



## **THE FBR FUNDS**

### **Equity Funds Investor Class**

FBR Pegasus Fund™ (FBRPX)

FBR Pegasus Mid Cap Fund™ (FBRMX)

FBR Pegasus Small Cap Fund™ (FBRYX)

FBR Pegasus Small Cap Growth Fund™ (FBRCX)

FBR Focus Fund (FBRVX)

FBR Large Cap Financial Fund (FBRFX)

FBR Small Cap Financial Fund (FBRSX)

FBR Technology Fund (FBRTX)

FBR Gas Utility Index Fund (GASFX)

### **PROSPECTUS**

**February 26, 2010**

This prospectus describes the Investor Class offered by The FBR Funds. I Class and R Class of certain of the Funds are available through separate prospectuses dated February 26, 2010.

As with all mutual funds, the Securities and Exchange Commission has not approved or disapproved these securities or determined whether the information in this Prospectus is adequate or accurate. Anyone who indicates otherwise is committing a federal crime.

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# SUMMARY INFORMATION

## FBR PEGASUS FUND™

### INVESTMENT OBJECTIVE

The investment objective of the Pegasus Fund (the “Fund”) is capital appreciation.

### FEES AND EXPENSES

This table describes the fees and expenses that you may pay if you buy and hold Investor Class shares of the Fund.

#### Shareholder Fees

*(fees paid directly from your investment)*

|  |       |
|--|-------|
| Maximum Sales Charge (Load) Imposed on Purchases.....                              | NONE  |
| Maximum Deferred Sales Charge.....   | NONE  |
| Maximum Sales Charge (Load) Imposed on Reinvested Dividends.....                   | NONE  |
| Redemption Fee (on redemptions and exchanges made within 90 days of purchase)..... | 1.00% |

#### Annual Fund Operating Expenses

*(expenses that you pay each year as a percentage of the value of your investment)*

|   |                |
|---|----------------|
| Management Fees   | 0.90%          |
| Distribution (12b-1) Fees   | 0.25%          |
| Other Expenses  | 1.01%          |
| Acquired Fund Fees and Expenses (AFFE) <sup>1</sup>   | <u>0.02%</u>   |
| Total Annual Fund Operating Expenses  | <u>2.18%</u>   |
| Fee Waiver and Expense Reimbursement <sup>2</sup>   | <u>(0.91)%</u> |
| Total Annual Fund Operating Expenses After Fee Waivers and Expense Reimbursement <sup>2</sup> | <u>1.27%</u>   |

<sup>1</sup> The Total Annual Operating Expenses above differ from the amounts shown in the Fund's Financial Highlights for its most recent fiscal year, which reflect only the operating expenses of the Fund and do not include Acquired Fund Fees and Expenses (i.e., fees and expenses of other funds in which the Fund has invested).

<sup>2</sup> FBR Fund Advisers, Inc. (the “Adviser”) has agreed in writing to waive a portion of its investment advisory fees and assume certain expenses to the extent annual fund operating expenses exceed 1.25% of the Fund's average daily net assets (excluding interest, taxes, brokerage commissions, dividend expenses, acquired fund fees and expenses, extraordinary legal expenses, or any other extraordinary expenses). The Adviser has agreed to maintain this expense limitation through February 28, 2013. The Adviser may recoup any waived amount from the Fund pursuant to this agreement if such reimbursement does not cause the Fund to exceed existing expense limitations and the reimbursement is made within three years after the year in which the Adviser incurred the expense. The agreement may only be terminated by the Fund's Board.

### **Example**

This Example is intended to help you compare the cost of investing in the Investor Class shares of the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year, that the Fund's operating expenses remain the same, and that the expense limitation agreement will continue only through February 28, 2013, the end of its current term. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

| <b>1 Year</b> | <b>3 Years</b> | <b>5 Years</b> | <b>10 Years</b> |
|---------------|----------------|----------------|-----------------|
| \$129         | \$403          | \$903          | \$2,283         |

### **Portfolio Turnover**

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 60% of the average value of its portfolio.

### **PRINCIPAL INVESTMENT STRATEGIES**

Under normal market conditions, the Fund invests primarily in common stocks that, in the opinion of the Adviser, offer the potential for capital appreciation. The Adviser invests in the stocks of companies of any size without regard to market capitalization.

When evaluating securities to purchase, the Adviser will make investment decisions for the Fund on the basis of fundamental security analysis. Once an issuer is identified as an attractive candidate for the Fund's portfolio, the Adviser assesses the relative value and growth potential of the security on the basis of various factors, which may include price to book ratio, price to earnings ratio, earnings yield, leverage and cash flow, among others.

Although the Fund invests primarily in common stocks, it may purchase preferred stocks, warrants and convertible bonds. While the Fund's investments are primarily in domestic U.S. securities, the Fund's investments may include foreign securities, including indirect investments such as American Depositary Receipts ("ADRs") or

other types of depositary receipts, which are U.S. dollar-denominated receipts representing shares of foreign-based corporations.

## **RISKS RELATED TO PRINCIPAL INVESTMENT STRATEGIES**

**Market Risks.** Loss of money is a risk of investing in the Fund. The net asset value of the Fund can be expected to change daily and you may lose money. As with any mutual fund, there is no guarantee that the Fund's performance will be positive over any period of time, either short-term or long-term.

**Equity Investments.** Because the Fund invests in equity securities, fluctuations in the stock market in general, as well as in the value of particular equity securities held by the Fund, can affect the Fund's performance. The value of equity securities will fluctuate due to many factors, including the past and predicted earnings of the issuer, the quality of the issuer's management, general market conditions, forecasts for the issuer's industry and the value of the issuer's assets.

**Temporary Defensive Positions.** The Fund may, from time to time, take temporary defensive positions in response to adverse market, economic, political or other conditions. To the extent the assets of the Fund are invested in temporary defensive positions, the Fund may not achieve its investment objective. For temporary defensive purposes, the Fund may invest in cash and/or short-term obligations.

**Mid-Cap and Small-Cap Investments.** Investing in the securities of mid-cap and small-cap companies generally involves greater risk than investing in larger, more established companies. Generally, there is less publicly available information concerning small- and mid-cap companies than for larger, more established companies. Small- and mid-cap companies are typically subject to greater changes in earnings and business prospects than larger, more established companies and the market prices of the securities of small-cap companies may be more volatile. Additionally, because small- and mid-cap companies have fewer shares outstanding than larger companies, it also may be more difficult to buy or sell significant amounts of such shares without unfavorable impact on prevailing prices.

**Foreign Investments.** Investing in foreign securities presents unique investment risks. The value of securities denominated in or indexed to foreign currencies, and of dividends and interest from such securities, can change significantly when foreign currencies strengthen or weaken relative to the U.S. dollar. Many foreign countries lack uniform accounting and disclosure standards comparable to those applicable to U.S. companies, and it may be more difficult to obtain reliable information regarding an issuer's financial condition and operations. The Fund may invest in both sponsored and unsponsored ADRs which are receipts issued by a U.S. bank or trust company evidencing ownership of an indirect interest in underlying

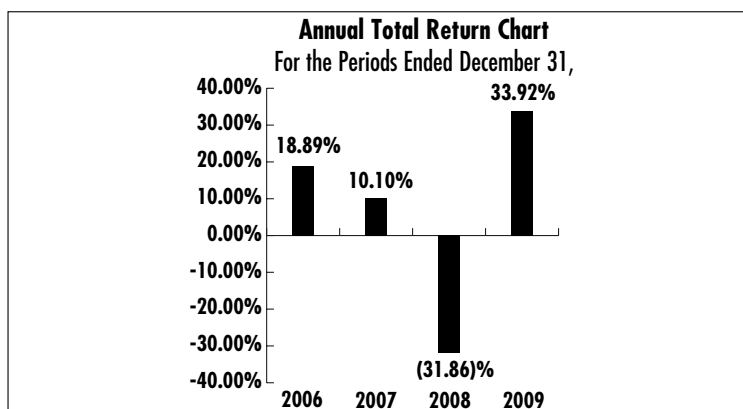
securities issued by a foreign issuer. In a sponsored ADR arrangement, the non-U.S. issuer assumes the obligation to pay some or all of the depositary's transaction fees. Under an unsponsored ADR arrangement, the non-U.S. issuer assumes no obligations and the depositary's transaction fees are paid directly by the ADR holders. Because unsponsored ADR arrangements are organized independently and without the cooperation of the issuer of the underlying securities, available information concerning the non-U.S. issuer may not be as current as for sponsored ADRs and voting rights with respect to the deposited securities are not passed through.

**Non-Diversification.** The Fund is classified as a "non-diversified" fund which means that the Fund may own larger positions in a smaller number of securities. A fund that is less diversified may be more susceptible to adverse economic, political, or regulatory developments affecting a single issuer than a fund that is more broadly diversified.

## FUND PERFORMANCE

The bar chart and table that follow provide some indication of the risk of an investment in the Investor Class shares of the Fund. The bar chart shows the Fund's performance for each calendar year since its inception. The table shows how the Fund's average annual total returns for different calendar periods over the life of the Fund, both before and after taxes, compared to those of a broad-based securities market index, the S&P 500 Index.

Please note that the Fund's past performance, before and after taxes, is not necessarily an indication of how the Fund will perform in the future.



|                      |  |                 |
|----------------------|--|-----------------|
| <i>Best Quarter</i>  | <i>Quarter ended June 30, 2009</i>     | <i>17.62%</i>   |
| <i>Worst Quarter</i> | <i>Quarter ended December 31, 2008</i> | <i>(19.38)%</i> |

**Average Annual Total Returns**  
For the Periods Ended December 31, 2009

|   | <b>One Year</b> | <b>Since<br/>Inception<br/>(11/15/05)</b> |
|---|-----------------|---|
| Return Before Taxes .....   | 33.92%          | 4.94%                                     |
| Return After Taxes on Distributions .....                               | 33.83%          | 3.65%                                     |
| Return After Taxes on Distributions and Sale of Fund Shares .....       | 22.16%          | 3.53%                                     |
| <b>Index</b>  |                 |   |
| S&P 500 Index (reflects no deduction for fees, expenses or taxes) ..... | 26.47%          | (1.12)%                                   |

The after-tax returns shown were calculated using the historical highest individual federal marginal income tax rates, and do not reflect the impact of state and local taxes. Actual after-tax returns depend on your tax situation and may differ from those shown. If you hold your Fund shares through a tax-deferred arrangement, such as a 401(k) plan or individual retirement account, the after-tax returns are not relevant.

## **FUND MANAGEMENT**

### **Investment Adviser**

FBR Fund Advisers, Inc. serves as the investment adviser to the Fund.

### **Portfolio Managers**

**Robert C. Barringer**, CFA, Portfolio Manager, and **Ryan C. Kelley**, CFA, Portfolio Manager, have served as co-portfolio managers of the Fund since its commencement of operations in November 2005.

## **OTHER IMPORTANT INFORMATION REGARDING FUND SHARES**

For important information about the purchase and sale of Fund shares, tax information and financial intermediary compensation, please refer to the section entitled "Investing in the Funds" on page 53.

# FBR PEGASUS MID CAP FUND™

## INVESTMENT OBJECTIVE

The investment objective of the Pegasus Mid Cap Fund (the “Fund”) is capital appreciation.

## FEES AND EXPENSES

This table describes the fees and expenses that you may pay if you buy and hold Investor Class shares of the Fund.

### Shareholder Fees

*(fees paid directly from your investment)*

|  |       |
|--|-------|
| Maximum Sales Charge (Load) Imposed on Purchases.....                              | NONE  |
| Maximum Deferred Sales Charge.....   | NONE  |
| Maximum Sales Charge (Load) Imposed on Reinvested Dividends.....                   | NONE  |
| Redemption Fee (on redemptions and exchanges made within 90 days of purchase)..... | 1.00% |

### Annual Fund Operating Expenses

*(expenses that you pay each year as a percentage of the value of your investment)*

|  |                |
|--|----------------|
| Management Fees  | 0.90%          |
| Distribution (12b-1) Fees  | 0.25%          |
| Other Expenses   | 1.80%          |
| Acquired Fund Fees and Expenses (AFFE) <sup>1</sup>  | <u>0.02%</u>   |
| Total Annual Fund Operating Expenses   | <u>2.97%</u>   |
| Fee Waiver and Expense Reimbursement <sup>2</sup>  | <u>(1.60)%</u> |
| Total Annual Fund Operating Expenses After Fee Waiver and Expense Reimbursement <sup>2</sup> | <u>1.37%</u>   |

<sup>1</sup> The Total Annual Operating Expenses above differ from the amounts shown in the Fund’s Financial Highlights for its most recent fiscal year, which reflect only the operating expenses of the Fund and do not include Acquired Fund Fees and Expenses (i.e., fees and expenses of other funds in which the Fund has invested).

<sup>2</sup> FBR Fund Advisers, Inc. (the “Adviser”) has agreed in writing to waive a portion of its investment advisory fees and assume certain expenses to the extent annual fund operating expenses exceed 1.35% of the Fund’s average daily net assets (excluding interest, taxes, brokerage commissions, dividend expenses, acquired fund fees and expenses, extraordinary legal expenses, or any other extraordinary expenses). The Adviser has agreed to maintain this expense limitation through February 28, 2013. The Adviser may recoup any waived amount from the Fund pursuant to this agreement if such reimbursement does not cause the Fund to exceed existing expense limitations and the reimbursement is made within three years after the year in which the Adviser incurred the expense. The agreement may only be terminated by the Fund’s Board.

### **Example**

This Example is intended to help you compare the cost of investing in the Investor Class shares of the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year, that the Fund's operating expenses remain the same, and that the expense limitation agreement will continue only through February 28, 2013, the end of its current term. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

| <b>1 Year</b> | <b>3 Years</b> | <b>5 Years</b> | <b>10 Years</b> |
|---------------|----------------|----------------|-----------------|
| \$139         | \$434          | \$1,108        | \$2,918         |

### **Portfolio Turnover**

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 128% of the average value of its portfolio.

### **PRINCIPAL INVESTMENT STRATEGIES**

Under normal market conditions, the Fund invests at least 80% of its net assets plus the amount of any borrowings for investment purposes in securities of mid-cap companies. The Fund's policy of investing at least 80% of its net assets in mid-cap companies may only be changed upon 60 days notice to shareholders. The Fund considers mid-cap companies to have market capitalizations of greater than \$2 billion and less than \$15 billion at the time of purchase. The Fund may invest up to 20% of its net assets in equity securities of companies with smaller or larger market capitalizations.

When evaluating securities to purchase, the Adviser makes investment decisions for the Fund on the basis of fundamental security analysis. Once an issuer is identified as an attractive candidate for the Fund's portfolio, the Adviser assesses the relative value and growth potential of the security on the basis of various factors, which may include price to book ratio, price to earnings ratio, earnings yield, leverage and cash flow, among others.

Although the Fund invests primarily in common stocks, it may purchase preferred stocks, warrants and convertible bonds. While the Fund's investments are primarily in domestic U.S. securities, the Fund's investments may include foreign securities, including indirect investments such as ADRs or other types of depositary receipts, which are U.S. dollar-denominated receipts representing shares of foreign-based corporations.

The Fund's investments focus on companies that have a demonstrated record of achievement and excellent prospects for earnings and/or cash flow growth over a 3- to 5-year period.

## **RISKS RELATED TO PRINCIPAL INVESTMENT STRATEGIES**

**Market Risks.** Loss of money is a risk of investing in the Fund. The net asset value of the Fund can be expected to change daily and you may lose money. As with any mutual fund, there is no guarantee that the Fund's performance will be positive over any period of time, either short-term or long-term.

**Equity Investments.** Because the Fund invests in equity securities, fluctuations in the stock market in general, as well as in the value of particular equity securities held by the Fund, can affect the Fund's performance. The value of equity securities will fluctuate due to many factors, including the past and predicted earnings of the issuer, the quality of the issuer's management, general market conditions, forecasts for the issuer's industry and the value of the issuer's assets.

**Temporary Defensive Positions.** The Fund may, from time to time, take temporary defensive positions in response to adverse market, economic, political or other conditions. To the extent the assets of the Fund are invested in temporary defensive positions, the Fund may not achieve its investment objective. For temporary defensive purposes, the Fund may invest in cash and/or short-term obligations.

**Mid-Cap Investments.** Investing in the securities of mid-cap companies generally involves greater risk than investing in larger, more established companies. Generally, there is less publicly available information concerning mid-cap companies than for larger, more established companies. Mid-cap companies are typically subject to greater changes in earnings and business prospects than larger, more established companies and the market prices of the securities of mid-cap companies may be more volatile. Additionally, because mid-cap companies have fewer shares outstanding than larger companies, it also may be more difficult to buy or sell significant amounts of such shares without unfavorable impact on prevailing prices.

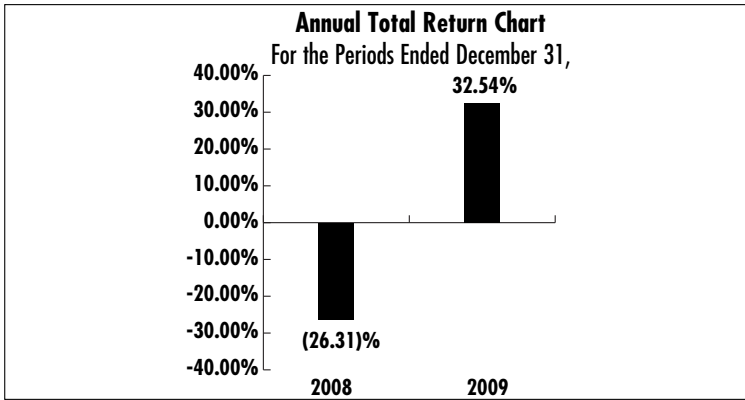
**Foreign Investments.** Investing in foreign securities presents unique investment risks. The value of securities denominated in or indexed to foreign currencies, and of dividends and interest from such securities, can change significantly when foreign currencies strengthen or weaken relative to the U.S. dollar. Many foreign countries lack uniform accounting and disclosure standards comparable to those applicable to U.S. companies, and it may be more difficult to obtain reliable information regarding an issuer's financial condition and operations. The Fund may invest in both sponsored and unsponsored ADRs which are receipts issued by a U.S. bank or trust company evidencing ownership of an indirect interest in underlying securities issued by a foreign issuer. In a sponsored ADR arrangement, the non-U.S. issuer assumes the obligation to pay some or all of the depositary's transaction fees. Under an unsponsored ADR arrangement, the non-U.S. issuer assumes no obligations and the depositary's transaction fees are paid directly by the ADR holders. Because unsponsored ADR arrangements are organized independently and without the cooperation of the issuer of the underlying securities, available information concerning the non-U.S. issuer may not be as current as for sponsored ADRs and voting rights with respect to the deposited securities are not passed through.

**Non-Diversification.** The Fund is classified as a "non-diversified" fund which means that the Fund may own larger positions in a smaller number of securities. A fund that is less diversified may be more susceptible to adverse economic, political, or regulatory developments affecting a single issuer than a fund that is more broadly diversified.

## **FUND PERFORMANCE**

The bar chart and table that follow provide some indication of the risk of an investment in the Investor Class shares of the Fund. The bar chart shows the Fund's performance for each calendar year since its inception. The table shows how the Fund's average annual total returns for different calendar periods over the life of the Fund, both before and after taxes, compared to those of a broad-based securities market index, the Russell Midcap Index.

Please note that the Fund's past performance, before and after taxes, is not necessarily an indication of how the Fund will perform in the future.



|                      |   |                 |
|----------------------|---|-----------------|
| <i>Best Quarter</i>  | <i>Quarter ended September 30, 2009</i> | <i>15.21%</i>   |
| <i>Worst Quarter</i> | <i>Quarter ended December 31, 2008</i>  | <i>(18.91)%</i> |

**Average Annual Total Returns**  
For the Periods Ended December 31, 2009

|   | <b>One Year</b> | <b>Since Inception (02/28/07)</b> |
|---|-----------------|-----------------------------------|
| Return Before Taxes .....   | 32.54%          | 2.14%                             |
| Return After Taxes on Distributions .....                                   | 32.46%          | 1.76%                             |
| Return After Taxes on Distributions and Sale of Fund Shares .....           | 21.26%          | 1.61%                             |
| <b>Index</b>  |                 |                                   |
| Russell Midcap Index (reflects no deduction for fees, expenses or taxes) .. | 40.48%          | (5.87)%                           |

The after-tax returns shown were calculated using the historical highest individual federal marginal income tax rates, and do not reflect the impact of state and local taxes. Actual after-tax returns depend on your tax situation and may differ from those shown. If you hold your Fund shares through a tax-deferred arrangement, such as a 401(k) plan or individual retirement account, the after-tax returns are not relevant.

## **FUND MANAGEMENT**

### **Investment Adviser**

FBR Fund Advisers, Inc. serves as the investment adviser to the Fund.

### **Portfolio Manager**

**Ryan C. Kelley**, CFA, Portfolio Manager, has served as portfolio manager of the Fund since its commencement of operations in February 2007.

## **OTHER IMPORTANT INFORMATION REGARDING FUND SHARES**

For important information about the purchase and sale of Fund shares, tax information and financial intermediary compensation, please refer to the section entitled “Investing in the Funds” on page 53.

# FBR PEGASUS SMALL CAP FUND™

## INVESTMENT OBJECTIVE

The investment objective of the Pegasus Small Cap Fund (the “Fund”) is capital appreciation.

## FEES AND EXPENSES

This table describes the fees and expenses that you may pay if you buy and hold Investor Class shares of the Fund.

