MARKETFIELD FUND DECEMBER 31, 2010

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. Additionally, with respect to 50% of the Fund's net assets, the Fund may engage in short sales of index-related and other equity securities to reduce its equity exposure or to profit from an anticipated decline in the price of the security sold short.

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	$434M
Number of Holdings	82

TOP TEN HOLDINGS (AS OF 12/31/10)

SPDR S&P Retail ETF	2.66%
iShares Dow Jones Transp. ETF	2.55%
BASF SE	2.27%
W.W. Grainger Inc.	2.10%
Google Inc.	1.90%
Union Pacific Corp.	1.85%
Amazon.com Inc.	1.73%
Cummins Engine Company, Inc.	1.73%
Ford Motor Co.	1.71%
Walt Disney Co.	1.68%
TOTAL:	20.18%

PORTFOLIO ALLOCATION

Equity Portfolio Long	82%
Equity Portfolio Short	19%

★★★★★ OVERALL MORNINGSTAR RATING™
AMONG 99 LONG-SHORT FUNDS AS OF 12/31/10

Ratings are based on risk-adjusted return. The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its 3 year Morningstar Rating metrics.

FUND PERFORMANCE

AS OF QUARTER-END 12/31/10

	Cumulative			Annualized		
	1 Month	YTD	Since Inception*	1 Year	3 Year	Since Inception*
MFLDX	+2.89%	+14.32%	+35.52%	+14.32%	+9.30%	+9.30%
S&P 500	+6.68%	+15.06%	–6.68%	+15.06%	–2.86%	–2.00%

*Since inception date 7/31/07

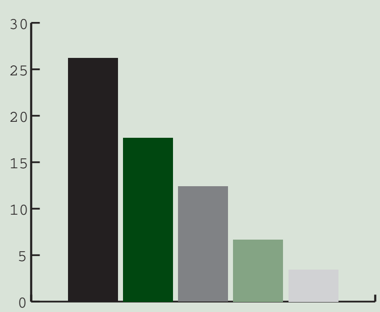
Gross Expense Ratio: 2.66%
**Net Expense Ratio: 1.75%

Source: U.S. Bancorp ©

***The advisor has contractually agreed to reduce operating expenses (exclusive of income tax expenses, interest expense, dividends on short positions and acquired fund fees and expenses) through August 31, 2011 and for an indefinite period thereafter subject to annual reapproval of the agreement by the Board of Trustees.*

Performance reflects the reinvestment of dividends and other earnings and is net of advisory fees. 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.

TOP FIVE SECTORS



As a % of total equities as of 12/31/10

Industrials	26.21%
Consumer Discretionary	17.63%
Information Technology	12.39%
Consumer Staples	6.66%
Energy	3.45%

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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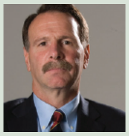
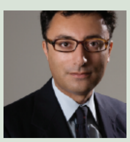
MARKETFIELD
ASSET MANAGEMENT

MANAGEMENT TEAM



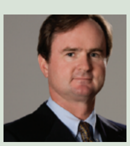
Michael C. Aronstein
President, Chief Executive Officer, and Portfolio Manager

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 with 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. Mr. Aronstein manages $434 million in MFLDX and $407 million in MKTFLDA; total assets under management are $841 million.



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).

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

*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. The securities holdings and volatility of the Fund differ significantly from the stocks that make up the SPX. You cannot invest directly in an index.

Interbank Rate: Interest rate charged on short-term loans made between banks. Case-Shiller Index: U.S. National Home Price Index is a composite of single-family home price indices for the nine U.S. Census divisions. Nominal Earnings: Earnings that have not been adjusted for inflation and decreasing purchasing power. Return on Capital: A measure of how effectively a company uses money (borrowed or owned) invested in its operations.

For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating™ (based on a Morningstar Risk Adjusted Return measure that accounts for variation in a fund's monthly performance, including the effects of sales charges, loads, and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) The Marketfield Fund received 5 stars among 99 for the three-year period ending 12/31/2010.

