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ASSET MANAGEMENT

# Marketfield Fund 2Q.09

## Fund Overview

### Objective

The investment objective of the Fund is capital appreciation. We endeavor to accomplish this by seeking low-volatility absolute return in excess of broad equity indexes.

### Strategy & Process

The Fund attempts to provide returns on capital substantially in excess of the risk-free rate rather than matching any particular index or external benchmark. The Fund has a broad investment charter that allows it to utilize equity securities, fixed-income instruments, commodities, futures and options. The Fund may hold short positions of up to 30% of its capital.

**Mutual fund investing involves risk. Principal loss is possible. The Fund invests in smaller companies, which involve additional risks such as limited liquidity and greater volatility. The Fund invests in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. These risks are greater for investments in emerging markets. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investment by the Fund in lower-rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities. Investments in asset-backed and mortgage-backed securities involve additional risks such as credit risk, prepayment risk, possible illiquidity and default, and increased susceptibility to adverse economic developments. The Fund regularly makes short sales of securities, which involves the risk that losses may exceed the original amount invested, however a mutual fund investor's risk is limited to the amount invested in a fund. The Fund may also use options and futures contracts, which have the risks of unlimited losses of the underlying holdings due to unanticipated market movements and failure to correctly predict the direction of securities prices, interest rates and currency exchange rates. The investment in options is not suitable for all investors.**

*The S&P 500 Index (SPX) is a broad-based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. You cannot invest directly in an index.

*The Price to Book (P/B) Ratio compares a stock's market value to the value of total assets less total liabilities.*

***The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling (888) 236-4298. Read it carefully before investing.***

*The Marketfield Fund is distributed by Quasar Distributors, LLC (6/09)*

## Performance

| | AS OF 6/30/09 | | | | |
|---|---|---|---|---|---|
| | | | | Since Inception (7/31/07) | |
| | YTD | 1 Month | 1 Year | Annualized | Cumulative |
| MFLDX | +10.51% | –1.87% | –2.41% | –0.03% | –0.06% |
| S&P 500 | +3.16% | +.20% | –26.21% | –19.38% | –33.84% |

Gross Expense Ratio: 5.04%
*Net Expense Ratio: 1.78%
*Source: U. S. Bancorp ©*

*Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance quoted. Performance data to the most recent month end may be obtained by calling (888) 236-4298. The Fund imposes a redemption fee of 1.00% for shares held less than 60 days. Performance data quoted does not reflect the redemption fee. If reflected, total return would be reduced.*

**The adviser has contractually agreed to reduce fees for at least a three-year period and for an indefinite period thereafter subject to annual reapproval of the agreement by the Board of Trustees.*

## Fund Facts

### Fund Statistics

| | |
|---|---|
| Ticker Symbol | MFLDX |
| CUSIP | 89833W865 |
| Minimum Investment | $25,000 |
| Inception Date | 7/31/07 |
| Benchmark | S&P 500 Index |
| Net Assets | $44,101,920 |
| Number of Holdings | 76 |
| Price/Book | 1.85 |

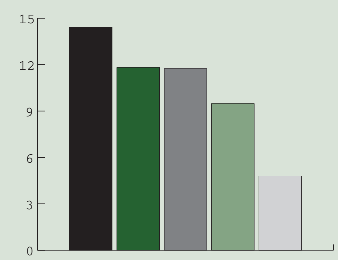
### Top Ten Holdings *(as of 6/30/09)*

| | |
|---|---|
| SPDR S&P Retail ETF | 3.08% |
| iShares 20+YR Treasury Bond Fund ETF | 2.14% |
| Google | 1.72% |
| Mastercard Inc. | 1.71% |
| Family Dollar Stores | 1.53% |
| Ford | 1.49% |
| Market Vectors Agri-Business ETF | 1.48% |
| W.W. Grainger, Inc. | 1.45% |
| IBM | 1.44% |
| SPDR S&P Homebuilders Index Fund ETF | 1.44% |
| Total | 17.48% |

### Portfolio Allocation

| Equity Portfolio Long | Equity Portfolio Short | Futures Portfolio Long |
|---|---|---|
| 64% | 9% | 20% |

## Top Five Sectors




| | |
|---|---|
| Consumer Discretionary | 14.42% |
| Materials | 11.81% |
| Information Technology | 11.74% |
| Industrials | 9.48% |
| Energy | 4.80% |

*As a % of total equities as of 6/30/09*

*Fund holdings and/or sector allocations are subject to change at any time and are not recommendations to buy or sell any security. Current and future portfolio holdings are subject to risk.*