### Shareholder Fees

*(fees paid directly from your investment)*

|   |       |
|---|-------|
| Maximum Sales Charge (Load) Imposed on Purchases .....                              | NONE  |
| Maximum Deferred Sales Charge .....   | NONE  |
| Maximum Sales Charge (Load) Imposed on Reinvested Dividends .....                   | NONE  |
| Redemption Fee (on redemptions and exchanges made within 90 days of purchase) ..... | 1.00% |

### Annual Fund Operating Expenses

*(expenses that you pay each year as a percentage of the value of your investment)*

|  |                |
|--|----------------|
| Management Fees  | 0.90%          |
| Distribution (12b-1) Fees  | 0.25%          |
| Other Expenses   | 1.58%          |
| Total Annual Fund Operating Expenses   | <u>2.73%</u>   |
| Fee Waiver and Expense Reimbursement <sup>1</sup>  | <u>(1.27)%</u> |
| Total Annual Fund Operating Expenses After Fee Waiver and Expense Reimbursement <sup>1</sup> | <u>1.46%</u>   |

<sup>1</sup> FBR Fund Advisers, Inc. (the “Adviser”) has agreed in writing to waive a portion of its investment advisory fees and assume certain expenses to the extent annual fund operating expenses exceed 1.45% of the Fund’s average daily net assets (excluding interest, taxes, brokerage commissions, dividend expenses, acquired fund fees and expenses, extraordinary legal expenses, or any other extraordinary expenses). The Adviser has agreed to maintain this expense limitation through February 28, 2013. The Adviser may recoup any waived amount from the Fund pursuant to this agreement if such reimbursement does not cause the Fund to exceed existing expense limitations and the reimbursement is made within three years after the year in which the Adviser incurred the expense. The agreement may only be terminated by the Fund’s Board.

### *Example*

This Example is intended to help you compare the cost of investing in the Investor Class shares of the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year, that the Fund's operating expenses remain the same, and that the expense limitation agreement will continue only through February 28, 2013, the end of its current term. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

| <b>1 Year</b> | <b>3 Years</b> | <b>5 Years</b> | <b>10 Years</b> |
|---------------|----------------|----------------|-----------------|
| \$149         | \$462          | \$1,082        | \$2,759         |

### **Portfolio Turnover**

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 226% of the average value of its portfolio.

### **PRINCIPAL INVESTMENT STRATEGIES**

Under normal market conditions, the Fund invests at least 80% of its net assets plus the amount of any borrowings for investment purposes in securities of small-cap companies. The Fund's policy of investing at least 80% of its net assets in small-cap companies may only be changed upon 60 days notice to shareholders. The Fund considers small-cap companies to have market capitalizations of less than \$3 billion, measured at the time of purchase. The Fund may invest up to 20% of its net assets in equity securities of companies with larger market capitalizations.

When evaluating securities to purchase, the Adviser makes investment decisions for the Fund on the basis of fundamental security analysis. Once an issuer is identified as an attractive candidate for the Fund's portfolio, the Adviser assesses the relative value and growth potential of the security on the basis of various factors, which may include price to book ratio, price to earnings ratio, earnings yield, leverage and cash flow, among others.

Although the Fund invests primarily in common stocks, it may purchase preferred stocks, warrants and convertible bonds. While the Fund's investments are primarily in domestic U.S. securities, the Fund's investments may include foreign securities, including indirect investments such as ADRs or other types of depositary receipts, which are U.S. dollar-denominated receipts representing shares of foreign-based corporations.

The Fund's investments focus on companies that have a demonstrated record of achievement and excellent prospects for earnings and/or cash flow growth over a 3- to 5-year period.

## **RISKS RELATED TO PRINCIPAL INVESTMENT STRATEGIES**

**Market Risks.** Loss of money is a risk of investing in the Fund. The net asset value of the Fund can be expected to change daily and you may lose money. As with any mutual fund, there is no guarantee that the Fund's performance will be positive over any period of time, either short-term or long-term.

**Equity Investments.** Because the Fund invests in equity securities, fluctuations in the stock market in general, as well as in the value of particular equity securities held by the Fund, can affect the Fund's performance. The value of equity securities will fluctuate due to many factors, including the past and predicted earnings of the issuer, the quality of the issuer's management, general market conditions, forecasts for the issuer's industry and the value of the issuer's assets.

**Temporary Defensive Positions.** The Fund may, from time to time, take temporary defensive positions in response to adverse market, economic, political or other conditions. To the extent the assets of the Fund are invested in temporary defensive positions, the Fund may not achieve its investment objective. For temporary defensive purposes, the Fund may invest in cash and/or short-term obligations.

**Small-Cap Investments.** Investing in the securities of small-cap companies generally involves greater risk than investing in larger, more established companies. Generally, there is less publicly available information concerning small-cap companies than for larger, more established companies. Small-cap companies are typically subject to greater changes in earnings and business prospects than larger, more established companies and the market prices of the securities of small-cap companies may be more volatile. Additionally, because small-cap companies have fewer shares outstanding than larger companies, it also may be more difficult to buy or sell significant amounts of such shares without unfavorable impact on prevailing prices.

**Foreign Investments.** Investing in foreign securities presents unique investment risks. The value of securities denominated in or indexed to foreign currencies, and of

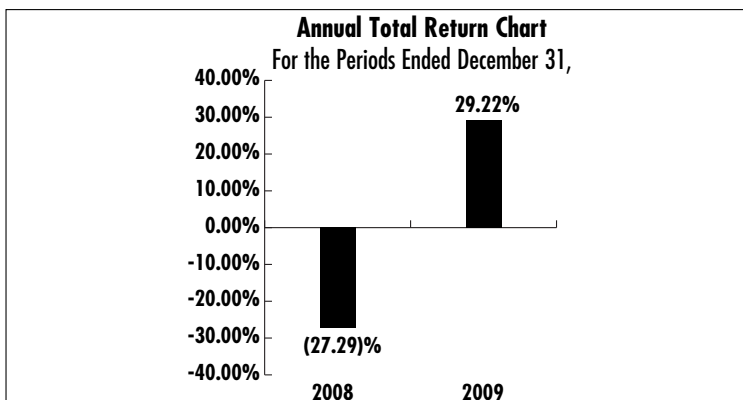
dividends and interest from such securities, can change significantly when foreign currencies strengthen or weaken relative to the U.S. dollar. Many foreign countries lack uniform accounting and disclosure standards comparable to those applicable to U.S. companies, and it may be more difficult to obtain reliable information regarding an issuer's financial condition and operations. The Fund may invest in both sponsored and unsponsored ADRs which are receipts issued by a U.S. bank or trust company evidencing ownership of an indirect interest in underlying securities issued by a foreign issuer. In a sponsored ADR arrangement, the non-U.S. issuer assumes the obligation to pay some or all of the depositary's transaction fees. Under an unsponsored ADR arrangement, the non-U.S. issuer assumes no obligations and the depositary's transaction fees are paid directly by the ADR holders. Because unsponsored ADR arrangements are organized independently and without the cooperation of the issuer of the underlying securities, available information concerning the non-U.S. issuer may not be as current as for sponsored ADRs and voting rights with respect to the deposited securities are not passed through.

**Non-Diversification.** The Fund is classified as a "non-diversified" fund which means that the Fund may own larger positions in a smaller number of securities. A fund that is less diversified may be more susceptible to adverse economic, political, or regulatory developments affecting a single issuer than a fund that is more broadly diversified.

## **FUND PERFORMANCE**

The bar chart and table that follow provide some indication of the risk of an investment in the Investor Class shares of the Fund. The bar chart shows the Fund's performance for each calendar year since its inception. The table shows how the Fund's average annual total returns for different calendar periods over the life of the Fund, both before and after taxes, compared to those of a broad-based securities market index, the Russell 2000 Index.

Please note that the Fund's past performance, before and after taxes, is not necessarily an indication of how the Fund will perform in the future.



|                      |   |                 |
|----------------------|---|-----------------|
| <i>Best Quarter</i>  | <i>Quarter ended September 30, 2009</i> | <i>18.19%</i>   |
| <i>Worst Quarter</i> | <i>Quarter ended December 31, 2008</i>  | <i>(18.59)%</i> |

**Average Annual Total Returns**  
For the Periods Ended December 31, 2009

|   | <b>One Year</b> | <b>Since Inception (02/28/07)</b> |
|---|-----------------|-----------------------------------|
| Return Before Taxes .....   | 29.22%          | 1.76%                             |
| Return After Taxes on Distributions .....                                 | 27.93%          | 1.35%                             |
| Return After Taxes on Distributions and Sale of Fund Shares .....         | 19.06%          | 1.27%                             |
| <b>Index</b>  |                 |                                   |
| Russell 2000 Index (reflects no deduction for fees, expenses or taxes) .. | 27.17%          | (6.65)%                           |

The after-tax returns shown were calculated using the historical highest individual federal marginal income tax rates, and do not reflect the impact of state and local taxes. Actual after-tax returns depend on your tax situation and may differ from those shown. If you hold your Fund shares through a tax-deferred arrangement, such as a 401(k) plan or individual retirement account, the after-tax returns are not relevant.

## **FUND MANAGEMENT**

### **Investment Adviser**

FBR Fund Advisers, Inc. serves as the investment adviser to the Fund.

### **Portfolio Manager**

**Robert C. Barringer**, CFA, Portfolio Manager, has served as portfolio manager of the Fund since its commencement of operations in February 2007.

## **OTHER IMPORTANT INFORMATION REGARDING FUND SHARES**

For important information about the purchase and sale of Fund shares, tax information and financial intermediary compensation, please refer to the section entitled “Investing in the Funds” on page 53.

# FBR PEGASUS SMALL CAP GROWTH FUND™

## INVESTMENT OBJECTIVE

The investment objective of the Pegasus Small Cap Growth Fund (the “Fund”) is long-term capital appreciation.

## FEES AND EXPENSES

This table describes the fees expenses that you may pay if you buy and hold Investor Class shares of the Fund.

### Shareholder Fees

*(fees paid directly from your investment)*

|  |       |
|--|-------|
| Maximum Sales Charge (Load) Imposed on Purchases .....                             | NONE  |
| Maximum Deferred Sales Charge .....  | NONE  |
| Maximum Sales Charge (Load) Imposed on Reinvested Dividends .....                  | NONE  |
| Redemption Fee (on redemptions and exchanges made within 90 days of purchase)..... | 1.00% |

### Annual Fund Operating Expenses

*(expenses that you pay each year as a percentage of the value of your investment)*

|  |                |
|--|----------------|
| Management Fees  | 0.90%          |
| Distribution (12b-1) Fees  | 0.25%          |
| Other Expenses   | <u>2.72%</u>   |
| Total Annual Fund Operating Expenses   | <u>3.87%</u>   |
| Fee Waiver and Expense Reimbursement <sup>1</sup>  | <u>(2.42)%</u> |
| Total Annual Fund Operating Expenses After Fee Waiver and Expense Reimbursement <sup>1</sup> | <u>1.45%</u>   |

<sup>1</sup> FBR Fund Advisers, Inc. (the “Adviser”) has agreed in writing to waive a portion of its investment advisory fees and assume certain expenses to the extent annual fund operating expenses exceed 1.45% of the Fund’s average daily net assets (excluding interest, taxes, brokerage commissions, dividend expenses, acquired fund fees and expenses, extraordinary legal expenses, or any other extraordinary expenses). The Adviser has agreed to maintain this expense limitation through February 28, 2013. The Adviser may recoup any waived amount from the Fund pursuant to this agreement if such reimbursement does not cause the Fund to exceed existing expense limitations and the reimbursement is made within three years after the year in which the Adviser incurred the expense. The agreement may only be terminated by the Fund’s Board.

### *Example*

This Example is intended to help you compare the cost of investing in the Investor Class shares of the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year, that the Fund's operating expenses remain the same, and that the expense limitation agreement will continue only through February 28, 2013, the end of its current term. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

| <b>1 Year</b> | <b>3 Years</b> | <b>5 Years</b> | <b>10 Years</b> |
|---------------|----------------|----------------|-----------------|
| \$148         | \$459          | \$1,328        | \$3,588         |

### **Portfolio Turnover**

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 102% of the average value of its portfolio.

### **PRINCIPAL INVESTMENT STRATEGIES**

Under normal market conditions, the Fund invests at least 80% of its net assets plus the amount of any borrowings for investment purposes in securities of small-cap companies. The Fund's policy of investing at least 80% of its net assets in small-cap companies may only be changed upon 60 days notice to shareholders. The Fund currently considers small-cap companies to be those companies with market capitalizations of less than \$3 billion dollars, measured at the time of purchase. The Fund primarily invests in equity securities (which include common stocks, preferred stocks, warrants and other securities convertible into common stocks, including convertible bonds and convertible preferred stock) of small-cap companies listed on a U.S. securities exchange or NASDAQ expected to experience earnings growth. While the Fund's investments will primarily be in domestic U.S. securities, the Fund's investments may include foreign securities, including indirect investments such as ADRs or other types of depositary receipts, which are U.S. dollar-denominated receipts representing shares of foreign-based corporations. The Fund may invest up to 20% of net assets in equity securities of companies with larger market capitalizations.

The Adviser makes investment decisions for the Fund on the basis of fundamental security analysis. Once an issuer is identified as an attractive candidate for the Fund's portfolio, the Adviser assesses the relative value and growth potential of the security on the basis of various factors, which may include price to book ratio, price to earnings ratio, earnings yield and cash flow, among others. The Fund may invest, to a limited degree, in securities issued in IPOs.

Many of the common stocks in which the Fund invests do not pay dividends; instead, stocks are bought for the potential that their prices will increase and provide capital appreciation for the Fund.

## **RISKS RELATED TO PRINCIPAL INVESTMENT STRATEGIES**

**Market Risks.** Loss of money is a risk of investing in the Fund. The net asset value of the Fund can be expected to change daily and you may lose money. As with any mutual fund, there is no guarantee that the Fund's performance will be positive over any period of time, either short-term or long-term.

**Equity Investments.** Because the Fund invests in equity securities, fluctuations in the stock market in general, as well as in the value of particular equity securities held by the Fund, can affect the Fund's performance. The value of equity securities will fluctuate due to many factors, including the past and predicted earnings of the issuer, the quality of the issuer's management, general market conditions, forecasts for the issuer's industry and the value of the issuer's assets.

**Temporary Defensive Positions.** The Fund may, from time to time, take temporary defensive positions in response to adverse market, economic, political or other conditions. To the extent the assets of the Fund are invested in temporary defensive positions, the Fund may not achieve its investment objective. For temporary defensive purposes, the Fund may invest in cash and/or short-term obligations.

**Small-Cap Investments.** Investing in the securities of small-cap companies generally involves greater risk than investing in larger, more established companies. Generally, there is less publicly available information concerning small-cap companies than for larger, more established companies. Small-cap companies are typically subject to greater changes in earnings and business prospects than larger, more established companies and the market prices of the securities of small-cap companies may be more volatile. Additionally, because small-cap companies have fewer shares outstanding than larger companies, it also may be more difficult to buy or sell significant amounts of such shares without unfavorable impact on prevailing prices.

**IPO Investments.** IPO shares are subject to market risk and liquidity risk. The market value of IPO shares will fluctuate considerably due to facts such as the absence of a prior public market, unseasoned trading, the small number of shares

available for trading and limited public information about the issuer. The purchase of IPO shares may involve high transaction costs. When a fund's asset base is small, a significant portion of the fund's performance could be attributable to investments in IPOs, because such investments would have a magnified impact on the fund.

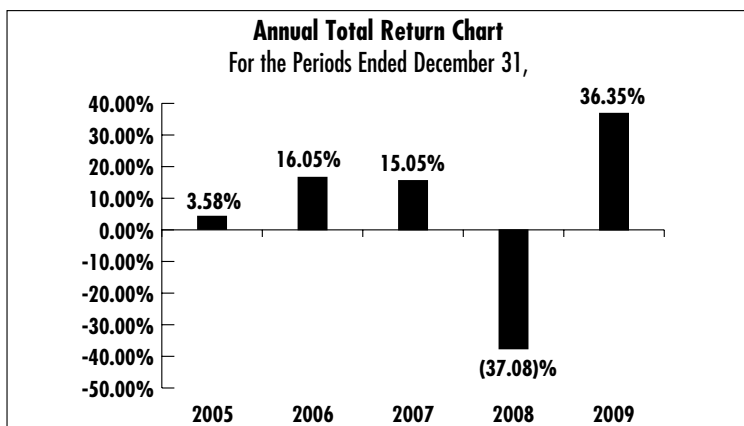
**Foreign Investments.** Investing in foreign securities presents unique investment risks. The value of securities denominated in or indexed to foreign currencies, and of dividends and interest from such securities, can change significantly when foreign currencies strengthen or weaken relative to the U.S. dollar. Many foreign countries lack uniform accounting and disclosure standards comparable to those applicable to U.S. companies, and it may be more difficult to obtain reliable information regarding an issuer's financial condition and operations. The Fund may invest in both sponsored and unsponsored ADRs which are receipts issued by a U.S. bank or trust company evidencing ownership of an indirect interest in underlying securities issued by a foreign issuer. In a sponsored ADR arrangement, the non-U.S. issuer assumes the obligation to pay some or all of the depositary's transaction fees. Under an unsponsored ADR arrangement, the non-U.S. issuer assumes no obligations and the depositary's transaction fees are paid directly by the ADR holders. Because unsponsored ADR arrangements are organized independently and without the cooperation of the issuer of the underlying securities, available information concerning the non-U.S. issuer may not be as current as for sponsored ADRs and voting rights with respect to the deposited securities are not passed through.

**Non-Diversification.** The Fund is classified as a "non-diversified" fund which means that the Fund may own larger positions in a smaller number of securities. A fund that is less diversified may be more susceptible to adverse economic, political, or regulatory developments affecting a single issuer than a fund that is more broadly diversified.

## **FUND PERFORMANCE**

The bar chart and table that follow provide some indication of the risk of an investment in the Investor Class shares of the Fund. The bar chart shows the Fund's performance for each calendar year since its inception. The table shows how the Fund's average annual total returns for different calendar periods over the life of the Fund, both before and after taxes, compared to those of a broad-based securities market index, the Russell 2000 Growth Index.

Please note that the Fund's past performance, before and after taxes, is not necessarily an indication of how the Fund will perform in the future. Prior to May 1, 2008, the Fund operated pursuant to a different investment strategy.



|                      |   |                 |
|----------------------|---|-----------------|
| <i>Best Quarter</i>  | <i>Quarter ended September 30, 2009</i> | <i>17.71%</i>   |
| <i>Worst Quarter</i> | <i>Quarter ended December 31, 2008</i>  | <i>(20.81)%</i> |

**Average Annual Total Returns**  
For the Periods Ended December 31, 2009

|   | <b>One Year</b> | <b>Five Year</b> | <b>Since Inception (01/20/04)</b> |
|---|-----------------|------------------|-----------------------------------|
| Return Before Taxes .....                                       | 36.35%          | 3.48%            | 2.53%                             |
| Return After Taxes on Distributions.....                        | 36.35%          | 2.95%            | 2.10%                             |
| Return After Taxes on Distributions and Sale of Fund Shares.... | 23.63%          | 2.72%            | 1.95%                             |

**Index**

|   |        |       |       |
|---|--------|-------|-------|
| Russell 2000 Growth Index (reflects no deduction for fees, expenses or taxes) ..... | 34.47% | 0.87% | 1.75% |
|---|--------|-------|-------|

The after-tax returns shown were calculated using the historical highest individual federal marginal income tax rates, and do not reflect the impact of state and local taxes. Actual after-tax returns depend on your tax situation and may differ from those shown. If you hold your Fund shares through a tax-deferred arrangement, such as a 401(k) plan or individual retirement account, the after-tax returns are not relevant.

## **FUND MANAGEMENT**

### **Investment Adviser**

FBR Fund Advisers, Inc. serves as the investment adviser to the Fund.

### **Portfolio Manager**

**Robert C. Barringer**, CFA, Portfolio Manager, has served as portfolio manager of the Fund since July 2004.

## **OTHER IMPORTANT INFORMATION REGARDING FUND SHARES**

For important information about the purchase and sale of Fund shares, tax information and financial intermediary compensation, please refer to the section entitled “Investing in the Funds” on page 53.

## FBR FOCUS FUND

### INVESTMENT OBJECTIVE

The investment objective of the Focus Fund (the “Fund”) is capital appreciation.

### FEES AND EXPENSES

This table describes the fees and expenses that you may pay if you buy and hold Investor Class shares of the Fund.

#### Shareholder Fees

*(fees paid directly from your investment)*

|  |       |
|--|-------|
| Maximum Sales Charge (Load) Imposed on Purchases.....                              | NONE  |
| Maximum Deferred Sales Charge.....   | NONE  |
| Maximum Sales Charge (Load) Imposed on Reinvested Dividends.....                   | NONE  |
| Redemption Fee (on redemptions and exchanges made within 90 days of purchase)..... | 1.00% |

#### Annual Fund Operating Expenses

*(expenses that you pay each year as a percentage of the value of your investment)*

|   |       |
|---|-------|
| Management Fees                                     | 0.90% |
| Distribution (12b-1) Fees                           | 0.25% |
| Other Expenses                                      | 0.28% |
| Acquired Fund Fees and Expenses (AFFE) <sup>1</sup> | 0.03% |
| Total Annual Fund Operating Expenses <sup>2</sup>   | 1.46% |

<sup>1</sup> The Total Annual Operating Expenses above differ from the amounts shown in the Fund’s Financial Highlights for its most recent fiscal year, which reflect only the operating expenses of the Fund and do not include Acquired Fund Fees and Expenses (i.e., fees and expenses of other funds in which the Fund has invested).

<sup>2</sup> FBR Fund Advisers, Inc. (the “Adviser”) has agreed in writing to waive a portion of its investment advisory fees and assume certain expenses to the extent annual fund operating expenses exceed 1.95% of the Fund’s average daily net assets (excluding interest, taxes, brokerage commissions, dividend expenses, acquired fund fees and expenses, extraordinary legal expenses, or any other extraordinary expenses). The Adviser has agreed to maintain this expense limitation through February 28, 2013. The Adviser may recoup any waived amount from the Fund pursuant to this agreement if such reimbursement does not cause the Fund to exceed existing expense limitations and the reimbursement is made within three years after the year in which the Adviser incurred the expense. The agreement may only be terminated by the Fund’s Board.

### **Example**

This Example is intended to help you compare the cost of investing in the Investor Class shares of the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

| <b>1 Year</b> | <b>3 Years</b> | <b>5 Years</b> | <b>10 Years</b> |
|---------------|----------------|----------------|-----------------|
| \$149         | \$462          | \$797          | \$1,746         |

### **Portfolio Turnover**

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 5% of the average value of its portfolio.

### **PRINCIPAL INVESTMENT STRATEGIES**

Under normal market conditions, the Fund invests primarily in securities of companies traded in domestic markets. Investments will consist primarily of common stocks, but may include preferred stocks, warrants, options, equity-like instruments and debt instruments. The Adviser invests in the stocks of companies of any size without regard to market capitalization.

