan representation or warranty breach lawsuits</td>
<td>30%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Loan prepayment assumptions</td>
<td>3%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Discounted value of a claim against a bond insurer (rate)</td>
<td>8%</td>
</tr>
<tr>
<td>Reinsurance Bonds</td>
<td>3,000,000</td>
<td>Discounted future cash flows</td>
<td>Discount rate applied to bond insurer for expected undercollateralization in 2036</td>
<td>6-10%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Expected undercollateralization</td>
<td>40-50%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Illiquidity discount</td>
<td>10-15%</td>
</tr>
<tr>
<td>Limited Liability Company</td>
<td>2,662</td>
<td>Income approach</td>
<td>Discount to book value</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 8,771,494</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

5. Partners’ Capital

With the consent of the general partner, limited partners may be admitted to the Fund on the first day of each calendar month and at such other times as the general partner will, in its sole discretion, permit.

Profits and losses for each accounting period are allocated to the partners in proportion to their capital accounts at the beginning of the period. Upon 45 days’ prior written notice to the Fund, any limited partner may withdraw all or any part of his capital account on the last business day of the calendar quarter occurring on or after the first anniversary of such limited partner’s investment in the Fund, and on the last business day of each calendar quarter thereafter. The general partner may waive any provision relating to withdrawals if it determines that such waiver will not adversely affect the Fund. Limited partners who make partial or entire withdrawals of their capital account will be paid as promptly as reasonably practicable, generally within 30 days. Withdrawals are subject to retention by the Fund of a reserve, in such amount as the general partner will determine, in its sole discretion, for Fund liabilities and contingencies, or as deemed appropriate by the general partner pending completion of the next year-end audit.
5. **Partners’ Capital - continued**

The general partner may withdraw all or any part of its capital account on the last day of each quarter. Notwithstanding the foregoing, the general partner will not make a withdrawal to the extent that the withdrawal would reduce its capital account balance below the lesser of $100,000 or 1% of the total capital of the Fund.

6. **Related Party Transactions**

**Management Fees**

The general partner receives a quarterly management fee calculated at an annual rate based upon the applicable percentage of each limited partner’s capital account. The annual rate of the management fee is 1.5% for limited partners with an investment of less than one million dollars and 1.0% for limited partners with an investment of one million dollars or more. The management fee will be paid quarterly in arrears based on the value of each partner’s capital account as of the first day of such calendar quarter (adjusted for contributions and withdrawals made during the quarter). The management fee will be prorated for any period that is less than a full calendar quarter. The general partner, in its sole discretion, may waive or reduce the management fee with respect to any limited partner. Management fees were $218,364 in 2018.

During the year, management fees due to the general partner were credited to the general partner’s capital account rather than being paid in cash, as summarized below:

<table>
<thead>
<tr>
<th>Balance Dec. 31, 2017</th>
<th>Credited Fees Earned</th>
<th>Credited To Capital</th>
<th>Balance Dec. 31, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued management fees</td>
<td>$49,655</td>
<td>$218,364</td>
<td>$57,234</td>
</tr>
</tbody>
</table>

**Limited Partner Interests Held by Related Parties**

One of the managing members of the general partner, Eric S. Meyer, and two other principals have invested in the Fund as limited partners. Collectively their investment in the Fund represents approximately 50% of total limited partner interests at December 31, 2018. Limited partners related to Eric S. Meyer have also invested in the Fund and their investment in the Fund represents 33% of total limited partner interests at December 31, 2018.
6. Related Party Transactions - continued

Investment in Long Term Insured Credit Fund, LLC

During 2018 the Fund made a commitment and invested $3 million into Long Term Insured Credit Fund, LLC (“LTIC”). LTIC is managed by ESM Management LLC. Four of the principals of ESM Management LLC, collectively, committed and invested $2 million in LTIC. Members of LTIC do not have the right to withdraw any portion of their capital accounts or terminate their capital commitments before the commitments expired on December 31, 2018. Management’s plan was to use LTIC’s capital to purchase a portfolio of auction rate bonds before the end of 2018.