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## MANAGEMENT TEAM

**Michael C. Aronstein**
President, Chief Executive Officer, and Portfolio Manager

Michael C. Aronstein is Portfolio Manager of the Marketfield Fund. He is also Chief Investment Strategist for Oscar Gruss & Son Incorporated, a NYSE member firm that provides research and investment advice to institutional managers. Prior to joining Oscar Gruss in 2004, Mr. Aronstein was Chief Investment Strategist at Preservation Group, a provider of independent macroeconomic and strategic advice to professional investors. Mr. Aronstein began his investment career in 1979 at Merrill Lynch, serving positions as Senior Market Analyst, Senior Investment Strategist, and Manager of Global Investment Strategy. Mr. Aronstein spent six years as President of Comstock Partners, a diversified investment advisor, and left to found West Course Capital, a discretionary commodity management firm. Mr. Aronstein graduated from Yale College as a Bachelor of Arts in 1974. His views on macroeconomic and strategic issues are regularly sought by and disseminated through the financial print and visual media.

**Michael Shaoul**
Chairman

Michael Shaoul also serves as Chief Executive Officer of Oscar Gruss and Son Incorporated, a position he has held since December 2001. He joined Oscar Gruss in 1996 as Chief Operating Officer. Between 1992 and 1996, Mr. Shaoul ran Park Square Associates, a Manhattan-based real estate investment and management company. He was awarded a Ph.D. in Accounting and Finance in 1992 from Manchester University (UK). Mr. Shaoul has written articles on behalf of *Barron's* and has been regularly quoted in *The Wall Street Journal* and *Dow Jones Newswires* regarding his opinions on the investment markets.

**Myles D. Gillespie**
Chief Operating Officer

Myles D. Gillespie joined Marketfield Asset Management as Chief Operating Officer in 2007. Myles is a graduate of The Hotchkiss School and holds a Bachelor of Arts degree from Franklin and Marshall College (Class of 1983). From 1983 to 1986, he worked as a stock index futures trader with Henderson Brothers and in 1986 became a NYSE Specialist at Quick & Reilly. He was appointed Executive Vice President of JCC Specialist Corp., the successor firm to Quick and Reilly, in 1989. In 1999 he became President of Fleet Specialist, Inc., the successor firm to JCC Specialist Corp., retiring from this position in 2004. During his time at the NYSE, Myles served as a NYSE floor Official (1993-1999) and NYSE floor Governor (2001-2004).

## QUARTERLY COMMENTARY

May 31st marked the end of the fiscal year for Marketfield Fund and the close of an extraordinary period in finance and the economy. Capital markets had record price movements in both directions, with global economic activity following the first (downward) phase with historic intensity. Whether, as we expect, economic activity will follow the rebound phase in financial markets remains to be seen.

For the fiscal year ended May 31, 2009, the Fund showed a loss of 5.36% as compared with the loss of 32.57% for the S&P 500 Index. The May 31, 2009 closing net asset value of $10.18 per share exceeded the October 11, 2007 closing NAV of $10.08, the day that the S&P 500 hit its all time high of 1,554.41. Needless to say, the period since that time has been trying for nearly everyone involved in investment management business. We have seen and continue to see a degree of emotional trauma among advisors and clients that goes well beyond anything in our experience. The actual losses and volatility of the past year do not, in and of themselves, seem sufficient to induce the sort of psychological damage that occurred. The effects were compounded by the clear breakdown of most core investment precepts that had come to be regarded as sacrosanct by many members of the investing community. The process could almost be characterized as a large scale loss of faith.

The events of 2008 marked a culmination of an era marked by the steady expansion of balance sheet leverage among financial institutions and households. We have characterized the period between 2003 and 2008 as a classic inventory cycle, with the accumulated inventories mostly comprising securities and their favored collateral form, property of all sorts. This cycle had its roots in a major policy error on the part of the Federal Reserve, with real short term rates being held at artificially low levels for about two years longer than conditions warranted. The consequently steep yield curve and windfall profits for financial leverage prompted a pandemic of reckless lending, borrowing, and a highly unstable short term funding structure beneath all of it.

As markets providing funding for the inventory of exotic and largely illiquid securities began to decay, a growing pattern of forced liquidation developed throughout the first three quarters of 2008. Following the failure of Lehman Brothers that trend turned into a full scale panic, effectively shutting down global finance for more than a month. Economic activity followed close behind.

In the wake of October's collapse, the Federal Reserve Board acted (properly in our view, albeit two years late) to replace the funding structure for financial institutions with an historic expansion of its own balance sheet. This had the desired effect of attenuating the cycle of forced liquidation and restoring some modicum of two sided trade within financial markets. A process of healing ensued, beginning with the safest portions of credit markets and expanding to eventually include high yield bonds and equity markets.

As always, insight is much simpler when it concerns the past rather than the future, to which we now turn. We will begin our look ahead with several observations, some of which we expect to bear on our investment policy going forward.