The Adviser implements the Fund's strategy by focusing on companies whose valuations in the market are modest and that earn higher than average returns on shareholders' equity, are managed by individuals who have a history of treating public shareholders like partners and have ample opportunity to reinvest excess profits at above average rates. Once a potential investment is identified, the Adviser attempts to purchase shares at a price it believes represents a discount to a conservative estimate of the company's intrinsic value.

The Fund may from time to time hold a significant portion of its portfolio in cash or cash equivalent instruments. If market conditions reduce the availability of securities with acceptable valuations, the Fund may, for extended periods, hold larger than usual cash reserves until securities with acceptable valuations become

available. During rising markets, holding larger than usual cash reserves may be detrimental to the Fund's performance. During declining markets, holding larger than usual cash reserves may allow the Fund to purchase securities at a discount.

## **RISKS RELATED TO PRINCIPAL INVESTMENT STRATEGIES**

**Market Risks.** Loss of money is a risk of investing in the Fund. The net asset value of the Fund can be expected to change daily and you may lose money. As with any mutual fund, there is no guarantee that the Fund's performance will be positive over any period of time, either short-term or long-term.

**Equity Investments.** Because the Fund invests in equity securities, fluctuations in the stock market in general, as well as in the value of particular equity securities held by the Fund, can affect the Fund's performance. The value of equity securities will fluctuate due to many factors, including the past and predicted earnings of the issuer, the quality of the issuer's management, general market conditions, forecasts for the issuer's industry and the value of the issuer's assets.

**Temporary Defensive Positions.** The Fund may, from time to time, take temporary defensive positions in response to adverse market, economic, political or other conditions. To the extent the assets of the Fund are invested in temporary defensive positions, the Fund may not achieve its investment objective. For temporary defensive purposes, the Fund may invest in cash and/or short-term obligations.

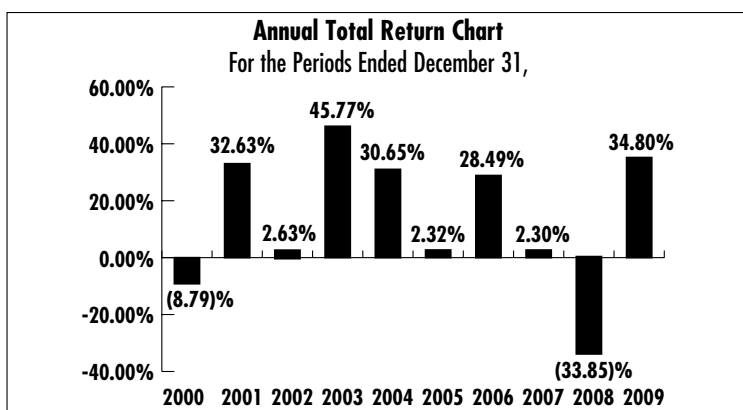
**Mid-Cap and Small-Cap Investments.** Investing in the securities of mid-cap and small-cap companies generally involves greater risk than investing in larger, more established companies. Generally, there is less publicly available information concerning small- and mid-cap companies than for larger, more established companies. Small- and mid-cap companies are typically subject to greater changes in earnings and business prospects than larger, more established companies and the market prices of the securities of small-cap companies may be more volatile. Additionally, because small- and mid-cap companies have fewer shares outstanding than larger companies, it also may be more difficult to buy or sell significant amounts of such shares without unfavorable impact on prevailing prices.

**Non-Diversification.** The Fund is classified as a "non-diversified" fund which means that the Fund may own larger positions in a smaller number of securities. A fund that is less diversified may be more susceptible to adverse economic, political, or regulatory developments affecting a single issuer than a fund that is more broadly diversified.

## FUND PERFORMANCE

The bar chart and table that follow provide some indication of the risk of an investment in the Investor Class shares of the Fund. The bar chart shows the Fund's performance for each of the last ten calendar years. The table shows how the Fund's average annual total returns for different calendar periods over the last ten calendar periods of the Fund, both before and after taxes, compared to those of a broad-based securities market index, the Russell 2000 Index.

Please note that the Fund's past performance, before and after taxes, is not necessarily an indication of how the Fund will perform in the future. Prior to January 1, 2008, the Fund operated pursuant to a different investment strategy.



|                      |  |                 |
|----------------------|--|-----------------|
| <i>Best Quarter</i>  | <i>Quarter ended June 30, 2001</i>     | <i>30.94%</i>   |
| <i>Worst Quarter</i> | <i>Quarter ended December 31, 2008</i> | <i>(16.38)%</i> |

**Average Annual Total Returns**  
For the Periods Ended December 31, 2009

|   | <b>One Year</b> | <b>Five Year</b> | <b>Ten Year</b> |
|---|-----------------|------------------|-----------------|
| Return Before Taxes.....  | 34.80%          | 3.70%            | 10.99%          |
| Return After Taxes on Distributions.....                          | 34.80%          | 3.13%            | 10.53%          |
| Return After Taxes on Distributions and Sale of Fund Shares ..... | 22.62%          | 3.06%            | 9.69%           |

### Index

|   |        |       |       |
|---|--------|-------|-------|
| Russell 2000 Index (reflects no deduction for fees, expenses or taxes)..... | 27.17% | 0.51% | 3.51% |
|---|--------|-------|-------|

The after-tax returns shown were calculated using the historical highest individual federal marginal income tax rates, and do not reflect the impact of state and local

taxes. Actual after-tax returns depend on your tax situation and may differ from those shown. If you hold your Fund shares through a tax-deferred arrangement, such as a 401(k) plan or individual retirement account, the after-tax returns are not relevant.

## **FUND MANAGEMENT**

### **Investment Adviser**

FBR Fund Advisers, Inc. serves as the investment adviser to the Fund.

### **Portfolio Managers**

**David S. Rainey**, CFA, Portfolio Manager, **Brian E. Macauley**, CFA, Portfolio Manager, and **Ira Rothberg**, CFA, Portfolio Manager, have served as co-portfolio managers of the Fund since August 2009.

## **OTHER IMPORTANT INFORMATION REGARDING FUND SHARES**

For important information about the purchase and sale of Fund shares, tax information and financial intermediary compensation, please refer to the section entitled “Investing in the Funds” on page 53.

# FBR LARGE CAP FINANCIAL FUND

## INVESTMENT OBJECTIVE

The investment objective of the Large Cap Financial Fund (the “Fund”) is capital appreciation.

## FEES AND EXPENSES

This table describes the fees and expenses that you may pay if you buy and hold Investor Class shares of the Fund.

### Shareholder Fees

*(fees paid directly from your investment)*

|   |       |
|---|-------|
| Maximum Sales Charge (Load) Imposed on Purchases .....                              | NONE  |
| Maximum Deferred Sales Charge .....   | NONE  |
| Maximum Sales Charge (Load) Imposed on Reinvested Dividends .....                   | NONE  |
| Redemption Fee (on redemptions and exchanges made within 90 days of purchase) ..... | 1.00% |

### Annual Fund Operating Expenses

*(expenses that you pay each year as a percentage of the value of your investment)*

|   |                     |
|---|---------------------|
| Management Fees                                     | 0.90%               |
| Distribution (12b-1) Fees                           | 0.25%               |
| Other Expenses                                      | <u>0.66%</u>        |
| Acquired Fund Fees and Expenses (AFFE) <sup>1</sup> | <u>0.05%</u>        |
| Total Annual Fund Operating Expenses <sup>2</sup>   | <u><u>1.86%</u></u> |

<sup>1</sup> The Total Annual Operating Expenses above differ from the amounts shown in the Fund’s Financial Highlights for its most recent fiscal year, which reflect only the operating expenses of the Fund and do not include Acquired Fund Fees and Expenses (i.e., fees and expenses of other funds in which the Fund has invested).

<sup>2</sup> FBR Fund Advisers, Inc. (the “Adviser”) has agreed in writing to waive a portion of its investment advisory fees and assume certain expenses to the extent annual fund operating expenses exceed 1.95% of the Fund’s average daily net assets (excluding interest, taxes, brokerage commissions, dividend expenses, acquired fund fees and expenses, extraordinary legal expenses, or any other extraordinary expenses). The Adviser has agreed to maintain this expense limitation through February 28, 2013. The Adviser may recoup any waived amount from the Fund pursuant to this agreement if such reimbursement does not cause the Fund to exceed existing expense limitations and the reimbursement is made within three years after the year in which the Adviser incurred the expense. The agreement may only be terminated by the Fund’s Board.

### **Example**

This Example is intended to help you compare the cost of investing in the Investor Class shares of the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

| <b>1 Year</b> | <b>3 Years</b> | <b>5 Years</b> | <b>10 Years</b> |
|---------------|----------------|----------------|-----------------|
| \$189         | \$585          | \$1,006        | \$2,180         |

### **Portfolio Turnover**

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 220% of the average value of its portfolio.

### **PRINCIPAL INVESTMENT STRATEGIES**

Under normal market conditions, the Fund invests at least 80% of its net assets plus the amount of any borrowings for investment purposes in securities of large capitalization ("large-cap") companies "principally engaged" in the business of financial services including, but not limited to, commercial banks, savings and loan associations, consumer and industrial finance companies, securities brokerage companies, insurance companies, real estate and leasing companies, holding companies for each of the foregoing types of business, or companies that combine some or all of these businesses. The Fund's policy of investing at least 80% of its net assets in large-cap companies principally engaged in financial services may only be changed upon 60 days notice to shareholders. The Fund considers a large-cap company to be one that has a market capitalization of \$3 billion or more, measured at the time of purchase. An issuer is "principally engaged" in the business of providing financial services if at least 50% of its assets, gross income, or net profits are committed to, or derived from, financial services activities. The Fund may also invest in companies in the information technology industries that primarily provide products and/or services to companies in the financial services group of industries. The Fund may invest up to 20% of its net assets in companies

with smaller market capitalizations or companies outside of the financial group of industries. Investments will consist primarily of common stocks, but may include preferred stocks, warrants and convertible bonds.

When evaluating securities to purchase, the Adviser generally looks for companies that have low price-to-earnings ratios and low price-to-book ratios relative to the financial services group of industries.

The Fund will not invest more than 5% of its total assets in the equity-related securities of any one company that derives more than 15% of its revenues from brokerage or investment management activities.

## **RISKS RELATED TO PRINCIPAL INVESTMENT STRATEGIES**

**Market Risks.** Loss of money is a risk of investing in the Fund. The net asset value of the Fund can be expected to change daily and you may lose money. As with any mutual fund, there is no guarantee that the Fund's performance will be positive over any period of time, either short-term or long-term.

**Equity Investments.** Because the Fund invests in equity securities, fluctuations in the stock market in general, as well as in the value of particular equity securities held by the Fund, can affect the Fund's performance. The value of equity securities will fluctuate due to many factors, including the past and predicted earnings of the issuer, the quality of the issuer's management, general market conditions, forecasts for the issuer's industry and the value of the issuer's assets.

**Temporary Defensive Positions.** The Fund may, from time to time, take temporary defensive positions in response to adverse market, economic, political or other conditions. To the extent the assets of the Fund are invested in temporary defensive positions, the Fund may not achieve its investment objective. For temporary defensive purposes, the Fund may invest in cash and/or short-term obligations.

**Mid-Cap and Small-Cap Investments.** Investing in the securities of mid-cap and small-cap companies generally involves greater risk than investing in larger, more established companies. Generally, there is less publicly available information concerning small- and mid-cap companies than for larger, more established companies. Small- and mid-cap companies are typically subject to greater changes in earnings and business prospects than larger, more established companies and the market prices of the securities of small-cap companies may be more volatile. Additionally, because small- and mid-cap companies have fewer shares outstanding than larger companies, it also may be more difficult to buy or sell significant amounts of such shares without unfavorable impact on prevailing prices.

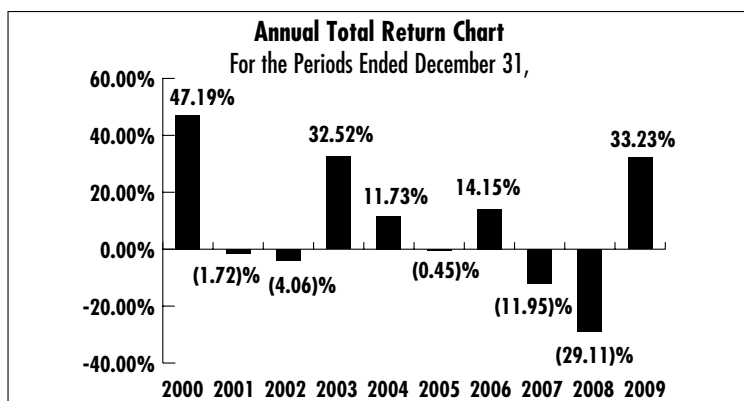
**Industry Concentration.** The Fund concentrates its investments within a group of industries. Because of its narrow industry focus, the performance of the Fund is tied closely to and affected by developments in the financial services group of industries, such as the possibility that government regulation will negatively impact companies involved in the financial services group of industries. Financial services companies can be influenced by adverse effects of volatile interest rates and other factors. The Fund may incur a loss on an investment in the securities issued by these institutions.

**Non-Diversification.** The Fund is classified as a “non-diversified” fund which means that the Fund may own larger positions in a smaller number of securities. A fund that is less diversified may be more susceptible to adverse economic, political, or regulatory developments affecting a single issuer than a fund that is more broadly diversified.

## FUND PERFORMANCE

The bar chart and table that follow provide some indication of the risk of an investment in the Investor Class shares of the Fund. The bar chart shows the Fund’s performance for each of the last ten calendar years. The table shows how the Fund’s average annual total returns for different calendar periods over the last ten calendar periods of the Fund, both before and after taxes, compared to those of a broad-based securities market index, the S&P 500 Index.

Please note that the Fund’s past performance, before and after taxes, is not necessarily an indication of how the Fund will perform in the future.



|                      |   |                 |
|----------------------|---|-----------------|
| <i>Best Quarter</i>  | <i>Quarter ended September 30, 2009</i> | <i>27.66%</i>   |
| <i>Worst Quarter</i> | <i>Quarter ended June 30, 2008</i>      | <i>(16.04)%</i> |

**Average Annual Total Returns**  
For the Periods Ended December 31, 2009

|   | <b>One Year</b> | <b>Five Year</b> | <b>Ten Year</b> |
|---|-----------------|------------------|-----------------|
| Return Before Taxes .....   | 33.23%          | (1.13)%          | 6.86%           |
| Return After Taxes on Distributions .....                                 | 33.23%          | (2.55)%          | 5.62%           |
| Return After Taxes on Distributions and Sale of Fund Shares .....         | 21.60%          | (0.91)%          | 5.90%           |
| <b>Index</b>  |                 |                  |                 |
| S&P 500 Index (reflects no deduction for fees,<br>expenses or taxes)..... | 26.47%          | 0.42%            | (0.95)%         |

The after-tax returns shown were calculated using the historical highest individual federal marginal income tax rates, and do not reflect the impact of state and local taxes. Actual after-tax returns depend on your tax situation and may differ from those shown. If you hold your Fund shares through a tax-deferred arrangement, such as a 401(k) plan or individual retirement account, the after-tax returns are not relevant.

## **FUND MANAGEMENT**

### **Investment Adviser**

FBR Fund Advisers, Inc. serves as the investment adviser to the Fund.

### **Portfolio Manager**

**David H. Ellison**, President and Chief Investment Officer (CIO) for the FBR Funds, has served as portfolio manager of the Fund since the commencement of operations in January 1997.

## **OTHER IMPORTANT INFORMATION REGARDING FUND SHARES**

For important information about the purchase and sale of Fund shares, tax information and financial intermediary compensation, please refer to the section entitled "Investing in the Funds" on page 53.

## FBR SMALL CAP FINANCIAL FUND

### INVESTMENT OBJECTIVE

The investment objective of the Small Cap Financial Fund (the “Fund”) is capital appreciation.

### FEES AND EXPENSES

This table describes the fees and expenses that you may pay if you buy and hold Investor Class shares of the Fund.

#### Shareholder Fees

*(fees paid directly from your investment)*

|  |       |
|--|-------|
| Maximum Sales Charge (Load) Imposed on Purchases.....                              | NONE  |
| Maximum Deferred Sales Charge.....   | NONE  |
| Maximum Sales Charge (Load) Imposed on Reinvested Dividends.....                   | NONE  |
| Redemption Fee (on redemptions and exchanges made within 90 days of purchase)..... | 1.00% |

#### Annual Fund Operating Expenses

*(expenses that you pay each year as a percentage of the value of your investment)*

|   |       |
|---|-------|
| Management Fees                                     | 0.90% |
| Distribution (12b-1) Fees                           | 0.25% |
| Other Expenses                                      | 0.36% |
| Acquired Fund Fees and Expenses (AFFE) <sup>1</sup> | 0.07% |
| Total Annual Fund Operating Expenses <sup>2</sup>   | 1.58% |

<sup>1</sup> The Total Annual Operating Expenses above differ from the amounts shown in the Fund’s Financial Highlights for its most recent fiscal year, which reflect only the operating expenses of the Fund and do not include Acquired Fund Fees and Expenses (i.e., fees and expenses of other funds in which the Fund has invested).

<sup>2</sup> FBR Fund Advisers, Inc. (the “Adviser”) has agreed in writing to waive a portion of its investment advisory fees and assume certain expenses to the extent annual fund operating expenses exceed 1.95% of the Fund’s average daily net assets (excluding interest, taxes, brokerage commissions, dividend expenses, acquired fund fees and expenses, extraordinary legal expenses, or any other extraordinary expenses). The Adviser has agreed to maintain this expense limitation through February 28, 2013. The Adviser may recoup any waived amount from the Fund pursuant to this agreement if such reimbursement does not cause the Fund to exceed existing expense limitations and the reimbursement is made within three years after the year in which the Adviser incurred the expense. The agreement may only be terminated by both the Adviser and the Fund.

### **Example**

This Example is intended to help you compare the cost of investing in the Investor Class shares of the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

| <b>1 Year</b> | <b>3 Years</b> | <b>5 Years</b> | <b>10 Years</b> |
|---------------|----------------|----------------|-----------------|
| \$161         | \$499          | \$860          | \$1,878         |

### **Portfolio Turnover**

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 118% of the average value of its portfolio.

### **PRINCIPAL INVESTMENT STRATEGIES**

Under normal market conditions, the Fund invests at least 80% of its net assets plus the amount of any borrowings for investment purposes in securities of small-cap companies "principally engaged" in the business of providing financial services to consumers and industry. The Fund's policy of investing at least 80% of its net assets in small-cap companies principally engaged in financial services may only be changed upon 60 days notice to shareholders. The Fund considers a small-cap company to be one that has a market capitalization of less than \$3 billion, measured at the time of purchase. An issuer is "principally engaged" in the business of providing financial services if at least 50% of its assets, gross income, or net profits are committed to, or derived from, financial services activities. The Fund focuses on financial services companies that invest in real estate, usually through mortgages and other consumer-related loans. These companies may also offer other financial services such as discount brokerage services, insurance products, leasing services and joint venture financing. Investments may include mortgage banking companies, consumer finance companies, savings and loan associations, savings banks, building and loan associations, cooperative banks, commercial banks, other depository institutions, companies in the information technology

industries which are primarily engaged in providing products and/or services to the types of companies listed above and real estate investment trusts (“REITs”). The Fund may invest up to 20% of its net assets in companies with larger market capitalizations or companies outside of the financial services group of industries. Investments will consist primarily of common stocks, but may include preferred stocks, warrants and convertible bonds.

When evaluating securities to purchase, the Adviser generally looks for companies that have low price-to-earnings ratios and low price-to-book ratios relative to the financial services group of industries.

The Fund will not invest more than 5% of its total assets in the equity-related securities of any one company that derives more than 15% of its revenues from brokerage or investment management activities.

## **RISKS RELATED TO PRINCIPAL INVESTMENT STRATEGIES**

**Market Risks.** Loss of money is a risk of investing in the Fund. The net asset value of the Fund can be expected to change daily and you may lose money. As with any mutual fund, there is no guarantee that the Fund’s performance will be positive over any period of time, either short-term or long-term.

**Equity Investments.** Because the Fund invests in equity securities, fluctuations in the stock market in general, as well as in the value of particular equity securities held by the Fund, can affect the Fund’s performance. The value of equity securities will fluctuate due to many factors, including the past and predicted earnings of the issuer, the quality of the issuer’s management, general market conditions, forecasts for the issuer’s industry and the value of the issuer’s assets.

**Temporary Defensive Positions.** The Fund may, from time to time, take temporary defensive positions in response to adverse market, economic, political or other conditions. To the extent the assets of the Fund are invested in temporary defensive positions, the Fund may not achieve its investment objective. For temporary defensive purposes, the Fund may invest in cash and/or short-term obligations.

**Small-Cap Investments.** Investing in the securities of small-cap companies generally involves greater risk than investing in larger, more established companies. Generally, there is less publicly available information concerning small-cap companies than for larger, more established companies. Small-cap companies are typically subject to greater changes in earnings and business prospects than larger, more established companies and the market prices of the securities of small-cap companies may be more volatile. Additionally, because small-cap companies have fewer shares outstanding than larger companies, it also

may be more difficult to buy or sell significant amounts of such shares without unfavorable impact on prevailing prices.

**Real Estate-Related Risk.** Because the Fund focuses on financial services companies that may invest in real estate, the Fund is subject to the risks associated with ownership of real estate and with the real estate industry in general. Real estate values (and the values of real estate-related securities) fluctuate with changes in general and local economic conditions and are particularly sensitive to economic downturns. Real estate values are also affected by changes in interest rates and governmental actions such as tax and zoning changes.

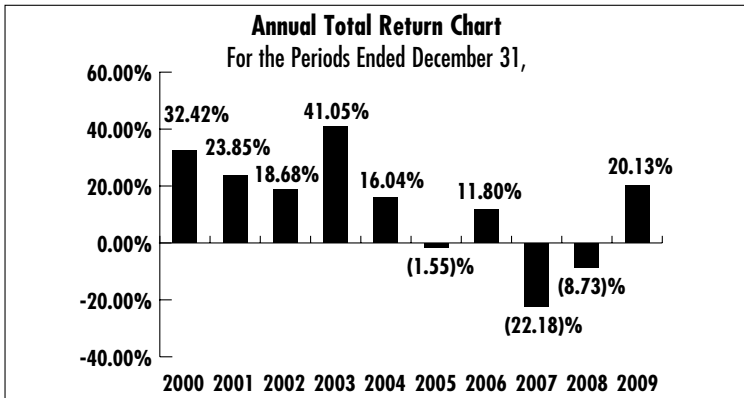
**Industry Concentration.** The Fund concentrates its investments within a group of industries. Because of its narrow industry focus, the performance of the Fund is tied closely to and affected by developments in the financial services group of industries, such as the possibility that government regulation will negatively impact companies involved in the financial services group of industries. Financial services companies can be influenced by adverse effects of volatile interest rates and other factors. The Fund may incur a loss on an investment in the securities issued by these institutions.