LTIC was unable to execute the purchase of the auction rate bond portfolio as planned. In December 2018, LTIC returned the capital contributions to all of its investors. The members of LTIC agreed to reduce the amount of their capital commitments by 37% and to extend the commitment through March 31, 2019, while LTIC’s management continued to explore potential investments. The Fund had a capital commitment to LTIC as of December 31, 2018 of $2,010,000, subject to call through March 31, 2019.

LTIC has proposed extending commitments further until June 30, 2019 and to extend in a similar fashion on a quarterly basis going forward. The members have the option of extending their commitments and amending the commitment amounts. The Fund has agreed to extend its commitment.

In June 2019 LTIC determined that the proposed portfolio purchase could not be accomplished, and members of LTIC will not be asked to extend their commitments beyond June 30, 2019.

The Fund had net income from its investment in LTIC of $2,662 which is included in realized gains and losses on the statement of operations, and its capital balance at December 31, 2018 was $2,662.

7. Credit and Market Risk

The securities in the Fund’s portfolio are subject to both credit and market risks. The Fund purchases securities at a discount from face value based on estimated future payment streams from the underlying collateral mortgages which may be insufficient to pay the entire principal and interest specified by the security terms. The credit risk is that the actual future payments will be lower than the estimates, reducing the return on the securities and their fair value. The portfolio is subject to the risk that the market for MBS may fluctuate, based on the availability of mortgage credit, changes in interest rates, and changes in the shape of the yield curve.
7. Credit and Market Risk - continued

Additionally, market conditions may require more or less yield relative to United States Treasury securities in order to induce buyers to enter this market segment.

Cash deposited with the broker is not insured by the Federal Deposit Insurance Corporation and is subject to credit risk if the broker becomes unable to fulfill its contract obligations.

8. Planned Fund Conversion and Revision of Financial Statements

During June 2019 the Fund began the process of filing a registration statement with the Securities Exchange Commission to convert the Fund from a limited partnership into a 1940 Act fund (also known as a conventional mutual fund), which will be subject to regulation by the Securities Exchange Commission. Prior to the conversion, certain securities for which valuations are difficult to establish will be transferred to a new limited partnership. At the time of the conversion, limited partners of the Fund will receive shares of common stock in the mutual fund and will also receive limited partnership interests in the new limited partnership.

The financial statements as of December 31, 2018 and for the year then ended, which were originally issued on April 17, 2019, have been revised to include additional information. The additional information includes disclosure of significant subsequent events concerning the planned Fund conversion and the expiration of the capital commitment to LTIC.

The disclosures in Note 4 concerning the fair value levels have been revised to reflect management’s determination that most of the Fund’s investments are more appropriately classified as Level 2 rather than Level 3 valuations, due to the increased availability of observable inputs as investments of this type became more frequently traded. The transfer from Level 3 to Level 2 was recorded as of the beginning of 2017 in revised financial statements for that year. This affected the amounts of Level 2 and Level 3 valuations at the beginning of 2018. Additional disclosures have been added about the detail of significant unobservable inputs used in fair value measurements of Level 3 assets.

The revisions to the financial statements had no effect on the statement of financial condition as of December 31, 2018 or on the statements of operations, changes in partners’ capital, and cash flows for the year then ended.
9. Financial Highlights

Financial highlights for limited partner interests for the years ended December 31, 2014 through 2018 are shown below.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Return</th>
<th>Ratio to Average Net Assets:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>11.28%</td>
<td>15.95%</td>
</tr>
<tr>
<td>Expenses</td>
<td>1.10%</td>
<td>1.30%</td>
</tr>
<tr>
<td>Net Investment Income</td>
<td>3.50%</td>
<td>3.60%</td>
</tr>
<tr>
<td>Portfolio Turnover</td>
<td>6%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Ratios are calculated for the limited partner class taken as a whole. An individual limited partner’s return may vary based on timing of capital transactions, and on the rate of management fees charged.

10. Subsequent Events

As explained in Note 8, in June 2019 the Fund began the process of converting from a limited partnership to a mutual fund, and the Fund’s 2018 financial statements have been revised for purposes of inclusion in the registration statement for the conversion. Also, in June 2019, plans to extend the Fund’s capital commitment to LTIC from quarter to quarter were discontinued, and the expiration of the capital commitment on June 30, 2019 is expected to be final.

