



Horizon Capital Management, Inc.

ANNUAL REPORT AUGUST 31, 2011

HCM Freedom Fund

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Letter to Shareholders

Dear Shareholders,

This Annual Report for the HCM Freedom Fund covers the period from September 1, 2010 to August 31, 2011 (the "Annual Period"). Horizon Capital Management, Inc. serves as the sub-advisor to the Fund. For the Annual Period, the Fund, which seeks long term capital appreciation with lower volatility than the overall market, returned 2.88% on a total return basis. During the Annual Period, the equity markets continued a bull rally until mid-February, 2011. Since then, concerns over the sovereign debt situation in Europe have deepened; especially during the last two months of the Annual Period, where the S&P fell as much as 17.45%. U.S. Treasuries rallied substantially over the period in a flight to safety and away from Europe; even as U.S. debt received its first downgrade in history by S&P. Concerns over U.S. debt and low interest rates drove the U.S. Dollar lower. Gold and silver soared to new highs due to fear and a weak dollar; while oil rallied to over \$110 per barrel, then fell to finish the period at \$89. Other commodities such as grains and livestock have been volatile due to draught and other natural disasters.

Equities:

The Annual Period was marked by strong equity returns on the back of an improving global economic outlook. Equities were levied by strong earnings and future growth prospects driven, in part, by cheap corporate lending rates and large cash asset positions. Equities suffered late in the fiscal year due to increased volatility, driven by a sputtering global economy. As global investors look for safe haven investments, active managers started to take money off the table and looked to cash and sovereign debt assets for safety.

Fixed Income:

Interest rates in the developed world remain at record lows. As the global economic outlook improved, investors turned their attention to risky fixed income assets, hoping to generate some yield in their portfolios. In the US, the Federal Reserve signaled to the global economy interest rates would remain depressed for an extended period of time. This in turn has forced yield hungry investors to look at riskier fixed income assets like high yield and bank loans. It was a tough year for fixed income portfolio managers as the yield curve continued to flatten limiting their options for producing outsized returns over their benchmarks.

The HCM Freedom Fund is benchmarked to the S&P 500 Index. The fund returned 2.88% during the Annual Period, as compared to the benchmark return of 18.50%. The portfolio management team has taken a very bearish view on the global economy, and in turn has positioned the portfolio very defensively. A large allocation to cash and low risk fixed income type instruments has dominated the portfolio for an extended period of time.

As always, we thank you for using the Direxion Funds and we look forward to our mutual success.


Best Regards,



Daniel O'Neill
Chief Investment Officer



Dexter Lyons
Horizon Capital Management, Inc.



Mark Thomas
Horizon Capital Management, Inc.

The performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate and an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance data quoted.

The views in this report were those of the Adviser as of August 31, 2011 and may not reflect their views on the date this report is first published or anytime thereafter. These views are intended to assist shareholders of the Fund in understanding their investments in the Fund and do not constitute investment advice.

To obtain performance data current to the most recent month-end, please call, toll-free, 1-800-851-0511 or visit www.direxionfunds.com.

The total annual fund operating expense ratio of the HCM Freedom Fund, net of any fee, waivers or expense reimbursements is 2.79%.

The total annual fund operating expense ratios include Acquired Fund Fees and Expenses, indirect fees and expenses that the Funds incur that are required to be disclosed. Without Acquired Fund Fees and Expenses, total annual operating expense ratio would be 2.35%.

An investment in any of the Direxion Funds is subject to a number of risks that could affect the value of its shares. It is important that investors closely review and understand these risks before making an investment. An investor should consider the investment objectives, risks, charges and expenses of the Direxion Funds carefully before investing. The prospectus contains this and other information about the Direxion Funds. To obtain a prospectus, please call the Direxion Funds at 1-800-851-0511 or visit www.direxionfunds.com. The prospectus should be read carefully before investing.

**Distributed by: Rafferty Capital Markets, LLC
Date of First Use: October 21, 2011**

HCM Freedom Fund
December 7, 2004¹ - August 31, 2011 (Unaudited)



	Average Annual Total Return ²			
	1 Year	3 Year	5 Year	Since Inception
HCM Freedom Fund	2.88%	5.55%	2.63%	0.55%
S&P 500 Index	18.50%	0.54%	0.78%	2.61%

This chart illustrates the performance of a hypothetical \$10,000 investment made on the Fund's inception, and is not intended to imply any future performance. The returns shown do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. The performance of the S&P 500 Index does not reflect the deduction of fees associated with a mutual fund, such as investment management fees. Investors cannot invest directly in an index, although they can invest in its underlying securities.