Diversification does not assure a profit or protect against loss in a declining market.

Hedge Funds involve a high degree of risk, often engage in leveraging and other speculative investment practices that may increase the risk of investment loss, can be highly illiquid, are not required to provide periodic pricing or valuation information to investors, may involve complex tax structures and delays in distributing important tax information, are not subject to the same regulatory requirements as mutual funds and often charge high fees which may offset any trading profits.

The Marketfield Fund is advised by Marketfield Asset Management and distributed by Quasar Distributors, LLC. Quasar Distributors is not affiliated with Sincere & Co., LLC.

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YEAR-END COMMENTARY 2010

Year two of the current bull market in profits and business values ended with little fanfare and an investment community in the throes of a colossal misallocation of capital. In the aftermath of the worst decade for domestic equity investors in more than a century and a unique, once in a generation seizure in global capital markets, direct participation in the profits of publicly listed businesses has become the ugly stepchild of contemporary investment practice.

The received wisdom within the community of professional asset allocators and advisors has crystallized within the United States around a core tenet of "ABS" (anything but stocks). The poor recent history of domestic equity returns plays a large part in the aversive posture among academic, professional and civilian investors. Many important U.S. stocks have yet to return to their highs of 1997. Others, reinvigorated during the growth and technology frenzy (fueled by the Fed's ease in response to the failure of Long-Term Capital Management and the threat of Y2K) reached historic highs in 1999-2000. Most of the leaders from that era have yet to revisit their twentieth century highs. The interval since is not too dissimilar from that following the speculative stock peak in 1968 (and the subsequent, selective rally into 1972) to the beginning of the secular bull market in 1981-1982.

The 1981-1982 period is particularly illustrative as an example of widespread institutional misallocation and a parallel misapprehension of long term macroeconomic prospects similar in scope to what we see today. The early 1980s marked the end of more than a decade of accelerating inflation, rising interest rates and declining equity multiples. Bonds were in the final, climactic phase of a 39 year bear market. Accepted investment theory had come round to declaring these trends intractable. It was widely accepted that portfolios had to be structured in a way that eliminated all interest rate sensitivity and bond duration. The most popular commentators on Wall Street had long term inflation and interest rate targets that were, in their own words, "spectacularly higher." Energy related equities accounted for about a third of the S&P 500, and money flowed to managers who were heavily overweight that sector.

Pension funds, endowments and public sector investment pools managed to nearly eliminate any exposure to bonds and interest sensitive equities. Businesses that relied on commodity inputs and those that produced consumer goods were also exiled from most portfolios. "Alternative" investments included direct interests in oil and gas properties, railcars, barges, pipelines, mineral leases and commercial real estate in the oil patch.

With all the benefit of hindsight, it is easy to see that allocations and exposures to macroeconomic factors were exactly 180 degrees out of phase. Thirty years later, we seemed to have reached an opposite extreme in conception, with equally inappropriate exposures among the majority of investors.

The current secular, macroeconomic fear is not inflation, but rather the lack thereof. This concern extends right to the boardroom of the Federal Reserve and has become a primary driver of policy. After decades of declining inflation and a brush with a systemic credit deflation in 2008 (defused only by the Fed's prompt balance sheet response), extremely low nominal growth rates and meager equity returns are presumed to constitute a new, long term base case for which investors must prepare. And prepared they are.

The current fashion in sophisticated asset allocation highlights "alternatives," or, more precisely, "alternatives to U.S. stocks." Hedge funds, private equity, commodities, real estate, gold, infrastructure, timberland and many other investment media have drawn the bulk of allocations among professional investors. Individuals have followed suit, with a particular emphasis on fixed income assets, which have enjoyed inflows of hundreds of billions of dollars during the past two years despite microscopic yields.

Recent return histories among these various asset types have been a powerful driving force behind current asset allocations. This is, however, nothing new. Investment fashions follow performance trends. Always and everywhere. Every fashionable extreme in asset allocation does, however, have its special theoretical rationale to legitimize the chasing of trend.