Management has evaluated all subsequent events through June 27, 2019, the date the revised 2018 financial statements were available to be issued, and has determined that there are no other subsequent events which occurred that require recognition or additional disclosure in these financial statements.
<table>
<thead>
<tr>
<th>Securities</th>
<th>Interest Rate at Maturity</th>
<th>Stated Date</th>
<th>Remaining Principal Balance</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFC Mortgage Loan Asset Backed Certificates 1998-3 Series 1998-3 CL 1A-2, 1M Libor + 0.72%</td>
<td>3.23</td>
<td>09/22/28</td>
<td>97,429</td>
<td>87,765</td>
</tr>
<tr>
<td>ADJUSTABLE Rate MTG 2005-10 Series 2005-10 CL 1-A-1 - Variable</td>
<td>4.28</td>
<td>01/25/36</td>
<td>160,859</td>
<td>144,774</td>
</tr>
<tr>
<td>ADJUSTABLE Rate MTG 2005-10 Series 2005-10 CL 6-A-1 - 1M Libor +</td>
<td>3.05</td>
<td>01/25/36</td>
<td>294,964</td>
<td>262,518</td>
</tr>
<tr>
<td>Aegis Asset Backed Securities Trust Series 2004-6 CL M2, 1M Libor + 1.0%</td>
<td>3.51</td>
<td>03/25/35</td>
<td>85,070</td>
<td>77,414</td>
</tr>
<tr>
<td>American Home Mortgage 2004-4 Series 2004-4 CL VII-A, 1M Libor + 0.2%</td>
<td>2.71</td>
<td>09/25/30</td>
<td>34,238</td>
<td>30,472</td>
</tr>
<tr>
<td>American Home Mortgage Series 2006-2 CL III-A1, 1M Libor + 0.22%</td>
<td>2.73</td>
<td>06/25/36</td>
<td>450,047</td>
<td>81,008</td>
</tr>
<tr>
<td>Asset Backed Securities Corporation Home Equity Loan Trust Series 2007-HE2 CL A2, 1M Libor + 0.08%</td>
<td>2.59</td>
<td>05/25/36</td>
<td>9,908</td>
<td>6,044</td>
</tr>
<tr>
<td>Banc of America Fund Co Series 2005-E CL 8-A-1, Cofi 11 + 1.43</td>
<td>2.45</td>
<td>06/20/35</td>
<td>273,532</td>
<td>186,290</td>
</tr>
<tr>
<td>Bear Stearns ALT-A 2006-3 Series 2006-3 CL IIIA1, Variable</td>
<td>3.98</td>
<td>05/25/36</td>
<td>198,373</td>
<td>158,952</td>
</tr>
<tr>
<td>Bear Stearns Series 2006-SD3 CL II-1A1, Variable</td>
<td>4.31</td>
<td>07/25/36</td>
<td>137,105</td>
<td>128,951</td>
</tr>
<tr>
<td>Bear Stearns ABS TR Series 2006-SD4 CL 3A-1, 12 MTA + 0.98%</td>
<td>3.14</td>
<td>10/25/36</td>
<td>397,840</td>
<td>139,562</td>
</tr>
<tr>
<td>Bear Stearns Asset Backed Securities Trust Series 2007-SD1 CL II-2A1, Variable</td>
<td>3.79</td>
<td>10/25/36</td>
<td>117,967</td>
<td>76,853</td>
</tr>
<tr>