The performance data shown represents past performance and does not guarantee future results.

Market Exposure

<u>Investment Type</u>	<u>% Net Assets</u>
Swap Contracts	(1.4%)
Total Exposure	(1.4%)

"Market Exposure" includes the value of total investments (including the contract value of any derivatives) and excludes any short-term investments and cash equivalents divided by Net Assets.

¹ Commencement of operations.

² As of August 31, 2011.

Expense Example
August 31, 2011 (Unaudited)

As a shareholder of a mutual fund, you incur two types of costs: (1) transaction costs, including sales charges (loads) on purchase payments, reinvested dividends, or other distributions; redemption fees; and exchange fees; and (2) ongoing costs, including management fees; distribution and/or service fees; and other fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in a fund and to compare costs with the ongoing costs of investing in other mutual funds.

The example is based on an investment of \$1,000 invested at the beginning of the period and held the entire period (March 1, 2011 — August 31, 2011).

Actual Expenses

The first line of the table below provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first line under the heading entitled “Expenses Paid During Period” to estimate the expenses you paid on your account during this period.

Hypothetical Example for Comparison Purposes

The second line of the table below provides information about hypothetical account values and hypothetical expenses based on the Funds’ actual expense ratios and an assumed rate of return of 5% per year before expenses, which is not the Funds’ actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Funds and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs, such as wire transfers, returned checks or stop payment orders. Therefore, the second line of the table is useful in comparing ongoing costs only, and will not help you determine the relative costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

Expense Example Table
August 31, 2011 (Unaudited)

	<u>Expense Ratio¹</u>	<u>Beginning Account Value March 1, 2011</u>	<u>Ending Account Value August 31, 2011</u>	<u>Expenses Paid During Period²</u>
HCM Freedom Fund				
Based on actual fund return	2.35%	\$1,000.00	\$1,000.70	\$11.85
Based on hypothetical 5% return	2.35%	1,000.00	1,013.36	11.93

¹ Annualized

² Expenses are equal to the Fund's annualized expense ratio, multiplied by the average account value over the period, multiplied by the number of days in the most recent fiscal half-year/period, then divided by 365.

Allocation of Portfolio Holdings
August 31, 2011 (Unaudited)

	<u>Cash*</u>	<u>Swaps</u>	<u>Total</u>
HCM Freedom Fund	100%	0%**	100%

* Cash, cash equivalents and other assets less liabilities.

** Percentage is less than 0.5%

HCM Freedom Fund
Schedule of Investments
August 31, 2011

	<u>Value</u>
No reportable investments.	
TOTAL INVESTMENTS	
(Cost \$0) - 0.0%	\$ —
Other Assets in Excess of Liabilities - 100.0%	<u>26,348,194</u>
TOTAL NET ASSETS - 100.0%	<u>\$26,348,194</u>

Percentages are stated as a percent of net assets.

HCM Freedom Fund
Short Equity Swap Contracts
August 31, 2011

<u>Counterparty</u>	<u>Reference Entity</u>	<u>Number of Contracts</u>	<u>Notional Amount</u>	<u>Interest Rate Paid</u>	<u>Termination Date</u>	<u>Unrealized Depreciation</u>
Credit Suisse Capital, LLC	Amazon.com, Inc.	1,675	<u>\$300,044</u>	(0.09%)	9/24/2012	<u>\$(60,474)</u>

The accompanying notes are an integral part of these financial statements.

Statement of Assets and Liabilities

August 31, 2011

	HCM Freedom Fund
Assets:	
Cash	\$ 26,463,258
Total assets	<u>26,463,258</u>
Liabilities:	
Payables:	
Unrealized depreciation on swaps	60,474
Accrued investment advisory fees	23,948
Accrued distribution expense	18,158
Accrued operating services fees	12,484
Total liabilities	<u>115,064</u>
Net Assets	<u><u>\$ 26,348,194</u></u>
Net Assets Consist Of:	
Capital stock	\$ 45,331,129
Undistributed net investment income	152,149
Accumulated net realized loss	(19,074,610)
Net unrealized depreciation on:	
Swaps	(60,474)
Total Net Assets	<u><u>\$ 26,348,194</u></u>
Calculation of Net Assets Value Per Share:	
Net Assets	\$ 26,348,194
Shares outstanding (unlimited shares of beneficial interest authorized, no par value)	1,740,560
Net asset value, redemption and offering price per share	<u><u>\$ 15.14</u></u>

The accompanying notes are an integral part of these financial statements.