In the present case, the panic of 2008 has sealed the academic conflation of volatility and risk. The idea that the historic dispersion of returns is a reliable guide to the prospect of loss has become, after decades of consideration, a dominant theme in investment theory. There are specific circumstances under which the analysis of volatility can be of use to an investor, but as a general guide to risk management and asset allocation it is not only incorrect but dangerous. We would have guessed that following the experiences of 2003-2008, during which the quest for low volatility induced a good number of hedge funds to craft strategies that virtually eliminated measurable fluctuations while simultaneously building huge, unquantifiable, permanent risks to capital would have demonstrated the fallacy of equating apparent consistency with diminished risk, but this seems not to be the case.

The current objections to stocks as "too volatile" strike us as fancy ways of saying that their quoted prices fluctuate a great deal and, in the past decade, these fluctuations have become more violent, frequent and inclined downwards. These observations are true, but have very little to do with investing. We would also note that the even higher volatility of emerging market equities and commodities between 2007 and 2010 did little to dampen their popularity as investments.

The erratic behavior of stock prices from second to second and day to day is entirely a function of market structure and has little if anything to do with the underlying business results of the companies whose shares are quoted. Important and unanticipated fundamental events do provoke big price movements, but these are nor-

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mally isolated occurrences. When people lament "stock volatility," they are addressing the continuous, seemingly random, sharp movements that have become a routine part of every trading day.

There are a host of reasons why public equity markets have become locally volatile. They include the instantaneous transmission of data to all participants, the demise of market making, regulatory constraints on execution, the popularity of electronic trading systems, the rise of exchange traded funds and diminished tolerance for short term losses.

All of these have everything to do with markets and little if anything to do with actual changes in business or economic conditions. The anxiety provoking nature of present day equity markets in the wake of the emotional trauma of 2008 has generated a "liquidity risk illusion," that lies at the core of the current misallocation (mallocation, for short) of investment capital.

Investors have, by confusing the local fluctuations of securities on public markets with real, permanent risks to capital, created a perverse valuation structure wherein they are willing to pay premium prices to own illiquid assets as opposed to comparable, publicly traded, liquid versions. This is an inversion of the relationship that led to the rise and superior performance of the "endowment model" in the mid 1980s. At that juncture, illiquid assets were priced at substantial discounts to compensate for the risks inherent in owning something from which there may have been no practical exit. Prices were sufficiently discounted to create cash flow yields that werehundreds of basis points higher than those available in the publicly traded analogues. The great insight popularized by David Swenson at Yale, among others, was that a true long term investor, with obligations out across generations, could readily accept the risks of illiquidity and transactional difficulties to harvest the steady premiums on offer. The valuation discounts and real diversification available in a wide range of alternatives enabled superior performance for about a quarter of a century, up to the point in the middle of the last decade where that approach became fashionable and widely embraced. The underlying assets, once offered at substantial discounts, now commanded premium valuations in response to their conventional popularity.

The parade of institutional and private capital away from liquid, publicly traded domestic equities toward illiquid alternatives has created a host of anomalous valuations across asset classes. First grade commercial, multi-family and timberland properties are now changing hands at 20-25 times cash flows. World class U.S. companies with pristine balance sheets and expanding profits are on offer at less than half these valuations. It is our sense that people are willing to pay over the odds for the former precisely because they are illiquid, do not trade and therefore provide a comforting illusion of stability. Custodial statements normally quote them at cost. There are no red arrows flying across the television screen to suggest that your share of a real estate partnership or gas field or private equity fund has lost 5% of its value in the last ten minutes because a staff member at the European Central Bank mentioned that Finland could be the next Iceland.

In a related vein, institutional flows toward hedge funds continue to build in spite of a second consecutive year in which the typical hedge fund has lagged well behind the run of the mill equity mutual fund while continuing to charge three or four times the fee and offering less liquidity and transparency. This is a far cry from the days when there were few hedge funds and many inefficient and hard to access markets into which they provided the only conduits and could earn consistent, high returns while taking less risk. With the proliferation of the private investment partnership structure over the past decade, the challenge of selecting the really good ones at the appropriate point in the capital markets cycle is more difficult than picking individual stocks.