<td>Bear Stearns Mortgage Securities 1997-6 Series 1997-6 CL B-2, Variable</td>
<td>6.20</td>
<td>03/25/31</td>
<td>99,846</td>
<td>89,942</td>
</tr>
<tr>
<td>Bella Vista Mortgage Trust Series 2005-1 CL II-A, 1M Libor + 0.54%</td>
<td>3.04</td>
<td>02/22/35</td>
<td>59,743</td>
<td>54,964</td>
</tr>
<tr>
<td>CRD BASED ASSET Series VICING &amp; SEC Series 2006-CB2 CL AF-4, STEP Coupon Bond</td>
<td>3.45</td>
<td>12/25/36</td>
<td>348,495</td>
<td>247,432</td>
</tr>
<tr>
<td>CitiMortgage Alternative Loan TR Series 2007-A1 CL IA-1, Fixed</td>
<td>6.00</td>
<td>01/25/37</td>
<td>38,274</td>
<td>32,574</td>
</tr>
<tr>
<td>Countrywide Asset-Backed Certificate Trust Series 2002-S3 CL M2, Variable</td>
<td>5.09</td>
<td>05/25/32</td>
<td>14,084</td>
<td>12,676</td>
</tr>
<tr>
<td>CWABS Revolving HEQ 2004-J Series 2004-J CL 2-A, 1M Libor + 0.29%</td>
<td>2.75</td>
<td>12/15/33</td>
<td>41,596</td>
<td>39,100</td>
</tr>
<tr>
<td>Countrywide Alternative Loan Trust 2005-17 Series 2005-17 CL 1-A-2, 1M Libor + 0.56%</td>
<td>3.07</td>
<td>07/25/35</td>
<td>163,021</td>
<td>99,443</td>
</tr>
<tr>
<td>Countrywide Home Equity Loan Trust Series 2006-I CL 1-A, 1M Libor + 0.14%</td>
<td>2.60</td>
<td>01/15/37</td>
<td>136,049</td>
<td>126,608</td>
</tr>
<tr>
<td>Countrywide Home Loans Series 2004-25 CL 1-A-2, 1M Libor + 0.78%</td>
<td>3.29</td>
<td>02/25/35</td>
<td>5,655</td>
<td>4,693</td>
</tr>
<tr>
<td>Countrywide Home Loans Series 2005-7 CL 2-A-2, 1M Libor + 0.72%</td>
<td>3.23</td>
<td>03/25/35</td>
<td>5,977</td>
<td>2,241</td>
</tr>
<tr>
<td>Countrywide Home Loans Series 2005-11 CL 4-A-2, 1M Libor + 0.32%</td>
<td>3.15</td>
<td>04/25/35</td>
<td>7,850</td>
<td>3,375</td>
</tr>
<tr>
<td>Carrington Mortgage Loan Trust Series 2006-NC5 CL A-5, 1M Libor + 0.06%</td>
<td>2.57</td>
<td>01/25/37</td>
<td>11,101</td>
<td>9,658</td>
</tr>
<tr>
<td>Centex Home Equity Loan Trust 2004-C Series 2004-C CL M-2, 1M Libor + 0.795%</td>
<td>3.30</td>
<td>06/25/34</td>
<td>229,086</td>
<td>208,468</td>
</tr>
<tr>
<td>Centex Home Equity Loan Trust 2004-D Series 2004-D CL MF-2, STEP Coupon Bond</td>
<td>5.20</td>
<td>09/25/34</td>
<td>332,914</td>
<td>307,946</td>
</tr>
<tr>
<td>Conti Mortgage Home Equity Loan Trust 97-4Series 1997-4 CL B, Variable</td>
<td>6.43</td>
<td>10/15/28</td>
<td>48,403</td>
<td>96,805</td>
</tr>
</tbody>
</table>

