

COMMENTARY

The first six months of 2011 proved to be positive ones for the stock market and for the Adams Harkness Small Cap Growth Fund (the “Fund”). The year started off with strong performance from the Fund’s benchmark, the Russell 2000 Growth Index, as investors reacted to strong earnings reports for the fourth quarter of 2010 and good outlooks for 2011 from companies. As we moved through the year, macro-economic concerns began to weigh on investors, and markets entered a trading range during the second quarter. As we write this, we view the domestic markets as engaged in a very classic “tug of war” between a macroeconomic backdrop that contains many unresolved, potentially negative issues (the European debt problem, the U.S. debt problem, unemployment, slowing economic growth, to name a few) and a micro backdrop that is more positive, as corporate earnings appear to be continuing to grow steadily. It is our view that, as long as earnings continue to be positive, the markets will grind higher. Should earnings growth falter, we believe the market will falter as well.

Financial crises are never fun—they are a bit like earthquakes; scary to live through and with after shocks that can continue for quite a while, and sometimes unintended consequences that do not appear until well after the event is over. However, they usually serve to reconnect the investment world firmly with reality, even if that reality is not always pretty. Although many investment pundits compare this period of time with the early 1990’s, it reminds me more of the late 1970’s-early 1980’s, when I began my investment career. From the global economic recession and financial crisis of the mid-1970’s, America’s recovery was slow and uneven as we dealt (ultimately, successfully) with rising inflation, increased regulation, and secularly high unemployment as the corporate sector restructured its labor cost structure to become more competitive globally. Then, it was Japan that was “eating our lunch” competitively. It was not until the early-to-mid 1980’s that the unemployment rate began to decline significantly; we lived with high unemployment—between 5.0% and 10.0%--for approximately a decade. Indeed, by the middle 1980’s it had become accepted wisdom that the United States could not achieve a 0% unemployment rate; that 5% would be the best we could do because economic growth was not strong enough. One could argue that all of the hard work we did in restructuring business to make it more competitive and to combat inflation led to the great bull market of 1982-2000. Although today we fight deflation, not inflation, the other similarities are striking. I believe that now, as was true then, extreme pessimism is unwarranted and the issues we are grappling with now—how to deal with our deficit, how to deal with entitlements and not go broke, how to restructure the public sector benefits and pay scales so that we can manage to fund them—will ultimately be resolved successfully because now, as was true then, there is no other option, but it will take time. I also believe that, as a result of all of these headwinds, global and domestic GDP growth will remain somewhat slow for some period of time.

While the environment of the late 1970’s was a difficult one, it was difficult primarily for the large companies that populate the S&P 500 Index (“S&P 500”). That was my world for only a very brief period of time. I came into the business shortly after graduating from college and was asked to do some work on several large, industrial companies, who at the time were having great difficulty. I remember my last conversation with one

of those companies: I asked the chief financial officer why they were building more plants because, by my calculations, they were generating a negative return on capital. In my mind, they were making the problem worse. The individual replied “Because, young lady, that is what we do!” I told him I did not think they would be doing it too much longer if they had a negative return on capital. So much for my brilliant career as a large cap industrial analyst. However—thankfully for my continued employment prospects—I did notice that there were some companies that were quietly but consistently growing earnings and sales, even in this difficult environment. What those companies had in common was their size—they were smaller. Shortly after the conversation I cited above, my director of research saw the uselessness of trying to fit a square peg—me—into a round hole—large capitalization companies—and let me turn my efforts to these smaller growth companies. Thus was born an over thirty year love affair with small, higher growth companies.

Again, the similarities between the current environment and that one are quite striking. As I write this, the Russell 2000 Growth Index is only slightly below its all-time high, while the S&P 500 is very far away from its all-time high. Smaller cap, higher growth stocks continue to outperform, despite all the naysayers. They outperform for several very fundamental reasons: They grow earnings and sales at above average rates. In an environment where growth may be scarce, companies that have the ability to grow earnings at above average rates attract the attention of investors. We view that as a stock picker’s market.

The Fund continues to be overweight the consumer discretionary sector. That may strike you as somewhat counterintuitive—after all, isn’t the consumer stretched? Isn’t unemployment high? Our answer is that the consumer is not monolithic; the consumer spending accounts for the majority of our GDP growth and therefore, if the economy is going to grow, however slowly, consumer spending will grow also. While there are parts of the consumer population under great stress, the higher income consumers seem to have rebounded nicely. Companies that have unique products or services to offer them are doing well. Because of these macro concerns, consumer stocks were very cheap, and even after strong performance over the past two years, they remain one of the lower price-to-earnings (p/e) to growth sectors of the market. We continue to find good opportunities there.

We are also overweight the health-care sector. That is a change from last year, when we were underweight the sector for most of the year. The health-care sector is in the midst of great change, which will last for a number of years, as the companies adjust to a changing health-care landscape, driven by Obama’s health-care plan, demographics, and cost pressures. Change always provides great risk and great opportunity, and there will be winners and losers. At the end of last year, because of concerns over the changing environment for health-care, the sector was at multiyear lows in valuation. Our investment process pushes us to identify the potential winners in this changing environment, and indeed health-care was a major contributor to the Fund’s performance in the first half of 2011.

We also continue to overweight the technology sector and underweight the industrial sector. We view technology and industrials together. Given our growth discipline, it is difficult to find enough companies in the industrial sectors to allow us to equal weight the sector, since many of them are pure cyclical companies. Many of our technology

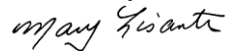
holdings have a strong impact on industrial companies and provide products and services that enable them to improve their productivity and lower their cost of doing business—thus in our mind, they are “the new industrials”. Having said that, our industrial holdings added to performance in the first half of this year, while our technology holdings detracted from our performance. Technology was the most significant detractor from performance for the first six months of the year.

While we had a lot of success these past six months, we also had some mistakes—companies that missed earnings, or stocks that did not perform up to expectations. We try to keep our mistakes small by cutting positions back if a stock is not performing; if we find that those mistakes center around one sector, we re-examine our thesis on that sector. In other words, we try to have conviction but not stubbornness in managing the Fund, and again, it is always an art as opposed to a science.

We continue to see many good investment opportunities among small cap growth companies. We believe their individual prospects are bright, barring a recession; we believe it will remain a stock picker’s market for some time to come.

We thank you for your investment in the Fund; we appreciate your faith in us and we assure you that we continue to work hard on your behalf to uncover good investment opportunities.

Sincerely,



Mary Lisanti, CFA

President & Portfolio Manager

RISKS AND DISCLOSURE

An investment in the Fund is subject to risk, including the possible loss of principal amount invested. Investments in small-sized companies pose greater risks than those typically associated with larger, more established companies such as increased volatility of earnings and prospects, higher failure rates, and limited markets, product lines or financial resources.

Before investing, you should carefully consider the Fund’s investment objectives, risks, charges, and expenses. This and other information is in the prospectus, a copy of which may be obtained by calling (800) 441-7031 or visiting the Fund’s website at www.ahlisanti.com. Please read the prospectus carefully before you invest.

The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. One cannot invest directly in an index. Price-to-book ratio is used to compare a stock’s market value to its book value. Book Value is the total asset of a company minus total liability. Price to earnings ratio is the valuation of a company’s current share price compared to its per-share earnings.

The views in this letter were those of the Fund manager as of June 30, 2011, and may not necessarily reflect her views on the date this report is first published or anytime thereafter. These views are intended to assist shareholders in understanding the Fund's investment methodology and do not constitute investment advice.