Our preference for plain vanilla equity exposure as a strategic portfolio core puts us outside current institutional and academic thought about asset allocation. The concurrent use of short sales in our funds is simply a diversification tool, providing practical and emotional flexibility in face of persistently high equity market correlations. It does not, however, indicate ambivalence in our judgement about the attractions of passive business ownership in the present environment. The weightings given to both sides of the portfolio are a result of ground up assessments of opportunities on both sides of the market. That is a central element of the process by which we approach our unconstrained, asset allocation mandate and translate our more abstract analysis into practical action. Our current macroeconomic and capital market analyses incline us toward a fair degree of business cycle exposure, and individual business valuations suggest that there is plenty of that exposure available on reasonable terms.

The general reluctance of investors and their advisors to build investment strategies around domestic equities is at once understandable and mystifying. Poor historical performance up to 2009, heightened short term volatility, the emotional trauma of 2008 and a relentless flow of disturbing, misleading, strident and often hysterical commentary in all media make it easy for managers and their customers to settle on an aversive approach to equities. In selfish terms, we probably would have raised more money by providing a downbeat assessment of economic and market prospects, telling people what they were inclined to hear and validating their caution. This might be an effective marketing tactic, but it runs contrary to our stated responsibilities.

We hold ourselves out as fiduciaries with an investment rather than a safekeeping mandate (we would note that the "Prudent Man" standard that guides US Fiduciary law was altered to consider taking risk in order to generate a return to be part of acting as a fiduciary as long ago as 1959). Investment involves the deployment of capital to productive enterprise to share in its out-

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put. For safekeeping i.e., the avoidance of capital loss in exchange for the acceptance of opportunity loss, there are savings banks on nearly every corner (at least around us) that will not only keep your principal intact but will not charge a fee to do it.

We are not indifferent to the appeal of safety during the rare periods when permanent wealth destruction threatens in every asset type, but retreat is simply a short term tactic that should be used by professional managers to prepare for less extreme, more usual conditions during which we can proceed with the business of investing. In the current cycle credit markets became acceptable destinations for investment capital in November 2008 and equity markets roughly 90 days later. There is simply little excuse for not having participated in a meaningful portion of the subsequent recovery other than having incorrectly analyzed the balance of risk and reward.

Our willingness to downplay the many, real threats that currently contribute to investor anxiety has its basis along a whole range of decision factors. We will try to discuss several without making the enterprise seem even more complex than it is.

For those who care to consider the problem in theoretical terms, there is the basic precept that wealth in a modern economy derives from the accumulation of capital in private business. Within those businesses, there exist cyclical and structural variances in returns opportunities within different elements of their capital structures. At present, prospects for real wealth accumulation appear more favorable for equity owners than for creditors.

Western central banks, particularly the Federal Reserve, have clearly committed to policies whereby the short end of the yield curve is going to be suppressed at remarkably low levels for "an extended period." This has the practical effect of punishing savers and those holding safe, liquid assets, of which there are trillions of dollars sitting around the world. The disadvantages being imposed on savers are counterbalanced by advantages being granted (perhaps unintentionally) to the users of short term or variable rate debt capital. In the current global economy, the vast majority of these advantaged borrowers are large, publicly traded, G-7 companies. Most of the best ones happen to be domiciled in the United States. The basis for most of their borrowing is the 3 month interbank rate, currently around 30 basis points. In the race for real wealth between borrowers and lenders, that rate is akin to a 20 yard head start for the former in a 40 yard race. The easiest way for members of the investing public to take advantage of that imbalance is to own stocks.

Among the specific and localized factors arguing against our more sanguine regard for developed market stocks, we are regularly confronted with the following, among others:

High unemployment, high underemployment, underwater mortgages, foreclosures in process, functional insolvency in Greece, Ireland, Portugal, California, Illinois, New York, public pension funds, Medicare and Social Security, inflation in China, India, Brazil and Australia, quantitative easing, de-leveraging, Hindenburg omens, Investors' Intelligence bulls, AAII bulls, rising rates, overbought markets, lagging volume, record profit margins, Case-Shiller Index declines, Iranian nuclear weapons, oil prices, congressional deadlock, congressional action, deficits, deflation, hyperinflation, the collapse of fiat currencies, social unrest and global warming.