**Non-Diversification.** The Fund is classified as a “non-diversified” fund which means that the Fund may own larger positions in a smaller number of securities. A fund that is less diversified may be more susceptible to adverse economic, political, or regulatory developments affecting a single issuer than a fund that is more broadly diversified.

## **FUND PERFORMANCE**

The bar chart and table that follow provide some indication of the risk of an investment in the Investor Class shares of the Fund. The bar chart shows the Fund’s performance for each of the last ten calendar years. The table shows how the Fund’s average annual total returns for different calendar periods over the last ten calendar periods of the Fund, both before and after taxes, compared to those of a broad-based securities market index, the Russell 2000 Index.

Please note that the Fund’s past performance, before and after taxes, is not necessarily an indication of how the Fund will perform in the future.



*Best Quarter*                      *Quarter ended September 30, 2009*                      22.57%  
*Worst Quarter*                      *Quarter ended June 30, 2008*                      (10.39)%

**Average Annual Total Returns**  
For the Periods Ended December 31, 2009

|   | <b>One Year</b> | <b>Five Year</b> | <b>Ten Year</b> |
|---|-----------------|------------------|-----------------|
| Return Before Taxes.....  | 20.13%          | (1.25)%          | 11.58%          |
| Return After Taxes on Distributions.....                                    | 20.06%          | (2.97)%          | 10.12%          |
| Return After Taxes on Distributions and Sale of Fund Shares.....            | 13.18%          | (1.10)%          | 10.21%          |
| <b>Index</b>  |                 |                  |                 |
| Russell 2000 Index (reflects no deduction for fees, expenses or taxes)..... | 27.17%          | 0.51%            | 3.51%           |

The after-tax returns shown were calculated using the historical highest individual federal marginal income tax rates, and do not reflect the impact of state and local taxes. Actual after-tax returns depend on your tax situation and may differ from those shown. If you hold your Fund shares through a tax-deferred arrangement, such as a 401(k) plan or individual retirement account, the after-tax returns are not relevant.

## **FUND MANAGEMENT**

### **Investment Adviser**

FBR Fund Advisers, Inc. serves as the investment adviser to the Fund.

### **Portfolio Manager**

**David H. Ellison**, President of the Trust and Chief Investment Officer (CIO) for the FBR Funds, has served as portfolio manager of the Fund since the commencement of operations in January 1997.

## **OTHER IMPORTANT INFORMATION REGARDING FUND SHARES**

For important information about the purchase and sale of Fund shares, tax information and financial intermediary compensation, please refer to the section entitled “Investing in the Funds” on page 53.

## FBR TECHNOLOGY FUND

### INVESTMENT OBJECTIVE

The investment objective of the Technology Fund (the “Fund”) is long-term capital appreciation.

### FEES AND EXPENSES

This table describes the fees and expenses that you may pay if you buy and hold Investor Class shares of the Fund.

#### Shareholder Fees

*(fees paid directly from your investment)*

|  |       |
|--|-------|
| Maximum Sales Charge (Load) Imposed on Purchases .....                             | NONE  |
| Maximum Deferred Sales Charge .....  | NONE  |
| Maximum Sales Charge (Load) Imposed on Reinvested Dividends .....                  | NONE  |
| Redemption Fee (on redemptions and exchanges made within 90 days of purchase)..... | 1.00% |

#### Annual Fund Operating Expenses

*(expenses that you pay each year as a percentage of the value of your investment)*

|  |                |
|--|----------------|
| Management Fees  | 0.90%          |
| Distribution (12b-1) Fees  | 0.25%          |
| Other Expenses   | 1.85%          |
| Acquired Fund Fees and Expenses (AFFE) <sup>1</sup>  | <u>0.03%</u>   |
| Total Annual Fund Operating Expenses   | <u>3.03%</u>   |
| Fee Waiver and Expense Reimbursement <sup>2</sup>  | <u>(1.05)%</u> |
| Total Annual Fund Operating Expenses After Fee Waiver and Expense Reimbursement <sup>2</sup> | <u>1.98%</u>   |

<sup>1</sup> The Total Annual Operating Expenses above differ from the amounts shown in the Fund's Financial Highlights for its most recent fiscal year, which reflect only the operating expenses of the Fund and do not include Acquired Fund Fees and Expenses (i.e., fees and expenses of other funds in which the Fund has invested).

<sup>2</sup> FBR Fund Advisers, Inc. (the “Adviser”) has agreed in writing to waive a portion of its investment advisory fees and assume certain expenses to the extent annual fund operating expenses exceed 1.95% of the Fund's average daily net assets (excluding interest, taxes, brokerage commissions, dividend expenses, acquired fund fees and expenses, extraordinary legal expenses, or any other extraordinary expenses). The Adviser has agreed to maintain this expense limitation through February 28, 2013. The Adviser may recoup any waived amount from the Fund pursuant to this agreement if such reimbursement does not cause the Fund to exceed existing expense limitations and the reimbursement is made within three years after the year in which the Adviser incurred the expense. The agreement may only be terminated by the Fund's Board.

### *Example*

This Example is intended to help you compare the cost of investing in the Investor Class shares of the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year, that the Fund's operating expenses remain the same, and that the expense limitation agreement will continue only through February 28, 2013, the end of its current term. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

| <b>1 Year</b> | <b>3 Years</b> | <b>5 Years</b> | <b>10 Years</b> |
|---------------|----------------|----------------|-----------------|
| \$201         | \$621          | \$1,297        | \$3,106         |

### **Portfolio Turnover**

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 211% of the average value of its portfolio.

### **PRINCIPAL INVESTMENT STRATEGIES**

Under normal market conditions, the Fund invests at least 80% of its net assets plus the amount of any borrowings for investment purposes in securities of companies that are principally engaged in the research, design, development, manufacturing or distributing products or services in the technology industry. The Fund's policy of investing at least 80% of its net assets in companies principally engaged in technology may only be changed upon 60 days notice to shareholders. The Fund will primarily invest in equity securities (which include common stocks, preferred stocks, warrants and other securities convertible into common stocks, including convertible bonds and convertible preferred stock) of companies listed on a U.S. securities exchange or NASDAQ that are expected to experience earnings growth as a result of technology. Potential investments would include, but not be limited to, the following industries: computer software and hardware, semiconductors, scientific instrumentation, telecommunications, pharmaceuticals, chemicals, synthetic materials, defense and commercial electronics, data storage and retrieval, biotechnology, and healthcare and medical supplies. While the Fund's investments will primarily be in domestic U.S. securities, the Fund's investments may include

foreign securities, including indirect investments such as ADRs or other types of depositary receipts, which are U.S. dollar-denominated receipts representing shares of foreign-based corporations. The Fund may invest up to 20% of its net assets in companies outside of the technology industry. The Adviser invests in the stocks of companies of any size without regard to market capitalization.

The Adviser makes investment decisions for the Fund on the basis of fundamental security analysis. Once an issuer is identified as an attractive candidate for the Fund's portfolio, the Adviser assesses the relative value and growth potential of the security on the basis of various factors, which may include price to book ratio, price to earnings ratio, earnings yield and cash flow, among others. The Fund may invest, to a limited degree, in securities issued in initial public offerings ("IPOs").

Many of the common stocks purchased by the Fund will not pay dividends; instead, stocks will be bought for the potential that their prices will increase and provide capital appreciation for the Fund.

## **RISKS RELATED TO PRINCIPAL INVESTMENT STRATEGIES**

**Market Risks.** Loss of money is a risk of investing in the Fund. The net asset value of the Fund can be expected to change daily and you may lose money. As with any mutual fund, there is no guarantee that the Fund's performance will be positive over any period of time, either short-term or long-term.

**Equity Investments.** Because the Fund invests in equity securities, fluctuations in the stock market in general, as well as in the value of particular equity securities held by the Fund, can affect the Fund's performance. The value of equity securities will fluctuate due to many factors, including the past and predicted earnings of the issuer, the quality of the issuer's management, general market conditions, forecasts for the issuer's industry and the value of the issuer's assets.

**Temporary Defensive Positions.** The Fund may, from time to time, take temporary defensive positions in response to adverse market, economic, political or other conditions. To the extent the assets of the Fund are invested in temporary defensive positions, the Fund may not achieve its investment objective. For temporary defensive purposes, the Fund may invest in cash and/or short-term obligations.

**Mid-Cap and Small-Cap Investments.** Investing in the securities of mid-cap and small-cap companies generally involves greater risk than investing in larger, more established companies. Generally, there is less publicly available information concerning small- and mid-cap companies than for larger, more established companies. Small- and mid-cap companies are typically subject to greater changes in earnings and business prospects than larger, more established companies and the market prices of the securities of small-cap companies may be more volatile.

Additionally, because small- and mid-cap companies have fewer shares outstanding than larger companies, it also may be more difficult to buy or sell significant amounts of such shares without unfavorable impact on prevailing prices.

**Industry Concentration.** The Fund concentrates its investments within a group of industries. Because of its narrow industry focus, the performance of the Fund is tied closely to and is affected by developments in the technology industry and its related businesses. The value of the Fund's shares may fluctuate more than shares of a fund investing in other industries or in a broader range of industries.

**IPO Investments.** IPO shares are subject to market risk and liquidity risk. The market value of IPO shares will fluctuate considerably due to facts such as the absence of a prior public market, unseasoned trading, the small number of shares available for trading and limited public information about the issuer. The purchase of IPO shares may involve high transaction costs. When a fund's asset base is small, a significant portion of the fund's performance could be attributable to investments in IPOs, because such investments would have a magnified impact on the fund.

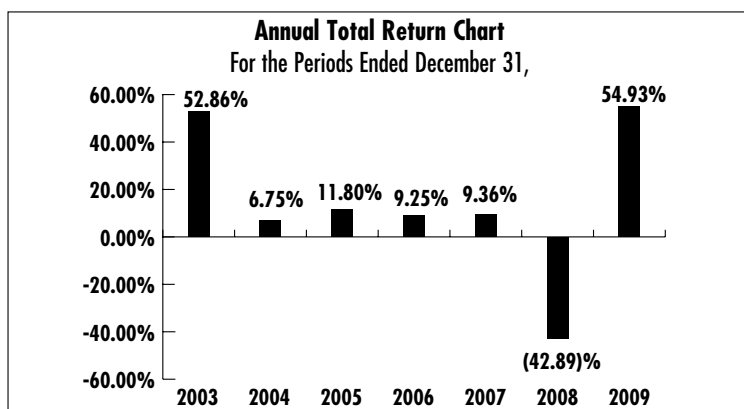
**Foreign Investments.** Investing in foreign securities presents unique investment risks. The value of securities denominated in or indexed to foreign currencies, and of dividends and interest from such securities, can change significantly when foreign currencies strengthen or weaken relative to the U.S. dollar. Many foreign countries lack uniform accounting and disclosure standards comparable to those applicable to U.S. companies, and it may be more difficult to obtain reliable information regarding an issuer's financial condition and operations. The Fund may invest in both sponsored and unsponsored ADRs which are receipts issued by a U.S. bank or trust company evidencing ownership of an indirect interest in underlying securities issued by a foreign issuer. In a sponsored ADR arrangement, the non-U.S. issuer assumes the obligation to pay some or all of the depositary's transaction fees. Under an unsponsored ADR arrangement, the non-U.S. issuer assumes no obligations and the depositary's transaction fees are paid directly by the ADR holders. Because unsponsored ADR arrangements are organized independently and without the cooperation of the issuer of the underlying securities, available information concerning the non-U.S. issuer may not be as current as for sponsored ADRs and voting rights with respect to the deposited securities are not passed through.

**Non-Diversification.** The Fund is classified as a "non-diversified" fund which means that the Fund may own larger positions in a smaller number of securities. A fund that is less diversified may be more susceptible to adverse economic, political, or regulatory developments affecting a single issuer than a fund that is more broadly diversified.

## FUND PERFORMANCE

The bar chart and table that follow provide some indication of the risk of an investment in the Investor Class shares of the Fund. The bar chart shows the Fund's performance for each calendar year since its inception. The table shows how the Fund's average annual total returns for different calendar periods over the life of the Fund, both before and after taxes, compared to those of certain broad-based indices, the S&P 500 Index and the secondary benchmark of the NASDAQ Composite Index. The NASDAQ Composite Index is a broad-based capitalization-weighted index of all the NASDAQ National Market and Small Cap stocks.

Please note that the Fund's past performance, before and after taxes, is not necessarily an indication of how the Fund will perform in the future.



*Best Quarter*  
*Worst Quarter*

*Quarter ended June 30, 2003*  
*Quarter ended December 31, 2008*

*26.38%*  
*(22.74)%*

### Average Annual Total Returns

For the Periods Ended December 31, 2009

|   | One Year | Five Year | Since Inception (02/01/02) |
|---|----------|-----------|----------------------------|
| Return Before Taxes .....   | 54.93%   | 3.40%     | 4.81%                      |
| Return After Taxes on Distributions.....  | 54.93%   | 2.43%     | 3.66%                      |
| Return After Taxes on Distributions and Sale of Fund Shares...                  | 35.71%   | 2.53%     | 3.66%                      |
| <b>Indices</b>  |          |           |                            |
| S&P 500 Index (reflects no deduction for fees, expenses or taxes).....          | 26.47%   | 0.42%     | 18.17%                     |
| NASDAQ Composite Index (reflects no deduction for fees, expenses or taxes)..... | 45.36%   | 1.71%     | 29.31%                     |

The after-tax returns shown were calculated using the historical highest individual federal marginal income tax rates, and do not reflect the impact of state and local taxes. Actual after-tax returns depend on your tax situation and may differ from those shown. If you hold your Fund shares through a tax-deferred arrangement, such as a 401(k) plan or individual retirement account, the after-tax returns are not relevant.

## **FUND MANAGEMENT**

### **Investment Adviser**

FBR Fund Advisers, Inc. serves as the investment adviser to the Fund.

### **Portfolio Managers**

**David H. Ellison**, President of the Trust and Chief Investment Officer for the FBR Funds, and **Winsor H. Aylesworth**, Executive Vice President of the Trust, have served as co-portfolio managers of the Fund since the commencement of operations in February 2002.

## **OTHER IMPORTANT INFORMATION REGARDING FUND SHARES**

For important information about the purchase and sale of Fund shares, tax information and financial intermediary compensation, please refer to the section entitled "Investing in the Funds" on page 53.

## FBR GAS UTILITY INDEX FUND

### INVESTMENT OBJECTIVE

The investment objective of the Gas Utility Index Fund (the “Fund”) is income and capital appreciation.

### FEES AND EXPENSES

This table describes the fees and expenses that you may pay if you buy and hold Investor Class shares of the Fund.

#### Shareholder Fees

*(fees paid directly from your investment)*

|  |       |
|--|-------|
| Maximum Sales Charge (Load) Imposed on Purchases .....                             | NONE  |
| Maximum Deferred Sales Charge .....  | NONE  |
| Maximum Sales Charge (Load) Imposed on Reinvested Dividends .....                  | NONE  |
| Redemption Fee (on redemptions and exchanges made within 90 days of purchase)..... | 1.00% |

#### Annual Fund Operating Expenses

*(expenses that you pay each year as a percentage of the value of your investment)*

|   |                     |
|---|---------------------|
| Management Fees                                   | 0.40%               |
| Distribution (12b-1) Fees                         | NA                  |
| Other Expenses                                    | <u>0.36%</u>        |
| Total Annual Fund Operating Expenses <sup>1</sup> | <u><u>0.76%</u></u> |

<sup>1</sup> FBR Fund Advisers, Inc. (the “Adviser”) has agreed in writing to waive a portion of its investment advisory fees and assume certain expenses to the extent annual fund operating expenses exceed 0.85% of the Fund’s average daily net assets (excluding interest, taxes, brokerage commissions, dividend expenses, acquired fund fees and expenses, extraordinary legal expenses, or any other extraordinary expenses). The Adviser has agreed to maintain this expense limitation through February 28, 2013. The Adviser may recoup any waived amount from the Fund pursuant to this agreement if such reimbursement does not cause the Fund to exceed existing expense limitations and the reimbursement is made within three years after the year in which the Adviser incurred the expense. The agreement may only be terminated by the Fund’s Board.

### **Example**

This Example is intended to help you compare the cost of investing in the Investor Class shares of the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

| <b>1 Year</b> | <b>3 Years</b> | <b>5 Years</b> | <b>10 Years</b> |
|---------------|----------------|----------------|-----------------|
| \$78          | \$243          | \$422          | \$942           |

### **Portfolio Turnover**

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 26% of the average value of its portfolio.

### **PRINCIPAL INVESTMENT STRATEGIES**

Designed as an index fund, the Fund intends to provide investment results that replicate the performance of the American Gas Association Stock Index ("Index"), an index maintained by the American Gas Association ("AGA"), a national trade association of natural gas companies. The Index consists of approximately 67 publicly traded companies, both domestic and foreign, of natural gas distribution, gas pipeline, diversified gas and combination gas and electric companies whose securities are traded on a U.S. securities exchange (exclusive of treasury stock). While the Fund's investments will primarily be in domestic U.S. securities, the Fund's investments may include foreign securities, including indirect investments such as ADRs or other types of depositary receipts, which are U.S. dollar-denominated receipts representing shares of foreign-based corporations. The stocks included in the Fund are chosen solely on the statistical basis of their weightings in the Index.

The Fund intends to invest under normal circumstances at least 85% of its net assets in the common stock of companies that have natural gas distribution and transmission operations. No attempt is made to manage the Fund's portfolio actively in the traditional sense by using economic, financial or market analysis;

nor will the adverse financial situation of a company directly result in its elimination from the Fund's portfolio unless the company is removed from the Index. The percentage of the Fund's assets to be invested in each company's stock contained within the Index is approximately the same as the percentage the stock represents in the Index. Each stock's proportion of the Index is based on that stock's market capitalization, that is, the number of shares outstanding multiplied by the market price of the stock. Such computation is also weighted to reduce the effect of assets not connected with natural gas distribution and transmission revenue. To avoid deviation in the Fund's performance from the Index, the Fund will seek to invest substantially all of its assets in the stocks of the Index. Although there is no predetermined acceptable range of deviation between the performance of the Index and that of the Fund, the Fund attempts to achieve a correlation of approximately 95% or better between its total return and that of the Index. One-hundred percent correlation would mean the total return of the Fund's assets would increase and decrease exactly the same as the Index. If a deviation occurs, it may be the result of various expenses incurred by the Fund, such as management fees, transaction costs and other operating expenses.

## **RISKS RELATED TO PRINCIPAL INVESTMENT STRATEGIES**

**Market Risks.** Loss of money is a risk of investing in the Fund. The net asset value of the Fund can be expected to change daily and you may lose money. As with any mutual fund, there is no guarantee that the Fund's performance will be positive over any period of time, either short-term or long-term.

**Equity Investments.** Because the Fund invests in equity securities, fluctuations in the stock market in general, as well as in the value of particular equity securities held by the Fund, can affect the Fund's performance. The value of equity securities will fluctuate due to many factors, including the past and predicted earnings of the issuer, the quality of the issuer's management, general market conditions, forecasts for the issuer's industry and the value of the issuer's assets.

**Temporary Defensive Positions.** The Fund may, from time to time, take temporary defensive positions in response to adverse market, economic, political or other conditions. To the extent the assets of the Fund are invested in temporary defensive positions, the Fund may not achieve its investment objective. For temporary defensive purposes, the Fund may invest in cash and/or short-term obligations.

**Industry Concentration.** The Fund concentrates its investments within a group of industries. Because of its narrow industry focus, the Fund's performance is tied closely to and affected by developments in the natural gas distribution and transmission industry, such as competition and weather. The gas industry is also sensitive to increased interest rates because of the industry's capital intensive

nature. In the event the Fund experiences significant purchase and/or redemption requests, it may have difficulty providing investment results that replicate the Index.

**Foreign Investments.** Investing in foreign securities presents unique investment risks. The value of securities denominated in or indexed to foreign currencies, and of dividends and interest from such securities, can change significantly when foreign currencies strengthen or weaken relative to the U.S. dollar. Many foreign countries lack uniform accounting and disclosure standards comparable to those applicable to U.S. companies, and it may be more difficult to obtain reliable information regarding an issuer's financial condition and operations. The Fund may invest in both sponsored and unsponsored ADRs which are receipts issued by a U.S. bank or trust company evidencing ownership of an indirect interest in underlying securities issued by a foreign issuer. In a sponsored ADR arrangement, the non-U.S. issuer assumes the obligation to pay some or all of the depositary's transaction fees. Under an unsponsored ADR arrangement, the non-U.S. issuer assumes no obligations and the depositary's transaction fees are paid directly by the ADR holders. Because unsponsored ADR arrangements are organized independently and without the cooperation of the issuer of the underlying securities, available information concerning the non-U.S. issuer may not be as current as for sponsored ADRs and voting rights with respect to the deposited securities are not passed through.

**Non-Diversification.** The Fund is classified as a "non-diversified" fund which means that the Fund may own larger positions in a smaller number of securities. A fund that is less diversified may be more susceptible to adverse economic, political, or regulatory developments affecting a single issuer than a fund that is more broadly diversified.