* The accompanying notes are an integral part of these financial statements.
## ESM FUND I, L.P.
### SCHEDULE OF INVESTMENTS
#### DECEMBER 31, 2018

<table>
<thead>
<tr>
<th>Securities</th>
<th>Interest Rate at 12/31/2018</th>
<th>Stated Maturity Date</th>
<th>Remaining Principal Balance</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage backed securities - continued</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Home Equity Mortgage Trust Series 2004-1 CL B, 1M Libor + 2.5%</td>
<td>5.01</td>
<td>06/25/34</td>
<td>82,043</td>
<td>153,260</td>
</tr>
<tr>
<td>Countrywide Asset Backed Certificates Trust Series 2006-13 CL 1-AF-3, Variable</td>
<td>4.42</td>
<td>05/25/33</td>
<td>16,016</td>
<td>15,857</td>
</tr>
<tr>
<td>CWHEQ, Inc. Home Equity Loan Trust 2006-S4 Series 2006-S4 CL A-6, Fixed</td>
<td>5.83</td>
<td>07/25/34</td>
<td>46,857</td>
<td>46,393 *</td>
</tr>
<tr>
<td>DSLA Mortgage Loan Trust Series 2004-AR1 CL A-2A, 1M Libor + 0.82%</td>
<td>3.29</td>
<td>09/19/44</td>
<td>82,124</td>
<td>75,554</td>
</tr>
<tr>
<td>Delta Funding Home Equity Loan Trust Series 1995-2 CL A-5, Fixed</td>
<td>7.10</td>
<td>01/25/27</td>
<td>43,456</td>
<td>41,283</td>
</tr>
<tr>
<td>Deutsche Alt-B Securities Mortgage Loan Trust Series 2006-AB2 CL A-3, Variable</td>
<td>5.30</td>
<td>06/25/36</td>
<td>337,730</td>
<td>297,516</td>
</tr>
<tr>
<td>Deutsche Mortgage Securities Inc Series 2004-1 CL B-2, Variable</td>
<td>5.50</td>
<td>09/25/33</td>
<td>72,713</td>
<td>64,055</td>
</tr>
<tr>
<td>Equity One ABS, Inc. Series 2004-2 CL M-1, STEP Coupon Bond</td>
<td>4.82</td>
<td>07/25/34</td>
<td>163,343</td>
<td>155,176</td>
</tr>
<tr>
<td>First Horizon Mortgage Trust Series 2000-H CL IV-B-2, Variable</td>
<td>4.22</td>
<td>05/25/30</td>
<td>48,236</td>
<td>38,589</td>
</tr>
<tr>
<td>Fremont Home Loan Trust Series 2005-A CL M3, 1M Libor + 0.735%</td>
<td>3.24</td>
<td>01/25/35</td>
<td>68,938</td>
<td>62,100</td>
</tr>
<tr>
<td>GMACM Home Equity Trust Series 2005-HE1 CL A1VN, 1M Libor + 0.5%</td>
<td>3.01</td>
<td>08/25/35</td>
<td>31,361</td>
<td>42,414</td>
</tr>
<tr>
<td>Ginnie Mae interest only Gnr 2013-141 IA, Fixed</td>
<td>3.80</td>
<td>01/25/36</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Ginnie Mae interest only Gnr 2013-43 Io, Variable</td>
<td>0.45</td>
<td>08/16/48</td>
<td>-</td>
<td>178,105</td>
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<tr>
<td>GreenPoint Manufactured Housing Credit Trust Series 2001-2 CL I-A-2, Variable</td>
<td>5.90</td>
<td>02/20/32</td>
<td>1,365,000</td>
<td>1,365,000</td>
</tr>
<tr>
<td>GreenPoint Mortgage Funding Trust Series 2005-Ar4 Cl I-A-1, 1M Libor + 0.52%</td>
<td>3.03</td>
<td>10/25/45</td>
<td>862,287</td>
<td>801,927</td>
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<tr>
<td>GreenPoint Mortgage Funding Trust Series 2005-Ar4 Cl Giva1B, 1M Libor +</td>
<td>2.71</td>
<td>10/25/45</td>
<td>697,488</td>