-The restoration of liquidity in capital markets and the banking system should allow economic activity to begin returning toward more normal levels during the next several months. Because the preceding decline in activity was extraordinarily steep, the recovery will appear as powerful, if not more so, than the typical post-war sequence. Our expectation of a V shaped recovery is our most important but also probably the most controversial of our opinions.

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## QUARTERLY COMMENTARY CONT.

-The actions of the Federal Reserve to dramatically increase the scope of its own balance sheet in the wake of the Lehman panic were absolutely necessary as a means of avoiding a full scale run on money markets and depository institutions. This observation is not meant to endorse the present structure of central banking or its methods. The fact is that we have, for better or for worse, a monetary system based upon Federal Reserve credit and fractional reserve banking which was on the verge of collapse nine months ago. Despite the obvious drawbacks of such a system, a sequence of collapse and salvage is not the path to useful change. We are mindful of the longer term inflationary implications of the Federal Reserve's emergency "credit easing" policy but do not see these as yet representing a driving thematic for our current portfolio.

In contrast to the actions of the Federal Reserve, those undertaken by Congress in the name of economic stimulus will, as always, turn out to have been a waste of time and money. Their lasting effect will be to distort the distribution of resources within our economy and thereby ensure a long term real growth rate that is below what it would have been in the absence of political intervention. The notion that prosperity is enhanced via the transfer of resources from private citizens to members of Congress, who can then disburse them in ways different from what their original owners would have chosen, is absurd. Like smoking and DWI, it is an activity that continues in the face of contraindicative evidence.

If the deployment of resources by members of Congress actually improved the nation's economic performance, it would make sense to create a special department for those members possessed of this insight in order to keep them in the decision making capacity after their terms ended. We could all voluntarily cede the capital allocation role to this uniquely gifted group, secure in the knowledge that we will be richer for it.

-In a similar vein, the rush to construct a regulatory apparatus that will prevent a repeat of the 2008 is a waste of time and ultimately harmful. We can guarantee that it will be a very long time before the reckless acquisition of substandard mortgages presents a systemic risk to financial institutions and yet we can guarantee that a massive regulatory apparatus will be constructed that attempts to deny the possibility of such a repeat. As we have seen from the last cycle that threw up Sarbanes-Oxley and a host of regulatory reforms governing the production of Wall Street research, the search for a regulatory fix of the last scandalous wave of activity in no way protects the financial system from another wave of malfeasance or stupidity arising in a different sphere of capital markets.

Similarly it is our belief that the legislation that emerges from today's Congressional retrospective will be completely irrelevant in influencing the next cycle of excess and may, in fact, contribute to its development. Proper incentives rather than regulation are the only way to effectively shape behavior. If the directors and officers of all insured depository institutions were personally liable for any loss to depositors or the FDIC, attitudes toward risk would change overnight. Consumers of financial services, be they professional or retail, must also bear some of the burden since poorly designed financial products are bought as well as sold.

The notion that some uber-regulator is needed to prevent the systemic risks that arose in the 2003-2008 cycle, is, like most everything coming out of the current Congress, somewhere between naive and ridiculous. Large scale manias develop repeatedly because at the time of their ascent there is a general belief that the principles underlying the enthusiasm (and subsequent over-enthusiasm) are perfectly sound. In retrospect, everyone is a sage, but at the critical moment when a bullish trend transforms into a dangerous, far reaching set of delusions, anyone who questions its validity is regarded as a fool. From the Japanese "miracle", where 100x price earning multiples were justified by the arcane cultural differences that "Westerners" could not fully understand, to dot-com valuations based solely on "eyeballs" not profits, to the well accepted fact that house prices never declined and any real risk that did arise could be mitigated by the right mathematical approach, the great delusions of the past two decades were not promoted by boiler room operators or late night infomercials, but were solemnly proclaimed from the podiums of every business school and think tank around the world. Any regulator attempting to raise the warning flag before problems were evident would have faced ridicule from supporters of the enterprise in question.

-The U.S. economy will be increasingly shaped by the intrusions of government. These will both distort and suppress the cyclical recovery that we are anticipating. The two general categories of interference by government that are the most harmful and the most consequential for investors are the thwarting of competition and the fixing of prices. Nearly every objectionable legislative or regulatory initiative falls into one or both of these categories. Because competition and free market pricing are the basis of our system of economic exchange i.e., capitalism, any attempt to subject these to political control will distort the distribution of resources and undermine the efficiency and productivity of the economy as a whole. The fact that the ultimate burden will be borne most heavily by those attempting to work their way out of poverty is the tragic aspect.