The list is in no way comprehensive, but offers a glimpse of the topics that we are asked to consider on an ongoing basis. None are peremptorily dismissed in our process. We think about each of these general influences and indicators in context of their prospective effects on business results, values and the likelihood that they might result in a period of acute, involuntary asset liquidation as happened in 2008.

Without going through the entire worry list, we will address certain of the more popular, macroeconomic issues where consensus thinking is well wide of the mark. The state of the U.S. consumer is a general heading under which many of the aforementioned macroeconomic worries fall.

Consumption patterns in the United States are in the midst of a long term, secular transition away from overspending on shelter under the mistaken banner of investment. Owner occupied real estate is not a form of investment, but a consumption expenditure that happened to inflate steadily over the past generation. With the financial leverage inherent in modern day home ownership, a large scale transfer of absolute and relative wealth to homeowners shaped the financial perception of the whole society. The harsh lesson of 2006 to today is that houses have no inherent tendency to appreciate any more than cars or other durable consumption goods.

There is no doubt that members of the housing industry will take offense at this assertion, but it is nonetheless true. A general retreat from the investment illusion surrounding owner occupied property is not only beneficial to the individuals coming to that realization but to the wealth creating capability of the society as a whole. As family budgets are reoriented away from over indulgence in shelter, there is more discretionary capital available for other consumption goods and for real investment in productive capital assets.

The redirection of consumption expenditure away from its largest category, shelter, accounts for the robust performance of non-housing, consumer discretionary companies over the past two years in spite of a near unanimous dislike of these sectors among most professional advisors in early 2009. The actual and prospective repair to family balance sheets is an additional macroeconomic benefit of this process. The deleveraging of the American consumer, widely cited as a rationale for economic caution is, in actuality, a healthy and ultimately stimulative turn away from an ill- considered over enthusiasm for mortgage debt.

Employment is the second major economic factor

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cited alongside housing as a rationale for long term caution about domestic growth prospects. There is no doubt that we have experienced a structural downshift in the availability of blue collar work, particularly in trades related to construction. We doubt that these jobs will return to the levels of the past decade for at least a generation. In spite of the travails of less skilled workers, aggregate employment is recovering at a rate that is in line with those of past cycles. Personal income has held up despite the absence of interest income. Corporate profits have grown substantially in the face of upheaval in labor markets, demonstrating that business has adjusted to the present, difficult environment.

The relative health of the domestic business sector (and the consequent appeal of equity ownership) is an outgrowth of the severe stress that most businesses experienced during the 2000-2003 downturn. That contraction followed a spate of corporate overspending and overinvestment, a collapse of Asian demand and commodity prices, an exaggeratedly strong dollar and de-stimulative fiscal conditions. Domestic businesses were driven to the brink. They were the epicenter of distress during that downturn. Housing was in good shape, government was running surpluses, emerging market economies were healing after the upheaval of 1997-1998. These healthy sectors were positioned to lead the boom that began in 2002.

At present, fortunes have reversed. U.S. corporations spent years getting their houses in order while real estate and developing market economies were enjoying liquidity festivals. Corporate performance during the past two years demonstrates the degree to which they are prepared to prosper even in the most difficult macroeconomic and political environments.

As a corollary to these observations, we have warned against using economic indicators as forecasting tools for equity markets. The macroeconomic environment is an important influence on business results only insofar as there are direct lines of causation between a general economic factor and the operating results of a specific business sector. "Unemployment is high, ergo sell stocks" is not a line of reasoning that s useful to a portfolio manager.