<td>585,890</td>
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<tr>
<td>GreenPoint Mortgage Funding Trust Series 2005-Ar5 Cl Iii-A1, 1M Libor +</td>
<td>3.07</td>
<td>11/25/45</td>
<td>337,542</td>
<td>270,033</td>
</tr>
<tr>
<td>GreenPoint Mortgage Funding Trust Series 2006-Ar3 Cl Iv-A-1, 1M Libor +</td>
<td>2.72</td>
<td>04/25/36</td>
<td>113,335</td>
<td>96,335</td>
</tr>
<tr>
<td>Harborview Mortgage Loan Trust Series 2005-1 Cl 2-A1B, 1M Libor + 0.66%</td>
<td>3.13</td>
<td>03/19/35</td>
<td>10,362</td>
<td>6,217</td>
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<tr>
<td>Harborview Mortgage Loan Trust Series 2005-8 CL I-A2A, 1M Libor + 0.66%</td>
<td>3.13</td>
<td>09/19/35</td>
<td>47,595</td>
<td>40,455</td>
</tr>
<tr>
<td>Harborview Mortgage Loan Trust Series 2005-14 CL 2-A-1A, Variable</td>
<td>4.73</td>
<td>12/19/35</td>
<td>183,580</td>
<td>174,484</td>
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<tr>
<td>Home Equity Mortgage Trust Series 2007-1 CL A-1, 1M Libor + 0.34%</td>
<td>2.85</td>
<td>05/25/37</td>
<td>29,741</td>
<td>27,086</td>
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<tr>
<td>Impac CMB Trust Series 2003-8 Cl 2-M-2, 1M Libor + 2.625%</td>
<td>5.13</td>
<td>10/25/33</td>
<td>12,571</td>
<td>11,948</td>
</tr>
<tr>
<td>Impac CMB Trust Series 2003-8 Cl 2-B-1, 1M Libor + 4.5%</td>
<td>7.01</td>
<td>10/25/33</td>
<td>22,888</td>
<td>22,661</td>
</tr>
<tr>
<td>Impac CMB Trust Series 2003-11 Cl 2-B-1, 1M Libor + 4.5%</td>
<td>6.25</td>
<td>10/25/33</td>
<td>118,059</td>
<td>116,890</td>
</tr>
<tr>
<td>IndyMac INDX Mortgage Loan Trust Series 05-A1 Cl B1</td>
<td>7.66</td>
<td>11/25/35</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Lehman XS Trust Series 2006-10N Cl 2-A1, 1M Libor + 0.12%</td>
<td>2.75</td>
<td>05/25/36</td>
<td>742,437</td>
<td>623,647</td>
</tr>
<tr>
<td>Lehman XS Trust Series 2006-8 Cl 3-A3, STEP Coupon Bond</td>
<td>5.02</td>
<td>06/25/36</td>
<td>158,761</td>
<td>144,591</td>
</tr>
<tr>
<td>Lehman XS Trust Series 2007-5H Cl 3-A4, Variable</td>
<td>3.23</td>
<td>05/25/37</td>
<td>210,501</td>
<td>168,401 *</td>
</tr>
<tr>
<td>MASTR Adjustable Rate Mortgage Trust Series 2006-Oa2 Cl 1-A-1, 12 MTA + 0.8%</td>
<td>2.96</td>
<td>12/25/46</td>
<td>1,243,782</td>
<td>1,713,488 *</td>
</tr>
<tr>
<td>MASTR Adjustable Rate Mortgage Trust Series 2006-Oa2 Cl 1-A-2, 12 MTA + 0.8%</td>
<td>-</td>
<td>12/25/46</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>MASTR Adjustable Rate Mortgage Trust Series 2006-Oa2 Cl 3A2, Cofi 11 + 1.5%</td>
<td>-</td>
<td>12/25/46</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>MASTR Adjustable Rate Mortgage Trust Series 2006-Oa2 Cl 4-A-1A, 12 MTA + 0.85%</td>
<td>3.01</td>
<td>12/25/46</td>
<td>1,198,759</td>
<td>1,766,934 *</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
## ESM FUND I, L.P.
### SCHEDULE OF INVESTMENTS
#### DECEMBER 31, 2018