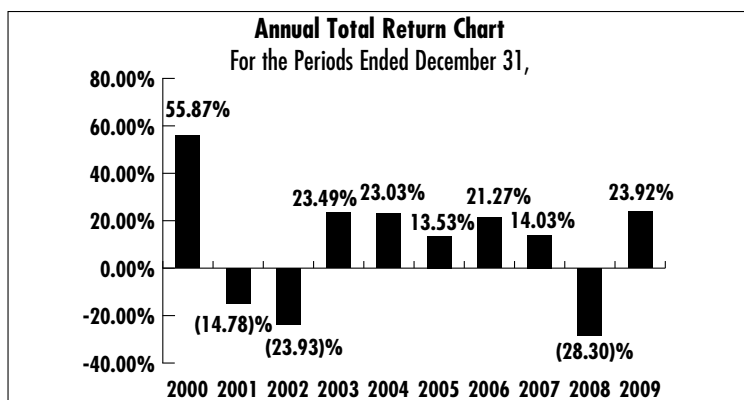
**Index Tracking.** While the Fund seeks to track the performance of the Index as closely as possible, the Fund's return may not always be able to match or achieve a high correlation with the return of the Index due to such factors as the various expenses incurred by the Fund, such as management fees, transaction costs and other operating expenses which are not incurred by the Index. In addition, the Fund may not be fully invested at all times in the Index as a result of cash flows into the Fund or reserves of cash that are maintained in order to meet redemption requests and cover operating expenses.

## **FUND PERFORMANCE**

The bar chart and table that follow provide some indication of the risk of an investment in the Investor Class shares of the Fund. The bar chart shows the Fund's performance for each of the last ten calendar years. The table shows how

the Fund's average annual total returns for different calendar periods over the last ten calendar periods of the Fund, both before and after taxes, compared to certain broad-based indicies, the S&P 500 Index and the secondary benchmark of the AGA Stock Index. The AGA Stock Index is a market capitalization-weighted index, adjusted monthly, consisting of member companies of the American Gas Association.

Please note that the Fund's past performance, before and after taxes, is not necessarily an indication of how the Fund will perform in the future.



*Best Quarter*                      *Quarter ended September 30, 2000*                      23.52%  
*Worst Quarter*                      *Quarter ended September 30, 2002*                      (21.06)%

**Average Annual Total Returns**  
For the Periods Ended December 31, 2009

|  | One Year | Five Year | Ten Year |
|--|----------|-----------|----------|
| Return Before Taxes.....   | 23.92%   | 6.88%     | 7.91%    |
| Return After Taxes on Distributions.....                         | 23.35%   | 6.02%     | 6.37%    |
| Return After Taxes on Distributions and Sale of Fund Shares..... | 16.13%   | 5.88%     | 6.28%    |

**Indices**

|  |        |       |         |
|--|--------|-------|---------|
| S&P 500 Index (reflects no deduction for fees, expenses or taxes).....   | 26.47% | 0.42% | (0.95)% |
| AGA Stock Index (reflects no deduction for fees, expenses or taxes)..... | 24.40% | 6.92% | 7.78%   |

The after-tax returns shown were calculated using the historical highest individual federal marginal income tax rates, and do not reflect the impact of state and local taxes. Actual after-tax returns depend on your tax situation and may differ from

those shown If you hold your Fund shares through a tax-deferred arrangement, such as a 401(k) plan or individual retirement account, the after-tax returns are not relevant.

## **FUND MANAGEMENT**

### **Investment Adviser**

FBR Fund Advisers, Inc. serves as the investment adviser to the Fund.

### **Portfolio Manager**

**Winsor H. Aylesworth**, Executive Vice President of the Trust, has served as portfolio manager of the Fund since 2001.

## **OTHER IMPORTANT INFORMATION REGARDING FUND SHARES**

For important information about the purchase and sale of Fund shares, tax information and financial intermediary compensation, please refer to the section entitled “Investing in the Funds” on page 53.

## **INVESTING IN THE FUNDS**

### **PURCHASE AND SALE OF FUND SHARES**

**Purchasing Fund Shares.** The minimum initial investment for a Fund is \$2,000. For an investment in an IRA or pension, profit-sharing or other employee benefit plan (“Retirement Plans”) the minimum initial investment is \$1,000. There is no minimum requirement for subsequent investments. You may buy shares on any day the New York Stock Exchange (“NYSE”) is open (a “Business Day”). FBR Investment Services, Inc. (“FBR Services” or the “Distributor”) has relationships with certain brokers and other financial intermediaries who are authorized to accept, or designate intermediaries to accept, purchase and redemption orders for the Funds (the “Authorized Broker-Dealer”). If you purchase through such a broker, your order will be priced at the NAV next determined after your broker or its designated intermediary accepts it. Contact your broker to determine whether it has an established relationship with the Distributor.

**Selling Fund Shares.** You may redeem (sell) your shares on any Business Day. The price you receive for your shares will be the NAV next determined after your order is received in proper form.

### **TAX INFORMATION**

The Funds intend to make distributions that may be taxed as either ordinary income or capital gains and you will generally have to pay federal income tax on such Fund distributions unless you hold your Fund shares through a tax-deferred arrangement, such as a 401(k) plan or an individual retirement account. Such tax-deferred arrangements may be taxed later upon withdrawals made from those arrangements.

### **PAYMENTS TO BROKER-DEALERS AND OTHER FINANCIAL INTERMEDIARIES**

If you purchase Fund shares through a broker-dealer or other financial intermediary (such as a bank), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment. Ask your salesperson or visit your financial intermediary’s website for more information.

## OTHER IMPORTANT INFORMATION

### FURTHER DISCUSSION OF RISKS

**MARKET RISKS.** Loss of money is a risk of investing in the Funds. The net asset value of the Funds can be expected to change daily and you may lose money. As with any mutual fund, there is no guarantee that the Funds' performance will be positive over any period of time, either short-term or long-term. A Fund's success depends largely on the Adviser's ability to select favorable investments. Also, different types of investments shift in and out of favor depending on market and economic conditions. For example, at various times stocks will be more or less favorable than bonds and small-cap or mid-cap stocks will be more or less favorable than large-cap company stocks. Because of this, the Funds may perform better or worse than other types of funds depending on what is in "favor."

**EQUITY INVESTMENTS.** Fluctuations in the stock market in general, as well as in the value of particular equity securities held by a Fund, can affect the Fund's performance. The value of equity securities will fluctuate due to many factors, including the past and predicted earnings of the issuer, the quality of the issuer's management, general market conditions, forecasts for the issuer's industry and the value of the issuer's assets. Holders of equity securities only have rights to the value of a company after all debts have been paid, and they could lose their entire investment in a company that encounters financial difficulty. Your investment in the Fund is not guaranteed.

**TEMPORARY DEFENSIVE POSITIONS.** The Funds may, from time to time, take temporary defensive positions in response to adverse market, economic, political or other conditions. To the extent the assets of a Fund are invested in temporary defensive positions, the Fund may not achieve its investment objective. For temporary defensive purposes, the Funds may invest in cash and/or short-term obligations. These may include high-grade liquid debt securities such as variable amount master demand notes, commercial paper, certificates of deposit, bankers' acceptances, repurchase agreements and U.S. Government obligations. The Funds may also hold these obligations in anticipation of share redemptions or pending investment of assets in accordance with each Fund's investment policies.

**FOREIGN INVESTMENTS.** Investing in foreign securities presents unique investment risks. The value of securities denominated in or indexed to foreign currencies, and of dividends and interest from such securities, can change significantly when foreign currencies strengthen or weaken relative to the U.S. dollar. Many foreign countries lack uniform accounting and disclosure standards comparable to those applicable to U.S. companies, and it may be more difficult to obtain reliable information regarding an issuer's financial condition and operations.

Foreign securities markets generally have less trading volume and less liquidity than U.S. markets, and prices on some foreign markets can be highly volatile. In addition, the costs of foreign investing, including withholding taxes, brokerage commissions and custodial costs, are generally higher than for U.S. investments. The Funds may invest in both sponsored and unsponsored ADRs which are receipts issued by a U.S. bank or trust company evidencing ownership of an indirect interest in underlying securities issued by a foreign issuer. In a sponsored ADR arrangement, the non-U.S. issuer assumes the obligation to pay some or all of the depositary's transaction fees. Under an unsponsored ADR arrangement, the non-U.S. issuer assumes no obligations and the depositary's transaction fees are paid directly by the ADR holders. Because unsponsored ADR arrangements are organized independently and without the cooperation of the issuer of the underlying securities, available information concerning the non-U.S. issuer may not be as current as for sponsored ADRs and voting rights with respect to the deposited securities are not passed through.

**INITIAL PUBLIC OFFERING (“IPO”) INVESTMENTS.** IPO shares are subject to market risk and liquidity risk. The market value of IPO shares will fluctuate considerably due to facts such as the absence of a prior public market, unseasoned trading, the small number of shares available for trading and limited public information about the issuer. The purchase of IPO shares may involve high transaction costs. When a Fund's asset base is small, a significant portion of the Fund's performance could be attributable to investments in IPOs, because such investments would have a magnified impact on the Fund. As the Fund's assets grow, the effect of the Fund's investments in IPOs on the Fund's performance probably will decline, which could reduce the Fund's performance. Because of the price volatility of IPO shares, the Funds may choose to hold IPO shares for a very short period of time, which may increase the turnover of the Funds' portfolios and may lead to increased expenses to the Funds, such as commissions and transaction costs. In addition, the Funds' Adviser cannot guarantee continued access to IPOs.

**INDUSTRY CONCENTRATION.** Because of their narrow focus, the performance of the Large Cap Financial Fund and the Small Cap Financial Fund (“Financial Funds”), the Technology Fund and the Gas Utility Index Fund are tied closely to and affected by the financial services, technology, and natural gas distribution and transmission industries, respectively. The value of the Funds may be subject to greater volatility than funds with portfolios that are less concentrated. If securities in a particular industry fall out of favor, these Funds could underperform funds that focus on other types of companies. As is the case with other industries, or groups of closely-related industries, companies in the financial services, technology, and natural gas distribution and transmission industries often face similar obstacles, issues or regulatory burdens. Consequently, securities of

these industries may react similarly and move in unison to changes in market conditions. Additional risks in each industry are discussed below.

**Financial Services Group of Industries (Financial Funds).** Companies involved in the financial services group of industries face special risks, including the negative impact of government regulation and volatile interest rates. A Fund may incur a loss on an investment in the securities issued by these institutions. For example, banks, savings and loan associations and finance companies are subject to extensive governmental regulation that may limit their lending activity. Commercial banks, savings and loan institutions and their holding companies are also influenced by adverse effects, portfolio concentrations in loans to particular businesses, such as real estate and energy, and competition from new entrants in their areas of business. However, neither federal insurance of deposits, nor regulation of the banking and savings and loan industries, ensures the solvency or profitability of commercial banks or savings and loan institutions. In addition, these companies largely depend on the availability and cost of capital funds for their profitability, which can change significantly when interest rates change. In addition, general economic conditions are important to the operations of these companies.

Investment banking, securities and commodities brokerage and investment advisory companies are also subject to governmental regulation and investments in those companies are subject to the risks related to securities and commodities trading and securities underwriting activities. Insurance companies are also subject to extensive governmental regulation, including the imposition of maximum rate levels, which may be inadequate for some lines of business. The performance of insurance companies will be affected by interest rates, severe competition in the pricing of services, claims activities, marketing competition and general economic conditions.

**Technology Industry (Technology Fund).** Companies in the technology industry face special risks. For example, the industry faces such challenges as rapid changes in technology, availability of capital, costs of research and development, government regulation and relatively high risks of obsolescence caused by scientific and technological advances. In addition, the technology sector is subject to the risk of aggressive product prices due to competitive pressure from numerous market entrants. Therefore, the value of such companies is particularly vulnerable to abrupt or erratic movements. These price movements may have a larger impact on the Technology Fund than on a fund with a more broadly diversified portfolio.

**Natural Gas Industry (Gas Utility Index Fund).** One of the natural gas industry's primary risks is the competitive risk associated with the prices of alternative fuels, such as coal and oil. For example, major gas customers such as industrial users and electric power generators often have the ability to

switch between the use of coal, oil or gas. During periods when competing fuels are less expensive, the revenues of gas utility companies may decline with a corresponding impact on earnings. Weather is another risk that may affect the industry; a warmer winter could decrease the amount of gas used by heating customers and thereby reduce the earnings of companies in the industry. Additionally, the gas industry is also sensitive to increased interest rates because of the industry's capital intensive nature.

**MID-CAP AND SMALL-CAP INVESTMENTS.** Investing in the securities of mid-cap and small-cap companies generally involves greater risk than investing in larger, more established companies. This greater risk is, in part, attributable to the fact that the securities of mid-cap and small-cap companies usually have more limited marketability. Because mid-cap and small-cap companies have fewer shares outstanding than larger companies, it also may be more difficult to buy or sell significant amounts of such shares without unfavorable impact on prevailing prices. Additionally, securities of mid-cap and small-cap companies are typically subject to greater changes in earnings and business prospects than are larger, more established companies and typically there is less publicly available information concerning mid-cap and small-cap companies than for larger, more established companies. Although investing in securities of mid-cap and small-cap companies offers potential above-average returns if the companies are successful, there is a risk that the companies will not succeed and the prices of the companies' shares could significantly decline in value.

Securities of mid-cap and small-cap companies, especially those whose business involves emerging products or concepts, may be more volatile due to their limited product lines, markets or financial resources and may lack management depth. Securities of mid-cap and small-cap companies also may be more volatile than larger companies or the market averages in general because of their general susceptibility to economic downturns, especially in the financial services group of industries where changes in interest rates and demand for financial services are so closely tied to the economy.

**NON-DIVERSIFICATION.** The Funds are classified as "non-diversified" investment companies under the Investment Company Act of 1940, as amended (the "1940 Act"), which means each Fund may own larger positions in a smaller number of securities. A fund that is less diversified may be more susceptible to adverse economic, political, or regulatory developments affecting a single issuer than a fund that is more broadly diversified. However, each Fund intends to continue to qualify for treatment as a regulated investment company under the Internal Revenue Code of 1986, as amended, which requires that, among other things, at the close of each quarter of each Fund's taxable year, a Fund may not (1) with respect to 50% of its total assets, invest more than 5% of its total assets in the securities of any one issuer or own more than 10% of outstanding voting securities of any one issuer, or (2) invest more than 25% of the value of its total

assets in the securities of any one issuer. These limits do not apply to U.S. Government securities or securities of other registered investment companies.

**INVESTMENTS IN DERIVATIVES.** Each Fund, except the Gas Utility Index Fund, may engage in derivative instruments such as options, futures and forward foreign currency exchange contracts. Derivative instruments are instruments that derive their value from a different underlying security, index or financial indicator. A Fund may use derivatives for either hedging or non-hedging purposes, or for both purposes, including for purposes of enhancing return. Investing for non-hedging purposes may be considered speculative and involve additional risks.

The use of derivative instruments exposes a Fund to additional risks and transaction costs. Risks inherent in the use of derivative instruments include:

- the risk that interest rates, securities prices and currency markets will not move in the direction that a portfolio manager anticipates;
- imperfect correlation between the price of derivative instruments and movements in the prices of the securities, interest rates or currencies being hedged;
- the fact that skills needed to use these strategies are different than those needed to select portfolio securities;
- the possible absence of a liquid secondary market for any particular instrument and possible exchange-imposed price fluctuation limits, either of which may make it difficult or impossible to close out a position when desired;
- leverage risk, that is, the risk that adverse price movements in an instrument can result in a loss substantially greater than the Fund's initial investment in that instrument; and
- particularly in the case of privately-negotiated instruments, the risk that the counter-party will not perform its obligations, which could leave the Fund worse off than if it had not entered into the position.

## **FUND MANAGEMENT**

### **Investment Adviser**

FBR Fund Advisers, Inc. (the "Adviser"), located at 1001 Nineteenth Street North, Arlington, Virginia 22209, serves as the investment adviser to the Funds. The Adviser directs the investment of each Fund's assets, subject at all times to the supervision of the Board of Trustees ("Board") of The FBR Funds (the "Trust"). The Adviser continually conducts investment research and supervision for the

Funds and is responsible for the purchase and sale of each Fund's investments. The Adviser was organized as a Delaware corporation in 1996 and is registered with the Securities and Exchange Commission ("SEC") as an investment adviser. As of January 31, 2010, it managed approximately \$1.26 billion of net assets on behalf of the Funds. The Adviser is a subsidiary of FBR Capital Markets, Inc.

Pursuant to an Investment Advisory Agreement with the Trust, for its services to the Trust, the Adviser is entitled to receive a monthly fee, at an annual rate of 0.90% of the average daily net assets of the Pegasus Fund, the Pegasus Mid Cap Fund, the Pegasus Small Cap Fund, the Pegasus Small Cap Growth Fund, the Focus Fund, the Large Cap Financial Fund, the Small Cap Financial Fund and the Technology Fund and at an annual rate of 0.40% of the average daily net assets of the Gas Utility Index Fund. The Adviser may periodically waive all or a portion of its advisory fee with respect to each Fund. For the past fiscal year ended October 31, 2009, the Pegasus Fund, the Pegasus Mid Cap Fund, the Pegasus Small Cap Fund, the Pegasus Small Cap Growth Fund, the Focus Fund, the Large Cap Financial Fund, the Small Cap Financial Fund, the Technology Fund and the Gas Utility Index Fund paid advisory fees, after waiver or reimbursement, at the rate of 0.00%, 0.00%, 0.00%, 0.00%, 0.90%, 0.90%, 0.90%, 0.00% and 0.40%, respectively.

The Trust has applied for an exemptive order from the SEC to permit the Adviser, subject to the approval of the Board, to enter into, and materially amend, sub-advisory agreements with any sub-adviser retained by the Adviser and the Funds to manage the Funds without obtaining shareholder approval, if the Board concludes that such arrangements would be in the best interests of the shareholders of the affected Fund. Shareholders of Pegasus Fund, Pegasus Mid Cap Fund, Pegasus Small Cap Fund, Pegasus Small Cap Growth Fund, Focus Fund, Small Cap Financial Fund, Technology Fund and Gas Utility Index Fund have approved such a "manager of managers" arrangement. If the SEC grants the exemptive order, in the event that there is a change in any of the sub-advisers retained by the Funds, shareholders would receive information about the change and about any new sub-adviser selected. While shareholders would not be permitted to vote on the selection of new sub-advisers, they would retain the right to vote on any material change to the Adviser.

## **Administrator**

JPMorgan Chase Bank N.A. ("JPMorgan") serves as the administrator to the Funds and provides pursuant to an Administration Agreement ("Agreement") day-to-day administrative services including monitoring portfolio compliance, determining compliance with provisions of the Internal Revenue Code and preparing the Funds' registration statements. Pursuant to the Agreement, JPMorgan receives a fee of 0.02% of the first \$2.5 billion of average daily net assets of the Trust, 0.0175% of

the next \$1.0 billion of average daily net assets of the Trust and 0.015% of the Trust's average daily net assets in excess of \$3.5 billion.

Pursuant to the Administrative Services Agreement, the Adviser also provides certain administrative services to the Funds that are in addition to those provided by JPMorgan, including oversight of service providers. The Adviser receives 0.04% of average daily net assets of the Trust. The Adviser also provides the Funds with office space, facilities and business equipment and generally administers the Funds' business affairs and provides the services of executive and clerical personnel for administering the affairs of the Funds. The Adviser compensates all personnel, Officers, and Trustees of the Funds if such persons are employees of the Adviser.

## **Portfolio Managers**

The following section provides biographical information about each of the Funds' portfolio managers. With respect to each Fund the Adviser employs the portfolio managers responsible for managing each Fund's investments. Where a Fund is managed by co-portfolio managers, such management is conducted with research, stock selection, portfolio composition and day to day trading decisions distributed equally amongst the investment professionals of the Adviser. Additional information regarding the portfolio managers' compensation, other accounts managed by these portfolio managers and their ownership of shares of the Funds each manages is available in the SAI.

**David H. Ellison** serves as President of the Trust and Chief Investment Officer (CIO) for the Funds. Mr. Ellison has served as portfolio manager of the Large Cap Financial Fund and the Small Cap Financial Fund and co-portfolio manager of the Technology Fund since the commencement of each Fund's operations. Prior to joining the Adviser as a portfolio manager in 1997, Mr. Ellison was portfolio manager of the Fidelity Select Home Finance Fund from 1985 until December 1996.

**Winsor H. Aylesworth** has served as co-portfolio manager of the Technology Fund since the Fund's commencement of operations and has served as portfolio manager of the Gas Utility Index Fund since 2001. Mr. Aylesworth has been employed by the Adviser since 1998. He holds both an M.S. and MBA degree and previously was president of Grandview Advisers, Inc.

**Robert C. Barringer, CFA** has served as co-portfolio manager of the Pegasus Fund and portfolio manager of the Pegasus Small Cap Fund since their commencement of operations and as the portfolio manager of the Pegasus Small Cap Growth Fund since July 2004. Mr. Barringer holds a B.A. and a MBA. Prior to joining the Adviser in May 2004, Mr. Barringer held positions as either an analyst or a co-portfolio manager with Citizens Funds since February 2001.

**Ryan C. Kelley, CFA** has served as co-portfolio manager of the Pegasus Fund and portfolio manager of the Pegasus Mid Cap Fund since their commencement of operations. Mr. Kelley holds a B.A. degree. Prior to joining the Adviser in 2005, Mr. Kelley held various positions at FBR, including senior equity analyst in the research department since 2002 and associate in corporate finance for five years prior to 2002.

**David S. Rainey, CFA** has served as co-portfolio manager of the Focus Fund since August 2009. Prior to joining the Adviser in August 2009, Mr. Rainey served as Senior Research Analyst at Akre Capital Management, the prior sub-adviser to the Fund, which he joined in May 1998. Prior to joining Akre Capital Management, Mr. Rainey held investment management positions with the Federal National Mortgage Association (“Fannie Mae”), the Student Loan Marketing Association (“Sallie Mae”) and with Wheat First Securities. Mr. Rainey holds a BS in Commerce from the University of Virginia and an MBA from Duke University.

**Brian E. Macauley, CFA** has served as co-portfolio manager of the Focus Fund since August 2009. Prior to joining the Adviser in August 2009, Mr. Macauley served as a Research Analyst at Akre Capital Management, the prior sub-adviser to the Fund, which he joined in January 2003. Prior to joining Akre Capital Management, Mr. Macauley held investment analyst positions with Credit Suisse First Boston and with Wachovia Securities. Mr. Macauley holds a BS in Commerce from the University of Virginia.

**Ira Rothberg, CFA** has served as co-portfolio manager of the Focus Fund since August 2009. Prior to joining the Adviser in August 2009, Mr. Rothberg served as a Research Analyst at Akre Capital Management, the prior sub-adviser to the Fund, which he joined in November 2004. Prior to joining Akre Capital Management, Mr. Rothberg held an investment analyst position with Ramsey Asset Management. Mr. Rothberg holds a BS in Finance and Accounting and a BA in Economics from the University of Maryland.