The confusion of market, economic and business metrics is one of the most common analytic errors that we see now that top down approaches to investing have become fashionable. Securities markets are not economies. Economic statistics have little if any value in forecasting or modeling stock prices. A general understanding of the broad economic processes at work in each cycle (they are different in every one) is an important component in directing a manager's attention toward areas in which business performance is likely to be unusually good or poor.

In actuality, conditions in the general economy and capital markets, particularly at the height of an economic cycle, are often at odds. Nominal economic strength draws liquidity away from financial markets towards the real economy. In the process, interest rates and inflation concerns rise, multiples on equities compress (even though nominal earnings remain high), security issuance balloons and the local central bank is often provoked to tighten. After a period of time this typically leads to sharply lower financial asset prices and later lower levels of economic activity.

Macroeconomic imbalances become critical components of financial markets' risk only when the economic imbalance has transmuted into an unstable structure within capital markets. This was the mechanism of transmission in 2005-2008, where clear excesses in leveraged demand for real estate were mirrored by even larger, more leveraged holdings of the toxic debt used to enable the mania. These holdings were concentrated in large financial institutions and funded in private, short term money markets. When funding tightened, the whole structure collapsed. Funding evaporated in every financial market where the offending institutions were involved, including those related to normal commercial activity. Real economic activity came to a near total halt.

At present, we cannot detect any similarly unstable market structures projecting from the real economic imbalances that remain from the prior cycle. Those who cite excessive enthusiasm for equities would have a hard time identifying any large scale institutional structures that are heavily margined against U.S. or northern European equities. Government bonds might be another story, but they are normally funded with help from central bankers, most of whom are sufficiently frightened to provide support at the first signs of real instability.

Financial markets and global savings have grown to the point where they have their own set of fundamentals, increasingly independent from traditional economic activity. This is a large part of the reason that loose central bank policy tends to create asset inflation rather than inflated demand for goods and services. Causal links do exist between real activity and financial markets, but the first evidence of change normally arises in the latter. This creates endless frustration for those who cite economic data to rationalize asset allocation decisions and market forecasts.

The economy is important to investors insofar as its status can be analytically distilled into a picture of general business conditions. This is an important distinction. The business climate is related to but different from the economic climate. Broad factors like liquidity, interest rates, credit spreads and exchange rates influence both, but the degree of influence varies widely depending upon the status of each. This is also the case inside the category of business, where certain large scale, exogenous factors will have very different effects among different businesses.

The distinctions between economic and market conditions accounts for our continuing regard for developed market stocks even in the face of a cautious view of emerging markets. We are concerned about emerging market securities precisely because many of the local economies are showing signs of overheating. We expect nomi-

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nal demand to remain relatively strong even as rates rise and security markets feel the effects.

There is nothing inherently contradictory about holding a cautious view of emerging market capital assets while expecting aggregate nominal demand to remain strong. At this stage of the cycle, developed market equities are relatively underpopulated and offer the most appealing risk/reward proposition for those wishing to participate in sustained global growth and accelerating recoveries in G-7 economies.

Our current portfolio reflects the views enumerated above. Our net exposure to equities is on the order of 65%, with approximately three quarters of those holdings in U.S. stocks. The remaining positions are divided among Germany, Sweden, Mexico and Japan.

Our thematic emphasis remains cyclical, with more of an emphasis on growth than was the case a year ago. Defensive holdings are small, as are those in finance. We have very little involvement with raw materials producers, as we prefer companies able to prosper in an environment where efficiency can continually lower their product prices without harming overall returns on capital. The natural resource story has become dependent on commodity price appreciation, a great deal of which has already come to pass. We have always looked to buy resource producers at points in the cycle when their products were trading below the cost of production and capacity was trending down.

Our short positions are focused on emerging markets and developed market financial institutions with significant exposures to EM credit and legacy cost structures that will impair profitability as regulatory strictures limit the range of their more highly compensated employees.

As ever, we are grateful for your support and invite direct inquiry should there be questions about our opinions or their application in the fund.

January 12, 2011
Michael C. Aronstein
President

The information provided herein represents the opinion of the Portfolio Manager and is not intended to be a forecast of future events, a guarantee of future results, nor investment advice.