<table>
<thead>
<tr>
<th>Securities</th>
<th>Interest Rate at 12/31/2018</th>
<th>Stated Maturity Date</th>
<th>Remaining Principal Balance</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>MASTR Adjustable Rate Mortgage Trust Series 2006-Oa2 Cl 4-A-1B, 12 MTA + 1.2%</td>
<td>3.36</td>
<td>12/25/46</td>
<td>768,919</td>
<td>1,133,680</td>
</tr>
<tr>
<td>MASTR Adjustable Rate Mortgage Trust Series 2007-1 Cl I-2A1, 1M Libor + 0.16%</td>
<td>2.67</td>
<td>01/25/47</td>
<td>75,399</td>
<td>73,137</td>
</tr>
<tr>
<td>MASTR Adjustable Rate Mortgage Trust Series 2007-3 Cl 2-2A2, 1M Libor + 0.42%</td>
<td>2.72</td>
<td>05/25/47</td>
<td>315,820</td>
<td>1,593,310</td>
</tr>
<tr>
<td>MASTR Adjustable Rate Mortgage Trust Series 2007-3 Cl 2-2A5, 1M Libor + 0.68%</td>
<td>2.85</td>
<td>05/25/47</td>
<td>191,419</td>
<td>172,277</td>
</tr>
<tr>
<td>ML Mtg Investors 2005-A3 Series 2005-A3 Cl A-1, 1M Libor + 0.27%</td>
<td>3.05</td>
<td>04/25/35</td>
<td>12,853</td>
<td>12,210</td>
</tr>
<tr>
<td>Morgan Stanley Mortgage Loan Trust Series 2006-16Ax Cl 2-A-2, 1M Libor + 0.17%</td>
<td>2.68</td>
<td>11/25/36</td>
<td>127,970</td>
<td>48,679</td>
</tr>
<tr>
<td>Morgan Stanley Mortgage Loan Trust Series 2006-7 Cl 1-A, Fixed</td>
<td>5.00</td>
<td>06/25/21</td>
<td>26,845</td>
<td>23,115</td>
</tr>
<tr>
<td>Morgan Stanley Capital Series 2007-He4 Cl A-2A, 1M Libor + 0.11%</td>
<td>2.62</td>
<td>02/25/37</td>
<td>2,493</td>
<td>947</td>
</tr>
<tr>
<td>Novastar Mortgage Series 2006-Mta1 Cl 2A-1A, 1M Libor + 0.38%</td>
<td>1.72</td>
<td>09/25/46</td>
<td>352,372</td>
<td>303,040</td>
</tr>
<tr>
<td>Option One Mortgage Loan Trust Series 2007-Fxd2 Cl Ii-A-5, STEP Coupon</td>
<td>6.10</td>
<td>03/25/37</td>
<td>412,531</td>
<td>379,529</td>
</tr>
<tr>
<td>Popular ABS Mortgage Pass-Thru Trust Series 2005-6 Cl A-3, Variable</td>
<td>3.83</td>
<td>01/25/36</td>
<td>34,747</td>
<td>34,052</td>
</tr>
<tr>
<td>Residential Accredit Loans Inc. Series 2006-QS12 Cl IIA-11, Fixed</td>
<td>5.00</td>
<td>09/25/36</td>
<td>125,380</td>
<td>105,461</td>
</tr>
<tr>
<td>Residential Accredit Loan Inc. Series 2006-QS10 Cl A-1, Fixed</td>
<td>6.00</td>
<td>08/25/36</td>
<td>175,688</td>
<td>145,821</td>
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<tr>
<td>Residential Accredit Loans Inc. Series 2005-QA3 Cl NB-II, Variable</td>
<td>4.24</td>
<td>03/25/35</td>
<td>88,308</td>
<td>81,303</td>
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<tr>
<td>Residential Accredit Loans Inc. Series 2005-QA3 Cl NB-IV, Variable</td>
<td>3.95</td>
<td>03/25/35</td>
<td>136,523</td>
<td>43,783</td>
</tr>
<tr>
<td>Residential Accredit Loans Inc. Series 2005-QA6 Cl NB-I11, Variable</td>
<td>4.42</td>
<td>05/25/35</td>
<td>236,151</td>
<td>177,446</td>
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<tr>
<td>Residential Accredit Loans Inc. Series 2004-QA6 Cl NB-IV, Variable</td>
<td>4.63</td>
<td>12/26/34</td>
<td>146,004</td>
<td>125,715</td>
</tr>
<tr>
<td>Residential Accredit Loans Inc. Series 2006-QA1 Cl AII-1, Variable</td>
<td>5.49</td>
<td>01/25/36</td>
<td>63,273</td>
<td>53,149</td>
</tr>
<tr>
<td>Residential Funding Mortgage, Series 2005-SA2 Cl III-A2, Variable</td>
<td>4.22</td>
<td>06/25/35</td>
<td>48,273</td>
<td>45,860</td>
</tr>
<tr>
<td>Sequoia Mortgage Trust Series 2007-1 Cl 3-A1, Variable</td>
<td>4.24</td>
<td>01/20/47</td>
<td>150,860</td>
<td>132,757</td>
</tr>
<tr>
<td>Structure Adjustable Rate Mortgage Loan Trust Series 2005-22 Cl 1-A1</td>
<td>3.33</td>
<td>12/25/35</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Structured Asset Mortgage Investments II Trust Series 2006-Ar2 Cl A-1, 1M Libor + 0.23%</td>
<td>2.74</td>
<td>02/25/36</td>
<td>257,847</td>
<td>232,062</td>
</tr>
<tr>
<td>Structured Asset Mortgage Investments II Trust Series 2006-Ar5 Cl 2-A-1, 1M Libor + 0.21%</td>
<td>2.72</td>
<td>05/25/36</td>
<td>64,701</td>
<td>52,408</td>
</tr>
<tr>
<td>Structured Asset Mortgage Investments II Trust Series 2006-Ar3 Cl Ii-2A1, Variable</td>
<td>3.89</td>
<td>05/25/36</td>
<td>213,752</td>
<td>160,615</td>
</tr>
<tr>
<td>Structured Asset Mortgage Investments II Trust Series 2006-Ar6 Cl I-A-3, 1M Libor + 0.19%</td>
<td>2.70</td>
<td>07/25/36</td>
<td>104,869</td>
<td>73,408</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
Mortgage backed securities - continued