## **SHAREHOLDER INFORMATION**

All purchases and redemptions of a Fund’s shares are made at the Fund’s net asset value per share (“NAV”) next determined after receipt of the order in proper form. You pay no sales charges to invest in the Funds.

### **Choosing a Class of Shares**

All of the Funds offer Investor Class shares; certain of the Funds offer I Class and R Class shares. Consult the separate I Class and R Class prospectuses to see which of the Funds are currently offered in those classes. For information about I Class and R Class shares, call The FBR Funds (“FBR”) at 888.888.0025.

## Determination of Net Asset Value

Your price for Fund shares is the Fund's NAV, which is computed daily as of the close of regular trading on the NYSE (normally 4:00 p.m., Eastern time) on each day that the NYSE is open (a "Business Day"). Purchase orders received by JPMorgan Chase Bank, N.A. ("JPMorgan" or "Transfer Agent") prior to the close of regular trading on the NYSE on any Business Day, are priced according to the applicable NAV determined on that date. Purchase orders received after the close of regular trading on the NYSE are generally priced as of the time the Fund's NAV is next determined.

Each Fund determines its NAV by dividing the value of its net assets (i.e., assets less liabilities) by the total number of shares then outstanding. Each Fund's investments are valued based on market value. When a market quotation for a security is not readily available (which may include closing prices deemed to be unreliable because of the occurrence of a subsequent event), such security will be priced using its fair value as determined in good faith, by, or using procedures approved by, the Board of Trustees of the Funds. The types of securities for which such fair value pricing may be required include, but are not limited to: foreign securities affected by a significant event occurring after the close of the foreign market on which such security principally trades, but before the close of the NYSE, that is likely to have changed the value of the security; securities whose trading has been halted or suspended; and securities that are restricted as to transfer or resale.

Valuing securities at fair value involves greater reliance on judgment than valuing securities that have readily available market quotations. There can be no assurance that a Fund could obtain the fair value assigned to a security if it were to sell the security at approximately the time at which the Fund determines its net asset value per share.

## How to Buy Shares

**Generally.** You may buy shares of the Funds on any Business Day. The minimum initial investment is \$2,000. For an investment in an IRA or pension, profit-sharing or other employee benefit plan ("Retirement Plans") the minimum initial investment is \$1,000. There is no minimum requirement for subsequent investments. The Funds reserve the right to reject any purchase order or change the initial and subsequent investment minimum requirements at any time.

### ***Important Information About Procedures For Opening A New Account***

*To help the government fight the funding of terrorism and money laundering activities, federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account, and to determine whether such person's name appears*

*on government lists of known or suspected terrorists and terrorist organizations.*

*What this means for you: when you open an account, a Fund must obtain the following information:*

- *Your name;*
- *Physical residential address (although post office boxes are still permitted for mailing);*
- *Date of birth; and*
- *Social security number, taxpayer identification number, or other identifying number.*

*We may also ask for other information that will allow us to identify you or to see certain identifying documents. In addition, it may be necessary to verify your identity by cross-referencing your identification information with a consumer report or other third-party services. Additional information may be required to open accounts for corporations and other non-natural persons.*

*Federal law prohibits the Funds from establishing new accounts unless it receives the minimum identifying information listed above. The Funds also may be required to close your account if they are unable to verify your identity within a reasonable time.*

## **Buying Shares Through the Distributor, Other Authorized Broker-Dealers or Investment Professionals**

FBR Investment Services, Inc. (“FBR Services” or the “Distributor”) has relationships with certain brokers and other financial intermediaries who are authorized to accept, or designate intermediaries to accept, purchase and redemption orders for the Funds (the “Authorized Broker-Dealer”). If you purchase through such a broker, your order will be priced at the NAV next determined after your broker or its designated intermediary accepts it. Contact your broker to determine whether it has an established relationship with the Distributor.

To buy shares through the Distributor or an Authorized Broker-Dealer, you may send a check, or wire Federal Funds. The Distributor or an investor’s Authorized Broker-Dealer is responsible for forwarding purchase information and payment promptly to the Funds.

Shareholders whose shares are held through a brokerage account who desire to transfer such shares to another brokerage account should contact their current broker to affect the transfer.

Some broker-dealers (other than the Distributor), financial institutions, securities dealers, financial planners and other industry professionals (collectively, “Investment Professionals”) may charge their clients direct fees or impose conditions on investments in addition to or different from those described in this Prospectus. You should contact your Investment Professional concerning these fees and conditions (if any). Investment Professionals are solely responsible for promptly transmitting purchase and redemption orders to the Funds.

**Distribution and Shareholder Servicing Arrangements.** With respect to the Gas Utility Index Fund, the Adviser or its affiliates, from their own resources and without additional cost to the Fund or its shareholders, may provide additional cash payments to broker-dealers or other financial intermediaries as compensation for providing shareholder servicing and other administrative services to Fund shareholders. The Board of Trustees periodically reviews these payments.

### **Buying Shares Through the Transfer Agent**

To purchase shares through the Transfer Agent, you should complete the application (the “Account Application”) accompanying this Prospectus and forward it with payment by check drawn on a U.S. or Canadian bank to The FBR Funds, c/o JPMorgan Chase Bank, N.A., P.O. Box 5354, Cincinnati, Ohio 45201-5354, or by overnight mail to The FBR Funds, c/o JPMorgan Chase Bank, N.A., 303 Broadway, Suite 900, Cincinnati, Ohio 45202-4203. You may make additional purchases of shares by mailing a check drawn on a U.S. or Canadian bank to the same address. If you pay for shares by check, the shares will be priced at the NAV next determined after the Transfer Agent receives the check in proper form. No cash, money orders, traveler’s checks, credit card checks, future or post-dated checks including stale-dated checks, counter or starter checks will be accepted. The Funds may accept cashier’s checks or official checks for the purpose of a transfer or rollover. In some instances, the Funds will accept third party checks, however, to protect against check fraud, the Funds may reject any purchase request involving a check that is not made payable to “The FBR Funds” (including, but not limited to, requests to purchase shares using third-party checks). The availability of funds purchased by check may be subject to a hold up to 10 business days.

If your check does not clear, for any reason, the Transfer Agent will cancel your purchase and charge you for any loss to the Fund. You may also be prohibited from future purchases.

You may also purchase shares by federal wire. Call the Transfer Agent at 888.888.0025 prior to sending the wire to ensure you use the correct wiring instructions. There is no charge from the Funds to make a wire purchase, however your bank may charge a fee for handling wire transfers. All wires must be denominated in U.S. Dollars.

You should also notify the Transfer Agent before wiring funds for additional purchases.

The Transfer Agent will not process purchases or redemptions until it receives a fully completed and signed Account Application.

### **In-Kind Purchases**

You may buy shares of the Funds “in-kind” through a transfer of securities as payment for the shares, if approved in advance by the Adviser. Securities used to purchase Fund shares must be appropriate investments for that Fund, must be consistent with the Fund’s investment objective and policies, and must have readily available market quotations. The securities will be valued in accordance with the Funds’ procedures for valuing portfolio securities, determined as of the close of business the day on which the securities are received by the Fund in salable form. Whether a Fund will accept particular securities as payment will be decided at the sole discretion of the Adviser. If you are considering buying shares in this manner, please call 888.888.0025.

### **Systematic Investment Program**

The Systematic Investment Program allows you to buy shares of a Fund at regular intervals. If your bank or other financial institution allows automatic withdrawals, you may buy shares by having a designated account debited in the specified amount every month or quarter, on the fifth and/or twentieth day of the month. A minimum initial investment of \$500 is required to enroll in the Systematic Investment Program, and a \$50 minimum for all subsequent systematic investments. Only an account maintained at a domestic financial institution which is an Automated Clearing House member may be used for participation in the Systematic Investment Program. If you want to participate in the Systematic Investment Program, please call the Transfer Agent at 888.888.0025 to obtain the appropriate forms.

The Systematic Investment Program does not assure a profit and does not protect against loss in declining markets. The Funds may modify or terminate the Systematic Investment Program at any time or charge a service fee. No fee is currently charged or contemplated.

### **How to Redeem Shares**

Generally, the price you will receive for your shares will be the NAV next determined after your order is received in proper form.

Normally, redemption proceeds will be mailed by the next Business Day after the Fund receives a redemption request in proper form, but it may take up to seven days to pay the redemption proceeds if making immediate payment would adversely

affect a Fund. This generally applies to cases of very large redemptions or during unusual market conditions.

Notwithstanding the foregoing, with respect to redemption of shares that were purchased recently by check, the Funds may withhold payment of redemption proceeds for up to 10 business days.

Your account may be redeemed after 60 days' written notice to you if your account's net asset value has fallen below \$1,000 due to redemptions. If you receive notice that your account will be redeemed, you may avoid the redemption by investing additional amounts in your account to bring the balance over \$1,000. You will not be required to redeem your account that has fallen below \$1,000 due to market fluctuations.

## **Frequent Trading Policy and Redemption Fee**

The Funds are intended for long-term investors and not for those who wish to trade frequently in their shares. Frequent trading into and out of a Fund can have adverse consequences for the Fund and long-term shareholders. The Trust believes that frequent or excessive short-term trading activity by Fund shareholders may be detrimental to long-term shareholders because those activities may, among other things, (a) dilute the value of shares held by long-term shareholders, (b) cause the Funds to maintain a larger cash position than each such Fund would otherwise need, (c) increase brokerage commissions and related costs and expenses (such as custody and administrative costs and expenses), and (d) incur additional tax liability. To protect against such activity, the Board of Trustees has adopted policies and procedures to curtail frequent or excessive short-term trading activity by Fund shareholders.

In accordance with this policy, if you redeem or exchange shares within 90 days of purchasing them, the Funds will charge a redemption fee of 1% of the amount redeemed. The 1% redemption fee on shares redeemed (including exchanges) within 90 days of purchase is deducted from the redemption proceeds, is payable to the applicable Fund and is intended to offset out-of-pocket administrative costs and portfolio transaction costs caused by short-term trading. To calculate the redemption fee, the Funds will use the "first-in, first-out" (FIFO) method to determine the holding period. Under this method, the date of the redemption will be compared with the earliest purchase date of shares held in the account. All shareholders are subject to this fee, whether you invest directly with the Funds or through a Financial Intermediary, except as noted below.

Subject to the advance approval of the Trust's chief compliance officer, the redemption fee may be waived on certain exempt transactions and accounts, including (1) redemptions and exchanges of Fund shares acquired through the reinvestment of dividends and distributions; (2) redemptions initiated by the Fund,

including payment of maintenance fees; (3) shares redeemed due to death or disability of a shareholder or divorce decree; (4) transfer of assets within the same Fund; (5) certain redemptions and exchanges from participant directed retirement plans (please see below); and (6) redemptions and exchanges redeemed through asset allocation programs, provided the rebalancing is done no more than quarterly. Under Rule 22c-2 of the Investment Company Act of 1940, the Funds have entered into agreements with financial intermediaries obligating such financial intermediaries to provide, upon each Fund's request, certain information regarding their customers and their customers' transactions in shares of the Funds. However, there can be no guarantee that all short-term trading activity will be detected in a timely manner, since the Funds will rely on the financial intermediaries to provide the trading information, and the Funds cannot be assured that the trading information, when received, will be in a form that can be quickly analyzed or evaluated by the Funds.

Redemption fees will not apply to the following transactions in participant directed retirement plans (such as 401k, 403b and 457 plans): (1) redemptions due to loans; (2) required minimum distributions; (3) plan or participant termination; and (4) redemptions and exchanges on initial payroll or employer contributions.

Other than the redemption fee, the Trust does not impose limits on the frequency of purchases and redemptions at the present time, nor does it limit the number of exchanges in a given period, but reserves the right to impose such measures in the future. The Trust allows exchanges into any Fund in the Trust. The Trust reserves the right to modify, withdraw or impose certain limitations at any time with respect to the exchange privilege. The Trust reserves the right to modify the redemption fee to meet any regulatory requirements that may be imposed in the future.

### **Redeeming Through The Distributor, Authorized Broker-Dealers Or Investment Professionals**

If you hold Fund shares through a brokerage account, you must submit redemption requests to your account executive or Authorized Broker-Dealer, either in person, by telephone or by mail. As the Funds' agent, the Distributor or another Authorized Broker-Dealer may honor a redemption request by repurchasing Fund shares from you at the shares' NAV next computed after the Distributor or Authorized Broker-Dealer receives your request. Under normal circumstances, redemption proceeds will be paid by check or credited to your brokerage account by the next Business Day. The Distributor and Authorized Broker-Dealers are responsible for sending redemption requests promptly to the Transfer Agent. You may also place redemption requests through an Investment Professional, who may charge a fee for this service.

### **Redeeming Through The Transfer Agent**

Some circumstances require that your request to sell shares be made in writing accompanied by an original signature guarantee to help protect against fraud. We

accept original signature guarantees from domestic banks, brokers, dealers, credit unions, national securities exchanges, registered securities associations, clearing agencies and savings associations participating in a Medallion program. The three recognized medallion programs are Securities Transfer Agent Medallion Program (STAMP), Stock Exchanges Medallion Program (SEMP), and New York Stock Exchange, Inc. Medallion Signature Program (MSP). SIGNATURE GUARANTEES RECEIVED FROM INSTITUTIONS NOT PARTICIPATING IN THESE PROGRAMS WILL NOT BE ACCEPTED.

Some of the circumstances that may require an original Medallion signature guarantee from one of the above programs include:

- Redemption proceeds that exceed \$100,000;
- Proceeds that are not being paid to the owner of record, including the transfer of assets;
- Proceeds that are being sent to an address other than the address of record;
- Proceeds to be paid by check to an address of record that has been changed within 30 days; and
- Proceeds being sent via wire or ACH when bank instructions have been added or changed within 30 days of your redemption request.

We may require additional documentation of authority when a corporation, partnership, trust, fiduciary, executor or administrator requests a redemption. Contact the Transfer Agent for requirements.

**REDEMPTION IN WRITING.** If you do not hold shares through a brokerage account and you wish to redeem shares, you may redeem your shares through the Transfer Agent by sending a written request directly to: The FBR Funds, c/o JPMorgan Chase Bank, N.A., P.O. Box 5354, Cincinnati, Ohio 45201-5354. Include the following information in your redemption request:

- the name of the Fund and account number you are redeeming from;
- your name(s) and address as it appears on your account;
- the dollar amount or number of shares you wish to redeem;
- your signature(s) as it appears on your account registration; and
- a daytime telephone number.

**REDEMPTION BY TELEPHONE/PAYMENT BY WIRE TRANSFER.** You may redeem shares by telephone if you elected this option on your initial Account Application. If you wish to add this privilege to your account, please call the

Transfer Agent at 888.888.0025 for instructions. Shares held in IRA accounts and qualified retirement plans cannot be sold by telephone.

If you redeem shares by telephone, we will mail a check for the redemption proceeds to your registered address unless you have designated in your Account Application that redemption proceeds are to be sent by wire transfer to a specific checking or savings account. In that case, if we receive a telephone redemption request before the close of regular trading on the NYSE (normally 4:00 p.m., Eastern time), we will wire the redemption proceeds to your bank account on the next day that a wire transfer can be effected. We charge a transaction fee of \$10.00 for payments by wire. This fee may be waived for certain institutional accounts and broker/dealer accounts. Your bank may also charge a fee for receiving the wire.

In order to protect your investment assets, the Funds will only follow instructions received by telephone that it reasonably believes to be genuine. However, there is no guarantee that the instructions relied upon will always be genuine and the Funds will not be liable, in those cases. The Funds have certain procedures to confirm that telephone instructions are genuine. Some of these procedures may include requiring personal identification; making checks payable only to the owner(s) of the account shown on the Funds' records; mailing checks only to the account address shown on the Funds' records; directing wires only to the bank account shown on the Funds' records; providing written confirmation for transactions requested by telephone and tape recording instructions received by telephone. The Funds reserve the right to refuse any transaction they believe to not be genuine.

### **Redemption In-Kind**

Redemption proceeds are normally paid in cash; however, the Funds reserve the right to pay the redemption price in whole or in part by a "redemption in-kind" of portfolio securities of the particular Fund, in lieu of cash, if the amount you are redeeming is large enough to affect Fund operations (for example, if it represents more than 1% of a Fund's assets).

### **Automatic Withdrawal**

The Funds have an automatic withdrawal program, which allows you to withdraw a specified dollar amount (minimum of \$100) on either a monthly or quarterly basis. You must have a minimum account balance of \$10,000 in a Fund to enroll in the automatic withdrawal program. We will redeem shares in your account for this purpose. As with other redemptions, we will charge a 1% fee for shares redeemed that have been held 90 days or less (see "Frequent Trading Policy and Redemption Fee"). You may obtain an application for automatic withdrawal from the Distributor or the Transfer Agent. If, as a result of your automatic withdrawals, your account balance in a Fund falls below \$1,000, it may be subject to the minimum account balance requirements. You may cancel the automatic withdrawal

at any time. The Funds reserve the right to cancel the plan if, on two or more consecutive months, there has been insufficient shares in your account. The Funds may modify or terminate the automatic withdrawal program at any time.

## **SHAREHOLDER SERVICES**

### **Tax-Sheltered Retirement Plans**

You may invest in each Fund through various retirement plans. These include individual retirement plans and employer sponsored retirement plans, such as defined benefit and defined contribution plans. To determine which type of retirement plan is appropriate for you, please contact your tax adviser. For further information about Fund sponsored Traditional, Roth and SEP IRA plans, please call the Transfer Agent.

### **Exchange Privilege**

You may exchange your shares of a Fund for shares of another Fund described in this Prospectus.

You should obtain and read the current Prospectus of the FBR Fund you want to acquire in an exchange by calling 888.888.0025. Please note that proceeds of shares exchanged within 90 days of purchase will be subject to a 1% redemption fee (see “Frequent Trading Policy and Redemption Fee”). The FBR Fund you are exchanging into must be available for sale in your state and the registration for both accounts must be identical. Exchanges will be effected at the respective net asset values of the Funds involved as next determined after receipt of the exchange request. The exchange privilege may be modified or withdrawn at any time and is subject to certain limitations.

If you wish to make an exchange, you may do so by sending a written request to the Transfer Agent. You will automatically be provided with telephone exchange privileges when you open your account, unless you indicate on the Account Application that you do not wish to use this privilege. You may add a telephone exchange feature to an existing account that previously did not provide for this option. If you wish to add this privilege to your account, please call the Transfer Agent at 888.888.0025 for instructions. Once this election has been made, you may simply contact the Transfer Agent at 888.888.0025 to request the exchange.

When you enact an exchange, a new account will be established with the exact registration and options as the account you are exchanging from unless you are exchanging into an existing account. If you want different options for the new account, you must specify this in writing, with all signatures guaranteed as described above. See “Redeeming Through the Transfer Agent.”

For federal income tax purposes, an exchange is treated as a redemption of the shares surrendered in the exchange, on which you may be subject to tax, followed by a purchase of shares received in the exchange (except for exchanges within retirement plans). You should consult your own tax adviser concerning the tax consequences of an exchange.

If an exchange is to a new account in a Fund, the dollar value of shares acquired must meet the Fund's minimum investment for a new account. Any amount that remains in a Fund account after an exchange must not drop below the minimum account value required by the Funds.

## **Distribution Fees**

Each Fund, except the Gas Utility Index Fund, has adopted a distribution plan pursuant to Rule 12b-1 under the 1940 Act which allows the Fund to pay distribution fees for the sale and distribution of its shares. Under these plans, each Fund pays a distribution fee at an annual rate of up to 0.25% of the Fund's average daily net assets. Because these fees are paid out of the Fund's assets on an ongoing basis, over time these fees will increase the cost of your investment and may cost you more than paying other types of sales charges.

## **Dividends and Distributions**

Each Fund, except the Gas Utility Index Fund, declares and pays any dividends from its net investment income, if any, annually. The Gas Utility Index Fund declares and pays any such dividends quarterly. The Funds distribute substantially all of their net capital gain (the excess of net long-term capital gain over net short-term capital loss) and net short-term capital gain, if any, after the end of the taxable year in which the gain is realized. The Funds may make additional distributions if necessary to comply with the distribution requirements of the Internal Revenue Code of 1986, as amended (the "Code").

You may choose to have dividends and distributions of a Fund paid to you in cash or additional shares of the Fund. You should make this election on your Account Application but you may change your election by giving written notice to the Transfer Agent at any time prior to the record date for a particular dividend or distribution. If you do not choose otherwise, all dividends and distributions will be reinvested in the Fund paying the dividend and/or distribution.

If you elect to receive dividends and distributions in cash and the payment (1) is returned and marked as "undeliverable" or (2) remains uncashed for six months, your cash election will be changed automatically and future dividends will be reinvested in the Funds at the NAV determined as of the date of payment. In addition, any undeliverable checks or checks that remain uncashed for six months

will be canceled and then reinvested in the Funds at the NAV determined as of the date of cancellation.

## **Federal Tax Considerations**

Investments in the Funds have tax consequences that you should consider. This section briefly describes some of the more common federal tax consequences. A more detailed discussion about the tax treatment of distributions from a Fund and about other potential tax liabilities, including backup withholding for certain taxpayers and tax aspects of dispositions of shares of a Fund, is contained in the SAI. You should consult your tax adviser about your own particular tax situation.

**Taxes on Distributions.** You will generally have to pay federal income tax on all Fund distributions. Distributions will be taxed in the same manner whether you receive the distributions in cash or in additional shares of a Fund. Shareholders who are not subject to tax on their income generally will not be required to pay any tax on distributions.

Distributions that are derived from net long-term capital gains generally will be taxed as long-term capital gains. Dividend distributions and short-term capital gains generally will be taxed as ordinary income. The tax you pay on a given capital gains distribution generally depends on how long a Fund held the portfolio securities it sold. It does not depend on how long you held your Fund shares.