-The frantic rush to overhaul the structure of the healthcare system perfectly illustrates the subordination of sound economic principle for political ends. Legislation to expand the reach of "insurance" ignores the fact that the proliferation of third party payment schemes (most of which are mistakenly termed insurance) has so distorted pricing and service delivery that both costs and access are untenable.

The current system of tax advantaged, third party payment has none of the characteristics of real insurance, which attempts to protect against rare, calamitous events by spreading their risk among a large group, the vast majority of whom will never experience the insurable event. Access to healthcare could be made much fairer and more efficient by the introduction of national competition among insurance providers and the treatment of health insurance provided by employers as a taxable benefit. A large move toward less expensive policies that protected against major illness or accident would occur once the tremendous tax advantage of having all care paid for by a third party was removed. This would open the system to the beneficial effects of nearly limitless individual choice and variety that occur naturally when markets are allowed to function. Pricing of routine care would come down dramatically as service providers were forced to compete for patients who were spending their own money. For those unable to afford the payment of deductible amounts, government could provide most of the money directly to them without distorting anything in the system of price or competition. The appropriation of funds to individuals to pay for medical services that they could not otherwise afford would become a specific political question that could be addressed in its appropriate legislative forum without distorting the natural efficiencies of a largely free marketplace.

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## QUARTERLY COMMENTARY CONT.

The main impediment to the adoption of such reforms is the loss of power that would occur among regulators and legislators. With a lessened ability to engender specific outcomes and control the flow of payments throughout the system, there would be less need for massive campaign contributions and lobbying expenditures among healthcare providers. Political pressure against these sorts of reforms would also be brought to bear by those who have been privileged to enjoy fully paid, tax free, comprehensive medical coverage provided by a third party.

The discussion of healthcare policy is meant to illustrate the complexity of the task facing investors in an era of intrusive government action. Policy advice is not our job. Positioning funds in a manner that will benefit from likely outcomes is where our responsibilities lie. In the case of healthcare, the endless political permutations with potential influence on reimbursement rates, prices, insurance mandates, government sponsored competition, patent law, malpractice awards and countless other critical areas makes it nearly impossible to consider the fundamental condition of the industry in light of more general, macroeconomic and market forces. It is interesting to watch the sector rally strongly each time it looks as though the more radical legislative proposals will not make it through Congress. Investing in these areas has become a matter of political guesswork, for which we claim no useful insight. As a consequence, we have steered clear of the entire sector.

The real difficulty with investing in an environment of political heavy-handedness is not understanding the outcomes, but getting the timing close enough to be practically useful in an investment sense. In this regard, patience becomes one of the primary requisites for anyone attempting to invest along these broad, thematic lines.

The distortions created by Fannie Mae and Freddie Mac were apparent to many observers in and out of government, but took decades to reach their inevitable conclusion in the mortgage crisis of 2007-2008. House price speculation was evident in 2003, but persisted (and accelerated) for four more years. California and New York have suffered unsustainable political, fiscal and regulatory regimes for a generation or more and have only recently begun to circle the drain. Venezuela is not yet on par economically or socially with North Korea, even though that will be the ultimate outcome of their current political course. In these and countless other examples, the inevitable results of misguided policy are not difficult to recognize. Investing for these final outcomes while the markets and economy are still years away from reflecting the full effects is, however, a ruinous exercise.

Thus far, new political intrusions in the U.S. economy have been somewhat confined, allowing the forces of a recovering economy to prevail in most corners of the capital markets. The dangers on the horizon lie in misguided interventions in matters that have effects across the entire economy. These include tax policy, carbon emissions controls and international trade. All of the current proposals pertaining to these areas are unambiguously harmful to long run prospects for growth. A new regulator charged with the identification and prevention of systemic risk could start its career with the simple observation that increases in tax rates have, at present, the potential to do more long term economic harm than the recent property bubble. Such a warning would, no doubt, be met with derision in some quarters.

As we approach the beginning of the third quarter, we find ourselves navigating between two macroeconomic currents. On the one hand we see the restorative forces of capital markets' and monetary liquidity setting the stage for a surprisingly vigorous recovery in overall economic activity. Opposing these beneficial forces are a reckless spending path and a number of regulatory and tax initiatives that have the potential to do real long term harm to the economic function of the U.S. While these factors are of real concern, they seem to us to offer a less immediate threat. Our sense is that current, constructive market forces will prevail in the short to intermediate term.

Within the equity markets, a transition is underway from the distressed and non-U.S. sectors that provided leadership from the March lows. If our basic assumptions are correct, we should see the next phase of advance led by sectors that are more closely tied to the cyclical health of the domestic economy. Included among these are consumer discretionary, manufacturing, technology, transportation and construction groups. We have shifted the emphasis of the portfolio toward these general themes.

As always, we are thankful for your continued support and welcome any direct inquiry.

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