Wachovia Mortgage Loan Trust LLC Series 2006-A Cl 1-A-1, Variable 4.00 05/20/36 380,050 349,905
Washington Mutual Mortgage Securities Corporation Series 2002-Ar9 Cl I-B-1, 3.43 08/25/42 165,519 140,871
12 MTA + 1.4%
Washington Mutual Mortgage Securities Corporation 2003-Ar1 Series 2003-Ar1 3.69 02/25/33 26,286 24,984
Cl II-A, Variable
Washington Mutual Mortgage Pass-Through Certificates Series 2006-Ar1 Cl A- 3.01 02/25/36 13,640 10,503
1A, 1M Libor + 0.25%
12 MTA + 0.94%
Washington Mutual Mortgage Pass-Through Certificates Series 2006-Ar8 Cl 2A, 2.79 10/25/46 88,355 69,917
12 MTA + 0.85%
Cl B-2, Variable
Total mortgage backed securities (Amortized cost $14,255,687) 18,741,323 20,105,155

Reinsurance Bonds - 11.0%

Ballantyne RE PLC 2006-1 A-3, Fixed 2.30 05/02/36 5,000,000 3,000,000 *
(Amortized cost $2,949,520)

Municipal Bonds - 1.2%

Puerto Rico Commonwealth Highway Series A B/E /R/ Defaulted, Fixed 5.25 07/01/23 683,290 328,800
(Amortized cost $242,326)

Limited Liability Companies - 0.0%

Long Term Insured Credit Fund, LLC (Cost $2,659) - 2,662 *

Investments in Securities, at Fair Value (Amortized cost $17,450,192) $24,424,613 $23,436,617

The Fund's portfolio of mortgage backed securities is collateralized by pools of residential mortgages with average nominal interest rates ranging from 0.26% to 7.66%, and stated maturities ranging from 2021 to 2048. At December 31, 2018, approximately 76% of the investments are floating rate bonds. The remainder are either fixed or hybrid rate bonds. Approximately 82% of the portfolio is invested in senior, super senior or senior mezzanine bonds (i.e. the highest or second highest bonds in the capital structure of a given deal). The range of interest rates used for recognizing interest income was 3.75% to 37.6% during 2018. The period over which the securities will be generating cash is expected to be substantially shorter than the stated maturities.

* Level 3 securities within the fair value hierarchy with the combined fair value of $8,771,494 and amortized cost of $4,499,643. These securities were fair valued using significant unobservable inputs. Refer to Note 4 for further detail.