Currently applicable tax provisions generally provide for a maximum tax rate for individual taxpayers of 15% on long-term gains and certain qualifying dividends on corporate stock. These rate reductions do not apply to corporate taxpayers or to foreign shareholders. The following are guidelines for how certain distributions by a Fund are generally taxed to individual taxpayers:

- Distributions of earnings from qualifying dividends and qualifying long-term capital gains will be taxed at a maximum rate of 15%.
- Note that distributions of earnings from dividends paid by certain “qualified foreign corporations” can also qualify for the lower tax rates on qualifying dividends.
- A shareholder will also have to satisfy a more than 60-day holding period with respect to any distributions of qualifying dividends in order to obtain the benefit of the lower tax rate.
- Distributions of earnings from non-qualifying dividends income, interest income, other types of ordinary income and short-term capital gains will be taxed at the ordinary income tax rate applicable to the taxpayer.

- The favorable treatment for qualifying dividends and the maximum 15% rate on capital gains for individual taxpayers is currently scheduled to expire after 2010.

Distributions are generally taxable to you in the tax year in which they are paid, with one exception: distributions declared in October, November or December, but not paid until January of the following year, are taxed as though they were paid on December 31 in the year in which they were declared.

Shareholders generally are required to report all Fund distributions on their federal income tax returns. Each year the Funds will send you information detailing the amount of ordinary income and capital gains paid to you for the previous year.

The Funds may be required to withhold U.S. federal income tax at the rate of 28% (currently scheduled to increase to 31% after 2010) of all taxable distributions payable to you if you fail to provide the Funds with your correct taxpayer identification number or to make required certifications, or if you have been notified by the IRS that you are subject to backup withholding. Such withholding is not an additional tax and any amounts withheld may be credited against your U.S. federal income tax liability.

**Taxes on Sales or Exchanges.** If you sell shares of a Fund or exchange them for shares of another Fund, you generally will be subject to tax on any taxable gain. Taxable gain is computed by subtracting your tax basis in the shares from the redemption proceeds (in the case of a sale) or the value of the shares received (in the case of an exchange). Because your tax basis depends on the original purchase price and on the price at which any dividends may have been reinvested, you should be sure to keep account statements so that you or your tax preparer will be able to determine whether a sale will result in a taxable gain. If your tax basis in the shares exceeds your redemption proceeds, you will recognize a taxable loss on the sale of the shares of the Fund.

**Other Considerations.** If you buy shares of a Fund just before the Fund makes any distribution, you will pay the full price for the shares and then receive back a portion of the money you have just invested in the form of a taxable distribution.

**Non-U.S. Shareholders.** Shareholders other than U.S. persons may be subject to different U.S. federal income tax treatment, including withholding tax at the rate of 30% on amounts treated as ordinary dividends from a Fund, as discussed in more detail in the SAI.

## **Disclosure of Portfolio Holdings**

A complete list of each Fund's portfolio holdings is publicly available on a quarterly basis on the Funds' website at [www.fbrfunds.com](http://www.fbrfunds.com) by the 10th business

day following the end of each calendar quarter. A complete list of the Funds' portfolio holdings is also publicly available through filings made with the U.S. Securities and Exchange Commission on Forms N-CSR and N-Q. The Funds also make available certain additional information regarding their portfolios (e.g. top-10 holdings, asset allocation, sector breakdown) on their website on a quarterly basis by the 15th of the month following the calendar quarter-end. A description of the Funds' policies and procedures with respect to the disclosure of the Funds' portfolios is provided in the Funds' SAI.

## **Shareholder Services Agreements**

The Funds are authorized to enter into Shareholder Services Agreements pursuant to which each Fund is entitled to make payments to certain entities which may include investment advisers, brokers, dealers, banks, trust companies and other types of organizations ("Authorized Service Providers") for providing administrative services with respect to shares of the Funds attributable to or held in the name of the Authorized Service Provider for its clients or other parties with whom they have a servicing relationship. Under the terms of a Shareholder Services Agreement, a Fund is authorized to pay an Authorized Service Provider a shareholder service fee at the rate of up to 0.25% on an annual basis of the average daily net asset value of the shares of the Fund attributable to or held in the name of the Authorized Service Provider for providing certain administrative services to Fund shareholders with whom the Authorized Service Provider has a servicing relationship.

## **Payments to Third Parties by the Adviser and its Affiliates**

The Adviser and its affiliates, including the Distributor, may, out of their own resources, and without additional direct cost to the Funds or their shareholders, provide compensation to certain financial intermediaries, such as broker-dealers and financial advisers, in connection with sales of shares of the Funds. This compensation is in addition to any Distribution (Rule 12b-1) Fees paid by the Funds to such intermediaries. This compensation is generally made to those intermediaries that provide shareholder servicing, marketing support, broker education, and/or access to sales meetings, sales representatives and management representatives of the intermediary. Compensation may also be paid to intermediaries for inclusion of the Funds on a sales list, including a preferred or select sales list, in other sales programs or as an expense reimbursement in cases where the intermediary provides shareholder services to Fund shareholders.

Please be aware that the Funds may use brokers who sell shares of the Funds to effect portfolio transactions. The Funds do not consider the sale of Fund shares as a factor when selecting brokers to effect portfolio transactions. The Funds have

adopted procedures which address these matters. You should note that if one mutual fund sponsor makes greater distribution assistance payments than another, your broker or financial adviser and his or her firm may have an incentive to recommend one fund complex over another.

## **FINANCIAL HIGHLIGHTS**

The financial highlights tables on the following pages are intended to help you understand each Fund's Investor Class share's financial performance for the past five years, or, if shorter, the period of the Fund's Investor Class share's operations. Certain information reflects financial results for a single Fund share. The total returns in the table represent the rate that an investor would have earned or lost on an investment in the Fund (assuming reinvestment of all dividends and distributions, if any). The information for the Funds has been audited by Tait, Weller, and Baker LLP, whose report, along with the Funds' audited financial statements, are included in the current annual report, which is available upon request.

# FBR Pegasus Fund™

|   | For the Years Ended October 31, |                 |                     | For the                              |
|---|---------------------------------|-----------------|---------------------|--------------------------------------|
|   | 2009                            | 2008            | 2007                | Period Ended<br>October 31,<br>2006* |
| <b>Per Share Operating Performance:</b>   |                                 |                 |                     |                                      |
| Net Asset Value – Beginning of Period   | \$ 8.14                         | \$ 13.40        | \$ 11.84            | \$ 10.00                             |
| Income (Loss) from Investment Operations:   |                                 |                 |                     |                                      |
| Net Investment Income (Loss) <sup>(1,2)</sup>   | 0.03                            | 0.08            | (0.04)              | (0.01)                               |
| Net Realized and Unrealized Gain (Loss)<br>on Investments <sup>(1,3)</sup>              | 1.60                            | (4.05)          | 2.05                | 1.84                                 |
| Total from Investment Operations  | 1.63                            | (3.97)          | 2.01                | 1.83                                 |
| Distributions to Shareholders:  |                                 |                 |                     |                                      |
| From Net Investment Income  | (0.05)                          | –               | –                   | (0.00) <sup>(4)</sup>                |
| From Net Realized Gain  | –                               | (1.30)          | (0.45)              | –                                    |
| Total Distributions   | (0.05)                          | (1.30)          | (0.45)              | (0.00) <sup>(4)</sup>                |
| Paid-in Capital from Redemption Fees <sup>(5)</sup>                                     | 0.00 <sup>(4)</sup>             | 0.01            | 0.00 <sup>(4)</sup> | 0.01                                 |
| Net Increase (Decrease) in Net Asset Value  | 1.58                            | (5.26)          | 1.56                | 1.84                                 |
| Net Asset Value – End of Period   | \$ 9.72                         | \$ 8.14         | \$ 13.40            | \$ 11.84                             |
| <b>Total Investment Return<sup>(6)</sup></b>  | <b>20.12%</b>                   | <b>(32.37)%</b> | <b>17.52%</b>       | <b>18.45%<sup>(A)</sup></b>          |
| <b>Ratios to Average Net Assets:</b>  |                                 |                 |                     |                                      |
| Expenses After Waivers and Related<br>Reimbursements <sup>(2)</sup>                     | 1.25%                           | 1.71%           | 1.97%               | 1.94% <sup>(B)</sup>                 |
| Expenses Before Waivers and Related<br>Reimbursements                                   | 2.16%                           | 2.55%           | 2.21%               | 2.74% <sup>(B)</sup>                 |
| Net Investment Income (Loss) After Waivers<br>and Related Reimbursements <sup>(2)</sup> | 0.61%                           | 0.51%           | (0.30)%             | (0.23)% <sup>(B)</sup>               |
| Net Investment Loss Before Waivers<br>and Related Reimbursements                        | (0.30)%                         | (0.33)%         | (0.54)%             | (1.03)% <sup>(B)</sup>               |
| <b>Supplementary Data:</b>  |                                 |                 |                     |                                      |
| Portfolio Turnover Rate   | 60%                             | 39%             | 108%                | 166% <sup>(A)</sup>                  |
| Net Assets at End of Period (in thousands)  | \$18,947                        | \$ 4,574        | \$13,037            | \$13,349                             |

\* Represents the period from commencement of operations (November 15, 2005) through October 31, 2006.

(1) Calculated based on shares outstanding on the first and last day of the respective periods, except for dividends and distributions, if any, which are based on the actual shares outstanding on the dates of distributions.

(2) Prior to May 30, 2008, reflects fees waived and reimbursed by FBR Fund Advisers, Inc. pursuant to a contractual expense limitation of 1.95% (excluding interest, taxes, brokerage commissions, dividend expenses, acquired fund fees and expenses, extraordinary legal expenses, or any other extraordinary expenses). As of May 30, 2008, reflects fees waived and reimbursed by FBR Fund Advisers, Inc. pursuant to a contractual expense limitation of 1.25% (excluding interest, taxes, brokerage commissions, dividend expenses, acquired fund fees and expenses, extraordinary legal expenses, or any other extraordinary expenses).

(3) The amounts shown for a share outstanding throughout the period may not be in accordance with the changes in the aggregate gains and losses on investments during the period because of the timing of sales and repurchases of Fund shares in relation to fluctuating net asset values during the period.

(4) Less than \$0.01

(5) Calculated based on average shares outstanding.

(6) Total investment return is calculated assuming a purchase of shares on the first day and a sale on the last day of each period reported and will include reinvestment of dividends and distributions, if any.

(A) Not Annualized

(B) Annualized

## FBR Pegasus Mid Cap Fund™

|  | For the Years Ended October 31, |                 | For the                     |
|--|---------------------------------|-----------------|-----------------------------|
|  | 2009                            | 2008            | Period Ended                |
|  |                                 |                 | October 31,                 |
|  |                                 |                 | 2007*                       |
| <b>Per Share Operating Performance:</b>  |                                 |                 |                             |
| Net Asset Value – Beginning of Period  | \$ 8.18                         | \$ 11.30        | \$ 10.00                    |
| Income (Loss) from Investment Operations:  |                                 |                 |                             |
| Net Investment Income (Loss) <sup>(1,2)</sup>  | 0.04                            | (0.01)          | (0.02)                      |
| Net Realized and Unrealized Gain (Loss) on Investments <sup>(1,3)</sup>              | 1.43                            | (3.00)          | 1.32                        |
| Total from Investment Operations   | 1.47                            | (3.01)          | 1.30                        |
| Distributions to Shareholders:   |                                 |                 |                             |
| From Net Investment Income   | (0.01)                          | –               | –                           |
| From Net Realized Gain   | (0.12)                          | (0.13)          | –                           |
| Total Distributions  | (0.13)                          | (0.13)          | –                           |
| Paid-in Capital from Redemption Fees <sup>(4)</sup>                                  | 0.01                            | 0.02            | 0.00 <sup>(5)</sup>         |
| Net Increase (Decrease) in Net Asset Value   | 1.35                            | (3.12)          | 1.30                        |
| Net Asset Value – End of Period  | \$ 9.53                         | \$ 8.18         | \$ 11.30                    |
| <b>Total Investment Return<sup>(6)</sup></b>   | <b>18.51%</b>                   | <b>(26.71)%</b> | <b>13.00%<sup>(A)</sup></b> |
| <b>Ratios to Average Net Assets:</b>   |                                 |                 |                             |
| Expenses After Waivers and Related Reimbursements <sup>(2)</sup>                     | 1.35%                           | 1.66%           | 1.95% <sup>(B)</sup>        |
| Expenses Before Waivers and Related Reimbursements                                   | 2.95%                           | 3.71%           | 4.17% <sup>(B)</sup>        |
| Net Investment Income (Loss) After Waivers and Related Reimbursements <sup>(2)</sup> | 0.39%                           | (0.13)%         | (0.36)% <sup>(B)</sup>      |
| Net Investment Loss Before Waivers and Related Reimbursements                        | (1.21)%                         | (2.18)%         | (2.58)% <sup>(B)</sup>      |
| <b>Supplementary Data:</b>   |                                 |                 |                             |
| Portfolio Turnover Rate  | 128%                            | 93%             | 135% <sup>(A)</sup>         |
| Net Assets at End of Period (in thousands)   | \$ 6,767                        | \$ 4,108        | \$ 3,873                    |

\* Represents the period from commencement of operations (February 28, 2007) through October 31, 2007.

(1) Calculated based on shares outstanding on the first and last day of the respective periods, except for dividends and distributions, if any, which are based on the actual shares outstanding on the dates of distributions.

(2) Prior to May 30, 2008 reflects fees waived and reimbursed by FBR Fund Advisers, Inc. pursuant to a contractual expense limitation of 1.95% (excluding interest, taxes, brokerage commissions, dividend expenses, acquired fund fees and expenses, extraordinary legal expenses, or any other extraordinary expenses). As of May 30, 2008, reflects fees waived and reimbursed by FBR Fund Advisers, Inc. pursuant to a contractual expense limitation of 1.35% (excluding interest, taxes, brokerage commissions, dividend expenses, acquired fund fees and expenses, extraordinary legal expenses, or any other extraordinary expenses).

(3) The amounts shown for a share outstanding throughout the period may not be in accordance with the changes in the aggregate gains and losses on investments during the period because of the timing of sales and repurchases of Fund shares in relation to fluctuating net asset values during the period.

(4) Calculated based on average shares outstanding.

(5) Less than \$0.01

(6) Total investment return is calculated assuming a purchase of shares on the first day and a sale on the last day of each period reported and will include reinvestment of dividends and distributions, if any.

(A) Not Annualized

(B) Annualized

# FBR Pegasus Small Cap Fund™

|   | For the Years Ended October 31, |                | For the<br>Period Ended<br>October 31,<br>2007* |
|---|---------------------------------|----------------|---|
|   | 2009                            | 2008           |   |
| <b>Per Share Operating Performance:</b>   |                                 |                |   |
| Net Asset Value — Beginning of Period   | \$ 8.44                         | \$ 11.85       | \$ 10.00  |
| Income (Loss) from Investment Operations:   |                                 |                |   |
| Net Investment Income (Loss) <sup>(1,2)</sup>   | 0.01                            | (0.03)         | (0.04)  |
| Net Realized and Unrealized Gain (Loss)<br>on Investments <sup>(1,3)</sup>              | 1.04                            | (3.35)         | 1.89  |
| Net Increase from Payments by Affiliates  | 0.01                            | —              | —   |
| Total from Investment Operations  | <u>1.06</u>                     | <u>(3.38)</u>  | <u>1.85</u>                                     |
| Distributions to Shareholders:  |                                 |                |   |
| From Net Realized Gain  | —                               | (0.04)         | —   |
| Paid-in Capital from Redemption Fees <sup>(4)</sup>                                     | 0.01                            | 0.01           | 0.00 <sup>(5)</sup>                             |
| Net Increase (Decrease) in Net Asset Value  | 1.07                            | (3.41)         | 1.85  |
| Net Asset Value — End of Period   | <u>\$ 9.51</u>                  | <u>\$ 8.44</u> | <u>\$ 11.85</u>                                 |
| <b>Total Investment Return<sup>(6)</sup></b>  | 12.68% <sup>(7)</sup>           | (28.49)%       | 18.50% <sup>(A)</sup>                           |
| <b>Ratios to Average Net Assets:</b>  |                                 |                |   |
| Expenses After Waivers and Related<br>Reimbursements <sup>(2)</sup>                     | 1.46%                           | 1.74%          | 1.95% <sup>(B)</sup>                            |
| Expenses Before Waivers and<br>Related Reimbursements                                   | 2.73%                           | 3.55%          | 3.77% <sup>(B)</sup>                            |
| Net Investment Income (Loss) After Waivers and<br>Related Reimbursements <sup>(2)</sup> | 0.10%                           | (0.36)%        | (0.61)% <sup>(B)</sup>                          |
| Net Investment Loss Before Waivers and<br>Related Reimbursements                        | (1.17)%                         | (2.17)%        | (2.43)% <sup>(B)</sup>                          |
| <b>Supplementary Data:</b>  |                                 |                |   |
| Portfolio Turnover Rate   | 226%                            | 207%           | 107% <sup>(A)</sup>                             |
| Net Assets at End of Period (in thousands)  | \$10,585                        | \$ 3,998       | \$ 4,900  |

\* Represents the period from commencement of operations (February 28, 2007) through October 31, 2007.

(1) Calculated based on shares outstanding on the first and last day of the respective periods, except for dividends and distributions, if any, which are based on the actual shares outstanding on the dates of distributions.

(2) Prior to May 30, 2008 reflects fees waived and reimbursed by FBR Fund Advisers, Inc. pursuant to a contractual expense limitation of 1.95% (excluding interest, taxes, brokerage commissions, dividend expenses, acquired fund fees and expenses, extraordinary legal expenses, or any other extraordinary expenses). As of May 30, 2008, reflects fees waived and reimbursed by FBR Fund Advisers, Inc. pursuant to a contractual expense limitation of 1.45% (excluding interest, taxes, brokerage commissions, dividend expenses, acquired fund fees and expenses, extraordinary legal expenses, or any other extraordinary expenses).

(3) The amounts shown for a share outstanding throughout the period may not be in accordance with the changes in the aggregate gains and losses on investments during the period because of the timing of sales and repurchases of Fund shares in relation to fluctuating net asset values during the period.

(4) Calculated based on average shares outstanding.

(5) Less than \$0.01

(6) Total investment return is calculated assuming a purchase of shares on the first day and a sale on the last day of each period reported and will include reinvestment of dividends and distributions, if any.

(7) The Fund's total return consists of a voluntary reimbursement by the Adviser for a realized loss on a transaction not meeting the Fund's investment guidelines. This item had an impact of 0.12%. If the adviser had not made a capital contribution to the Fund, the total return would have been 12.56%.

(A) Not Annualized

(B) Annualized

## FBR Pegasus Small Cap Growth Fund™

For the Years Ended October 31,

|   | 2009          | 2008            | 2007          | 2006          | 2005         |
|---|---------------|-----------------|---------------|---------------|--------------|
| <b>Per Share Operating Performance:</b>                                     |               |                 |               |               |              |
| Net Asset Value – Beginning of Year   | \$ 8.32       | \$ 13.56        | \$ 11.34      | \$ 9.46       | \$ 8.88      |
| Income (Loss) from Investment Operations:                                   |               |                 |               |               |              |
| Net Investment Loss <sup>(1,2)</sup>  | (0.07)        | (0.15)          | (0.19)        | (0.15)        | (0.16)       |
| Net Realized and Unrealized Gain (Loss)<br>on Investments <sup>(1,3)</sup>  | 1.59          | (4.64)          | 2.92          | 2.02          | 0.70         |
| Total from Investment Operations  | 1.52          | (4.79)          | 2.73          | 1.87          | 0.54         |
| Distributions to Shareholders:  |               |                 |               |               |              |
| From Net Realized Gain  | –             | (0.47)          | (0.52)        | –             | –            |
| Paid-in Capital from Redemption Fees <sup>(4)</sup>                         | 0.01          | 0.02            | 0.01          | 0.01          | 0.04         |
| Net Increase (Decrease) in Net Asset Value                                  | 1.53          | (5.24)          | 2.22          | 1.88          | 0.58         |
| Net Asset Value – End of Year   | \$ 9.85       | \$ 8.32         | \$ 13.56      | \$ 11.34      | \$ 9.46      |
| <b>Total Investment Return<sup>(5)</sup></b>                                | <b>18.39%</b> | <b>(36.32)%</b> | <b>25.06%</b> | <b>19.87%</b> | <b>6.53%</b> |
| <b>Ratios to Average Net Assets:</b>  |               |                 |               |               |              |
| Expenses After Waivers and Related Reimbursements <sup>(2)</sup>            | 1.45%         | 1.76%           | 1.95%         | 1.95%         | 1.95%        |
| Expenses Before Waivers and Related Reimbursements                          | 3.87%         | 4.29%           | 3.81%         | 5.45%         | 9.14%        |
| Net Investment Loss After Waivers and Related Reimbursements <sup>(2)</sup> | (0.95)%       | (1.28)%         | (1.65)%       | (1.65)%       | (1.68)%      |
| Net Investment Loss Before Waivers and Related Reimbursements               | (3.37)%       | (3.81)%         | (3.51)%       | (5.15)%       | (8.87)%      |
| <b>Supplementary Data:</b>  |               |                 |               |               |              |
| Portfolio Turnover Rate   | 102%          | 139%            | 108%          | 152%          | 246%         |
| Net Assets at End of Year (in thousands)                                    | \$ 5,387      | \$ 2,831        | \$ 5,451      | \$ 3,592      | \$ 1,759     |

<sup>(1)</sup> Calculated based on shares outstanding on the first and last day of the respective periods, except for dividends and distributions, if any, which are based on the actual shares outstanding on the dates of distributions.

<sup>(2)</sup> Prior to May 30, 2008 reflects fees waived and reimbursed by FBR Fund Advisers, Inc. pursuant to a contractual expense limitation of 1.95% (excluding interest, taxes, brokerage commissions, dividend expenses, acquired fund fees and expenses, extraordinary legal expenses, or any other extraordinary expenses). As of May 30, 2008, reflects fees waived and reimbursed by FBR Fund Advisers, Inc. pursuant to a contractual expense limitation of 1.45% (excluding interest, taxes, brokerage commissions, dividend expenses, acquired fund fees and expenses, extraordinary legal expenses, or any other extraordinary expenses).

<sup>(3)</sup> The amounts shown for a share outstanding throughout the respective periods may not be in accordance with the changes in the aggregate gains and losses on investments during the respective periods because of the timing of sales and repurchases of Fund shares in relation to fluctuating net asset values during the respective periods.

<sup>(4)</sup> Calculated based on average shares outstanding.

