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take a closer look.

Vice Fund (VICEX)
2Q 2008 Portfolio Manager Commentary

As managers of the Vice Fund, we take a global approach in our exclusive focus on the tobacco, alcoholic beverages, gaming and aerospace/defense sectors. With the U.S. economy contracting and a global slowdown becoming a real possibility, defensive sectors like those we concentrate on appear particularly attractive, as the fundamental outlook of many of the companies in our portfolio is generally not contingent on robust economic conditions. People around the world continue to consume alcohol and tobacco, for example, regardless of the state of the economy.

But the long-term and short-term don't always line up, and the Vice Fund's second quarter was a disappointment. That said, we take a long-term perspective in our focus on what we believe are the highest quality stocks in our investment universe and we understand that our journey is not a linear one. From that vantage point, we remain confident about the prospects for the Vice Fund. We continue to believe that, as the U.S. economy falters, our global focus on historically resilient sectors – combined with astute stock selection – should pay off.

Here, in brief, are our updated views of each of our target sectors and a summary of their recent performance.

Within the **tobacco** sector, we are more tepid on the U.S.-focused cigarette makers as volume declines are at risk of accelerating in the face of state excise tax increases and the possibility of a federal excise tax hike next year under a new administration; the prospect of FDA regulation is also troublesome. There are some select opportunities, though, particularly for companies with the strongest brand portfolios and those that have the financial flexibility to repurchase stock. Looking overseas, many of the global cigarette makers have benefitted from a favorable international operating environment where they have enjoyed strong pricing power. Consumers in emerging markets have continued to trade up to higher-priced, international brands. Historically, the tobacco sector has offered earnings stability and dividend security, vital attributes in this otherwise uncertain market environment. Cigarette makers, too, benefit from low input costs that are mostly immune from inflationary pressure.

Our **defense**-sector view is largely influenced by our expectations that budget authority on modernization (procurement plus development) should continue to increase for at least one more year; historically, this has been one of the most critical drivers of defense-stock relative performance. As a result, we expect the major defense contractors to do well in this latter part of the budget cycle, once the election jitters have run their course. On the commercial **aerospace** side, the aftermarket suppliers that repair and overhaul older airplanes will likely be impacted by capacity cuts as U.S. airlines park their older planes in the face of rising fuel costs. The surging price of oil even threatens to abruptly end the multi-year upcycle in global demand for commercial aircraft, if worldwide air traffic growth slows and emerging-market airlines begin cancelling orders. However, we believe this is now adequately priced in to the U.S.-based original-equipment manufacturer and its key suppliers. The commercial aircraft backlog is significant and, though it will likely begin to decline next year, we believe that current prices already reflect a pessimistic scenario.

The **brewers** continued to be weighed down as higher input costs, like barley and aluminum, have compressed their margins. Emerging market exposure remains the key growth driver for the brewers, and concerns of a global slowdown that engulfs the developing world has taken a toll on the international brewers, which has long been one of our areas of focus in the Vice Fund. There has also been some acquisition activity where an emerging-market focused brewer bought (or is attempting to buy) a slower-growth, mature-market asset, leading to multiple compression. The **distillers** have been relatively less impacted by the cost pressures affecting the brewers, while spirits growth has remained robust. There, we're mostly focused on the large, multi-national players with the greatest distribution networks and brand portfolios.

The sector that unquestionably has been the most impacted by the current economic contraction is **gaming**. Though this is not a surprise – we know that gaming is more sensitive to the business cycle than the broad stock market [1] – we admit to being amazed by the severity of the gaming-sector sell-off. While we have long been avoiding the casino operators focused on the regional markets – ground zero of the gaming implosion – even the Macau-oriented companies have gotten hit (notwithstanding healthy growth in Macau gaming revenue). Las Vegas, too, has been experiencing a slowdown, and declining cash flow with high levels of debt is a recipe for trouble for the casino operators. The significant non-gaming revenue that has boosted Vegas for years has also served to make it more economically sensitive, akin to other travel and leisure destinations. The equipment makers are still on the cusp of a massive replacement cycle that will be driven by server-based gaming, but in all likelihood it's now been pushed back by as much as a year.

We're looking forward to better times ahead and firmly believe that our target sectors should prove to be resilient in tumultuous times for the equity and credit markets, as they have before. Combined with good stock selection, that should serve us well through the rest of the year and beyond.

Sincerely,

Charles L. Norton, CFA
Portfolio Manager

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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 (866) 264-8783 or visiting www.vicefund.com. Read it carefully before investing.

[1] "When is Vice Nice for Investment Portfolios from a Quantitative Perspective?" Herbert Blank and Andrea Psoras, QED International, Dec. 14, 2005