<sup>(5)</sup> Total investment return is calculated assuming a purchase of shares on the first day and a sale on the last day of each period reported and will include reinvestment of dividends and distributions, if any.

## FBR Focus Fund

|   | For the Years Ended October 31, |                 |                 |                     |                 |
|---|---------------------------------|-----------------|-----------------|---------------------|-----------------|
|   | 2009                            | 2008            | 2007            | 2006                | 2005            |
| <b>Per Share Operating Performance:</b>                                 |                                 |                 |                 |                     |                 |
| Net Asset Value – Beginning of Year                                     | \$ 37.40                        | \$ 57.97        | \$ 49.36        | \$ 40.36            | \$ 37.68        |
| Income (Loss) from Investment Operations:                               |                                 |                 |                 |                     |                 |
| Net Investment Income (Loss) <sup>(1,2)</sup>                           | (0.42)                          | (0.44)          | 0.08            | (0.43)              | (0.27)          |
| Net Realized and Unrealized Gain (Loss) on Investments <sup>(1,3)</sup> | 5.76                            | (19.51)         | 8.63            | 10.20               | 3.51            |
| Total from Investment Operations  | 5.34                            | (19.95)         | 8.71            | 9.77                | 3.24            |
| Distributions to Shareholders:  |                                 |                 |                 |                     |                 |
| From Net Investment Income  | –                               | (0.12)          | –               | –                   | –               |
| From Net Realized Gain  | (5.19)                          | (0.51)          | (0.12)          | (0.77)              | (0.57)          |
| Total Distributions   | (5.19)                          | (0.63)          | (0.12)          | (0.77)              | (0.57)          |
| Paid-in Capital from Redemption Fees <sup>(4)</sup>                     | 0.01                            | 0.01            | 0.02            | 0.00 <sup>(5)</sup> | 0.01            |
| Net Increase (Decrease) in Net Asset Value                              | 0.16                            | (20.57)         | 8.61            | 9.00                | 2.68            |
| Net Asset Value – End of Year   | <u>\$ 37.56</u>                 | <u>\$ 37.40</u> | <u>\$ 57.97</u> | <u>\$ 49.36</u>     | <u>\$ 40.36</u> |
| <b>Total Investment Return<sup>(6)</sup></b>                            | 17.74%                          | (34.73)%        | 17.72%          | 24.53%              | 8.63%           |
| <b>Ratios to Average Net Assets:</b>                                    |                                 |                 |                 |                     |                 |
| Expenses After Waivers <sup>(2)</sup>                                   | 1.43%                           | 1.42%           | 1.40%           | 1.38%               | 1.50%           |
| Expenses Before Waivers   | 1.43%                           | 1.42%           | 1.40%           | 1.40%               | 1.53%           |
| Net Investment Income (Loss) After Waivers <sup>(2)</sup>               | (1.16)%                         | (0.67)%         | 0.14%           | (0.94)%             | (0.56)%         |
| Net Investment Income (Loss) Before Waivers                             | (1.16)%                         | (0.67)%         | 0.14%           | (0.96)%             | (0.59)%         |
| <b>Supplementary Data:</b>  |                                 |                 |                 |                     |                 |
| Portfolio Turnover Rate   | 5%                              | 17%             | 5%              | 3%                  | 20%             |
| Net Assets at End of Year (in thousands)                                | \$759,774                       | \$717,780       | \$1,556,339     | \$929,590           | \$805,858       |

<sup>(1)</sup> Calculated based on shares outstanding on the first and last day of the respective periods, except for dividends and distributions, if any, which are based on the actual shares outstanding on the dates of distributions.

<sup>(2)</sup> Reflects fees waived by FBR Fund Advisers, Inc. pursuant to a contractual expense limitation of 1.95% (excluding interest, taxes, brokerage commissions, dividend expenses, acquired fund fees and expenses, extraordinary legal expenses, or any other extraordinary expenses) and fees voluntarily waived by the Distributor in an amount attributable to marketing expenses for the Fund while closed to new investors.

<sup>(3)</sup> The amounts shown for a share outstanding throughout the respective periods may not be in accordance with the changes in the aggregate gains and losses on investments during the respective periods because of the timing of sales and repurchases of Fund shares in relation to fluctuating net asset values during the respective periods.

<sup>(4)</sup> Calculated based on average shares outstanding.

<sup>(5)</sup> Less than \$0.01

<sup>(6)</sup> Total investment return is calculated assuming a purchase of shares on the first day and a sale on the last day of each period reported and will include reinvestment of dividends and distributions, if any.

## FBR Large Cap Financial Fund

For the Years Ended October 31,

|  | 2009                | 2008            | 2007                | 2006                | 2005                |
|--|---------------------|-----------------|---------------------|---------------------|---------------------|
| <b>Per Share Operating Performance:</b>                                    |                     |                 |                     |                     |                     |
| Net Asset Value – Beginning of Year  | \$ 11.14            | \$ 18.71        | \$ 21.67            | \$ 21.84            | \$ 24.46            |
| Income (Loss) from Investment Operations:                                  |                     |                 |                     |                     |                     |
| Net Investment Income <sup>(1,2)</sup>                                     | 0.00 <sup>(5)</sup> | 0.14            | 0.14                | 0.13                | 0.13                |
| Net Realized and Unrealized Gain (Loss)<br>on Investments <sup>(1,3)</sup> | 1.58                | (3.86)          | (0.97)              | 2.72                | 0.15                |
| Total from Investment Operations   | 1.58                | (3.72)          | (0.83)              | 2.85                | 0.28                |
| Distributions to Shareholders:   |                     |                 |                     |                     |                     |
| From Net Investment Income   | (0.10)              | (0.18)          | (0.11)              | (0.16)              | (0.08)              |
| Distribution in Excess of Net<br>Investment Income                         | (0.02)              | –               | –                   | –                   | –                   |
| From Net Realized Gain   | –                   | (3.68)          | (2.02)              | (2.86)              | (2.82)              |
| Total Distributions  | (0.12)              | (3.86)          | (2.13)              | (3.02)              | (2.90)              |
| Paid-in Capital from Redemption Fees <sup>(4)</sup>                        | 0.01                | 0.01            | 0.00 <sup>(5)</sup> | 0.00 <sup>(5)</sup> | 0.00 <sup>(5)</sup> |
| Net Increase (Decrease) in Net Asset Value                                 | 1.47                | (7.57)          | (2.96)              | (0.17)              | (2.62)              |
| Net Asset Value – End of Year  | \$ 12.61            | \$ 11.14        | \$ 18.71            | \$ 21.67            | \$ 21.84            |
| <b>Total Investment Return<sup>(6)</sup></b>                               | <b>14.52%</b>       | <b>(23.76)%</b> | <b>(4.59)%</b>      | <b>14.21%</b>       | <b>0.86%</b>        |
| <b>Ratios to Average Net Assets:</b>                                       |                     |                 |                     |                     |                     |
| Expenses After Waivers <sup>(2)</sup>                                      | 1.81%               | 1.88%           | 1.89%               | 1.83%               | 1.95%               |
| Expenses Before Waivers  | 1.81%               | 2.01%           | 1.92%               | 1.84%               | 1.96%               |
| Net Investment Income (Loss) After Waivers <sup>(2)</sup>                  | (0.08)%             | 1.63%           | 0.59%               | 0.68%               | 0.62%               |
| Net Investment Income (Loss) Before Waivers                                | (0.08)%             | 1.50%           | 0.56%               | 0.67%               | 0.61%               |
| <b>Supplementary Data:</b>   |                     |                 |                     |                     |                     |
| Portfolio Turnover Rate  | 220%                | 509%            | 95%                 | 54%                 | 41%                 |
| Net Assets at End of Year (in thousands)                                   | \$37,195            | \$24,272        | \$15,951            | \$26,313            | \$29,037            |

<sup>(1)</sup> Calculated based on shares outstanding on the first and last day of the respective periods, except for dividends and distributions, if any, which are based on the actual shares outstanding on the dates of distributions.

<sup>(2)</sup> Reflects fees waived by FBR Funds Advisers, Inc. pursuant to a contractual expense limitation of 1.95% (excluding interest, taxes, brokerage commissions, dividend expenses, acquired fund fees and expenses, extraordinary legal expenses, or any other extraordinary expenses) and effective May 30, 2008 the recoupment of certain previously waived fees.

<sup>(3)</sup> The amounts shown for a share outstanding throughout the respective periods may not be in accordance with the changes in the aggregate gains and losses on investments during the respective periods because of the timing of sales and repurchases of Fund shares in relation to fluctuating net asset values during the respective periods.

<sup>(4)</sup> Calculated based on average shares outstanding.

<sup>(5)</sup> Less than \$0.01

<sup>(6)</sup> Total investment return is calculated assuming a purchase of shares on the first day and a sale on the last day of each period reported and will include reinvestment of dividends and distributions, if any.

## FBR Small Cap Financial Fund

For the Years Ended October 31,

|  | 2009      | 2008      | 2007                | 2006                | 2005      |
|--|-----------|-----------|---------------------|---------------------|-----------|
| <b>Per Share Operating Performance:</b>                                    |           |           |                     |                     |           |
| Net Asset Value – Beginning of Year  | \$ 15.22  | \$ 23.18  | \$ 32.70            | \$ 32.96            | \$ 36.41  |
| Income (Loss) from Investment Operations:                                  |           |           |                     |                     |           |
| Net Investment Income <sup>(1)</sup>                                       | 0.06      | 0.24      | 0.29                | 0.14                | 0.23      |
| Net Realized and Unrealized Gain (Loss)<br>on Investments <sup>(1,2)</sup> | 0.81      | (1.69)    | (5.31)              | 3.44                | 0.85      |
| Total from Investment Operations   | 0.87      | (1.45)    | (5.02)              | 3.58                | 1.08      |
| Distributions to Shareholders:   |           |           |                     |                     |           |
| From Net Investment Income   | (0.19)    | (0.28)    | (0.15)              | (0.14)              | (0.18)    |
| From Net Realized Gain   | —         | (6.24)    | (4.35)              | (3.70)              | (4.36)    |
| Total Distributions  | (0.19)    | (6.52)    | (4.50)              | (3.84)              | (4.54)    |
| Paid-in Capital from Redemption Fees <sup>(3)</sup>                        | 0.01      | 0.01      | 0.00 <sup>(4)</sup> | 0.00 <sup>(4)</sup> | 0.01      |
| Net Increase (Decrease) in Net Asset Value                                 | 0.69      | (7.96)    | (9.52)              | (0.26)              | (3.45)    |
| Net Asset Value – End of Year  | \$ 15.91  | \$ 15.22  | \$ 23.18            | \$ 32.70            | \$ 32.96  |
| <b>Total Investment Return<sup>(5)</sup></b>                               | 5.89%     | (6.76)%   | (18.02)%            | 11.81%              | 2.63%     |
| <b>Ratios to Average Net Assets:</b>                                       |           |           |                     |                     |           |
| Expenses After Waivers   | 1.51%     | 1.49%     | 1.51%               | 1.46%               | 1.55%     |
| Expenses Before Waivers  | 1.51%     | 1.49%     | 1.51%               | 1.46%               | 1.55%     |
| Net Investment Income After Waivers  | 0.50%     | 1.48%     | 0.93%               | 0.45%               | 0.69%     |
| Net Investment Income Before Waivers                                       | 0.50%     | 1.48%     | 0.93%               | 0.45%               | 0.69%     |
| <b>Supplementary Data:</b>   |           |           |                     |                     |           |
| Portfolio Turnover Rate  | 118%      | 147%      | 13%                 | 8%                  | 15%       |
| Net Assets at End of Year (in thousands)                                   | \$187,561 | \$181,803 | \$144,214           | \$346,155           | \$463,333 |

<sup>(1)</sup> Calculated based on shares outstanding on the first and last day of the respective periods, except for dividends and distributions, if any, which are based on the actual shares outstanding on the dates of distributions.

<sup>(2)</sup> The amounts shown for a share outstanding throughout the respective periods may not be in accordance with the changes in the aggregate gains and losses on investments during the respective periods because of the timing of sales and repurchases of Fund shares in relation to fluctuating net asset values during the respective periods.

<sup>(3)</sup> Calculated based on average shares outstanding.

<sup>(4)</sup> Less than \$0.01

<sup>(5)</sup> Total investment return is calculated assuming a purchase of shares on the first day and a sale on the last day of each period reported and will include reinvestment of dividends and distributions, if any.

## FBR Technology Fund

For the Years Ended October 31,

|   | 2009           | 2008                | 2007                | 2006                | 2005                |
|---|----------------|---------------------|---------------------|---------------------|---------------------|
| <b>Per Share Operating Performance:</b>                                     |                |                     |                     |                     |                     |
| Net Asset Value – Beginning of Year   | \$ 6.96        | \$ 13.34            | \$ 11.97            | \$ 10.82            | \$ 10.96            |
| Income (Loss) from Investment Operations:                                   |                |                     |                     |                     |                     |
| Net Investment Loss <sup>(1,2)</sup>  | (0.08)         | (0.12)              | (0.05)              | (0.04)              | (0.05)              |
| Net Realized and Unrealized Gain (Loss)<br>on Investments <sup>(1,3)</sup>  | 2.16           | (5.03)              | 1.81                | 1.77                | 1.53                |
| Total from Investment Operations  | 2.08           | (5.15)              | 1.76                | 1.73                | 1.48                |
| Distributions to Shareholders:  |                |                     |                     |                     |                     |
| From Net Realized Gain  | –              | (1.23)              | (0.39)              | (0.58)              | (1.62)              |
| Paid-in Capital from Redemption Fees <sup>(4)</sup>                         | 0.01           | 0.00 <sup>(5)</sup> | 0.00 <sup>(5)</sup> | 0.00 <sup>(5)</sup> | 0.00 <sup>(5)</sup> |
| Net Increase (Decrease) in Net Asset Value                                  | 2.09           | (6.38)              | 1.37                | 1.15                | (0.14)              |
| Net Asset Value – End of Year   | <u>\$ 9.05</u> | <u>\$ 6.96</u>      | <u>\$ 13.34</u>     | <u>\$ 11.97</u>     | <u>\$ 10.82</u>     |
| <b>Total Investment Return<sup>(6)</sup></b>                                | 30.03%         | (42.30)%            | 15.18%              | 16.40%              | 14.51%              |
| <b>Ratios to Average Net Assets:</b>  |                |                     |                     |                     |                     |
| Expenses After Waivers and Related Reimbursements <sup>(2)</sup>            | 1.95%          | 1.84%               | 1.70%               | 1.87%               | 1.94%               |
| Expenses Before Waivers and Related Reimbursements                          | 3.00%          | 1.92%               | 1.70%               | 1.92%               | 2.74%               |
| Net Investment Loss After Waivers and Related Reimbursements <sup>(2)</sup> | (1.05)%        | (0.60)%             | (0.41)%             | (0.60)%             | (0.77)%             |
| Net Investment Loss Before Waivers and Related Reimbursements               | (2.10)%        | (0.68)%             | (0.41)%             | (0.65)%             | (1.57)%             |
| <b>Supplementary Data:</b>  |                |                     |                     |                     |                     |
| Portfolio Turnover Rate   | 211%           | 175%                | 229%                | 108%                | 100%                |
| Net Assets at End of Year (in thousands)                                    | \$ 8,388       | \$ 7,689            | \$40,935            | \$39,407            | \$14,810            |

<sup>(1)</sup> Calculated based on shares outstanding on the first and last day of the respective periods, except for dividends and distributions, if any, which are based on the actual shares outstanding on the dates of distributions.

<sup>(2)</sup> Reflects fees waived by FBR Fund Advisers, Inc. pursuant to a contractual expense limitation of 1.95% (excluding interest, taxes, brokerage commissions, dividend expenses, acquired fund fees and expenses, extraordinary legal expenses, or any other extraordinary expenses) and effective May 30, 2008 the recoupment of certain previously waived fees.

<sup>(3)</sup> The amounts shown for a share outstanding throughout the respective periods may not be in accordance with the changes in the aggregate gains and losses on investments during the respective periods because of the timing of sales and repurchases of Fund shares in relation to fluctuating net asset values during the respective periods.

<sup>(4)</sup> Calculated based on average shares outstanding.

<sup>(5)</sup> Less than \$0.01

<sup>(6)</sup> Total investment return is calculated assuming a purchase of shares on the first day and a sale on the last day of each period reported and will include reinvestment of dividends and distributions, if any.

## FBR Gas Utility Index Fund

For the Years Ended October 31,

|  | 2009            | 2008                | 2007                | 2006                | 2005                |
|--|-----------------|---------------------|---------------------|---------------------|---------------------|
| <b>Per Share Operating Performance:</b>                                    |                 |                     |                     |                     |                     |
| Net Asset Value – Beginning of Year  | \$ 15.26        | \$ 23.14            | \$ 19.48            | \$ 17.25            | \$ 14.67            |
| Income (Loss) from Investment Operations:                                  |                 |                     |                     |                     |                     |
| Net Investment Income <sup>(1,2)</sup>                                     | 0.49            | 0.47                | 0.47                | 0.50                | 0.52                |
| Net Realized and Unrealized<br>Gain (Loss) on Investments <sup>(1,3)</sup> | 0.60            | (6.13)              | 3.67                | 2.34                | 2.47                |
| Total from Investment Operations   | 1.09            | (5.66)              | 4.14                | 2.84                | 2.99                |
| Distributions to Shareholders:   |                 |                     |                     |                     |                     |
| From Net Investment Income   | (0.49)          | (0.47)              | (0.48)              | (0.61)              | (0.41)              |
| From Net Realized Gain   | (0.74)          | (1.75)              | –                   | –                   | –                   |
| Total Distributions  | (1.23)          | (2.22)              | (0.48)              | (0.61)              | (0.41)              |
| Paid-in Capital from Redemption Fees <sup>(4)</sup>                        | 0.01            | 0.00 <sup>(5)</sup> | 0.00 <sup>(5)</sup> | 0.00 <sup>(5)</sup> | 0.00 <sup>(5)</sup> |
| Net Increase (Decrease) in Net Asset Value                                 | (0.13)          | (7.88)              | 3.66                | 2.23                | 2.58                |
| Net Asset Value – End of Year  | <u>\$ 15.13</u> | <u>\$ 15.26</u>     | <u>\$ 23.14</u>     | <u>\$ 19.48</u>     | <u>\$ 17.25</u>     |
| <b>Total Investment Return<sup>(6)</sup></b>                               | <b>8.18%</b>    | <b>(26.81)%</b>     | <b>21.51%</b>       | <b>16.84%</b>       | <b>20.48%</b>       |
| <b>Ratios to Average Net Assets:</b>                                       |                 |                     |                     |                     |                     |
| Expenses After Waivers <sup>(2)</sup>                                      | 0.76%           | 0.70%               | 0.75%               | 0.80%               | 0.80%               |
| Expenses Before Waivers  | 0.76%           | 0.70%               | 0.75%               | 0.80%               | 0.80%               |
| Net Investment Income After Waivers <sup>(2)</sup>                         | 3.51%           | 2.39%               | 2.21%               | 2.69%               | 3.18%               |
| Net Investment Income Before Waivers                                       | 3.51%           | 2.39%               | 2.21%               | 2.69%               | 3.18%               |
| <b>Supplementary Data:</b>   |                 |                     |                     |                     |                     |
| Portfolio Turnover Rate  | 26%             | 27%                 | 22%                 | 16%                 | 20%                 |
| Net Assets at End of Year (in thousands)                                   | \$193,679       | \$198,569           | \$285,951           | \$270,031           | \$295,804           |

<sup>(1)</sup> Calculated based on shares outstanding on the first and last day of the respective periods, except for dividends and distributions, if any, which are based on the actual shares outstanding on the dates of distributions.

<sup>(2)</sup> Reflects fees waived by FBR Fund Advisers, Inc. pursuant to a contractual expense limitation of 0.85% (excluding interest, taxes, brokerage commissions, dividend expenses, acquired fund fees and expenses, extraordinary legal expenses, or any other extraordinary expenses) and effective May 30, 2008 the recoupment of certain previously waived fees.

<sup>(3)</sup> The amounts shown for a share outstanding throughout the respective periods may not be in accordance with the changes in the aggregate gains and losses on investments during the respective periods because of the timing of sales and repurchases of Fund shares in relation to fluctuating net asset values during the respective periods.

<sup>(4)</sup> Calculated based on average shares outstanding.

<sup>(5)</sup> Less than \$0.01

<sup>(6)</sup> Total investment return is calculated assuming a purchase of shares on the first day and a sale on the last day of each period reported and will include reinvestment of dividends and distributions, if any.

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**THE FBR FUNDS**

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# ADDITIONAL INFORMATION

## THE FBR FUNDS

### Equity Funds, Investor Class

Additional information about the Funds is available free of charge, upon request, in the following forms:

- **Statement of Additional Information:** includes additional information about the Funds' operations. The information presented in the Statement of Additional Information is incorporated by reference into this prospectus.
- **Annual Report:** includes additional information about the Funds' investments and a discussion of market conditions and investment strategies that significantly affected the Funds' performance during their last fiscal year.
- **Semi-Annual Report and Quarterly Reports:** includes additional information about the Funds' investments.

To request a free copy of any of the materials described above, or to make other inquiries, contact us:

By telephone: 888.888.0025

By mail: The FBR Funds  
FBR Equity Funds  
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By e-mail: [fbrfundsinfo@fbr.com](mailto:fbrfundsinfo@fbr.com)

On the Internet: The materials may be read or downloaded on the Funds' website at [www.fbrfunds.com](http://www.fbrfunds.com).

In an effort to eliminate unnecessary duplication and reduce the cost to shareholders, the Funds will mail only one copy of the Prospectus or other shareholder reports to shareholders with the same mailing address. If you would prefer to receive a copy of the Prospectus or other shareholder reports for each shareholder at a mailing address, please contact the Funds at 888.888.0025.

Information about the Funds (including the Funds' Statement of Additional Information) can also be reviewed and copied at the Securities Exchange Commission's ("Commission") Public Reference Room in Washington, D.C. Information on the operation of the public reference room may be obtained by calling the Commission at 202.551.8090 or 800.SEC.0330. Reports and other information about the Fund are available on the Commission's Internet site at <http://www.sec.gov>, and copies of this information may be obtained, upon payment of a duplicating fee, by electronic request at the following e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the Public Reference Section of the Commission, Washington, D.C. 20549-0102.

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