Statement of Operations
For the Year Ended August 31, 2011

	HCM Freedom Fund
Investment Income:	
Dividend income	\$1,100,489
Interest income	4,013
Total investment income	1,104,502
Expenses:	
Investment advisory fees	276,140
Distribution expenses	220,911
Operating services fees	151,877
Total expenses	648,928
Net investment income	455,574
Realized and unrealized gain (loss) on investments:	
Net realized gain (loss) on:	
Investments	840,539
Futures	(66,649)
	773,890
Capital gain distributions from regulated investment companies	47,131
Change in unrealized appreciation (depreciation) on:	
Investments	(417,371)
Swaps	(60,474)
	(477,845)
Net realized and unrealized gain on investments	343,176
Net increase in net assets resulting from operations	\$ 798,750

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Net Assets

	HCM Freedom Fund	
	<u>Year Ended August 31, 2011</u>	<u>Year Ended August 31, 2010</u>
Increase (Decrease) in net assets from:		
Operations:		
Net investment income	\$ 455,574	\$ 1,944,417
Net realized gain on investments	773,890	1,727,358
Capital gain distributions from regulated investment companies	47,131	—
Change in net unrealized appreciation (depreciation) on investments	<u>(477,845)</u>	<u>(849,521)</u>
Net increase in net assets resulting from operations	<u>798,750</u>	<u>2,822,254</u>
Distributions to shareholders:		
Net investment income	<u>(862,997)</u>	<u>(1,474,611)</u>
Total distributions to shareholders	<u>(862,997)</u>	<u>(1,474,611)</u>
Capital share transactions:		
Net increase (decrease) in net assets resulting from net change in capital share transactions(a)	<u>(1,526,530)</u>	<u>1,382,209</u>
Total increase (decrease) in net assets from capital share transactions	<u>(1,526,530)</u>	<u>1,382,209</u>
Total increase (decrease) in net assets	<u>(1,590,777)</u>	<u>2,729,852</u>
Net assets:		
Beginning of year	<u>27,938,971</u>	<u>25,209,119</u>
End of year	<u>\$26,348,194</u>	<u>\$27,938,971</u>
Undistributed net investment income, end of year	<u>\$ 152,149</u>	<u>\$ 520,163</u>

(a) Summary of capital share transactions is as follows:

	HCM Freedom Fund			
	<u>Year Ended August 31, 2011</u>		<u>Year Ended August 31, 2010</u>	
	<u>Shares</u>	<u>Value</u>	<u>Shares</u>	<u>Value</u>
Shares sold	105,255	\$ 1,615,292	161,023	\$ 2,399,676
Shares issued in reinvestment of distributions	55,417	\$ 822,386	100,636	\$ 1,468,281
Shares redeemed	<u>(259,160)</u>	<u>\$(3,964,208)</u>	<u>(164,568)</u>	<u>\$(2,485,748)</u>
Net increase (decrease)	<u>(98,488)</u>	<u>\$(1,526,530)</u>	<u>97,091</u>	<u>\$ 1,382,209</u>

The accompanying notes are an integral part of these financial statements.

Financial Highlights

	RATIOS TO AVERAGE NET ASSETS														
	Net Asset Value, Beginning of Year/Period	Net Investment Income (Loss) ²	Net Realized and Unrealized Gain (Loss) on Investments	Net Increase (Decrease) in Net Asset Value Resulting from Operations	Dividends from Net Investment Income	Distributions from Realized Capital Gains	Return of Capital Distribution	Total Distributions	Net Asset Value, End of Year/Period	Total Return ³	Net Assets, End of Year/Period (\$,000)	Total Expenses ¹	Net Expenses ¹	Investment Income (Loss) After Expense Reimbursement/Recoupment ¹	Portfolio Turnover Rate ⁴
HCM Freedom Fund															
Year Ended August 31, 2011	\$15.19	\$0.25	\$ 0.18	\$ 0.43	\$(0.48)	\$—	\$—	\$—	\$15.14	2.88%	\$26,348	2.35%	2.35%	1.65%	249%
Year ended August 31, 2010	14.47	1.08	0.50	1.58	(0.86)	—	(0.86)	—	15.19	11.16%	27,839	2.35%	2.35%	7.20%	468%
Year ended August 31, 2009	14.68	0.01	0.40	0.41	(0.62)	—	(0.62)	—	14.47	2.83%	25,209	2.42%	2.43%	0.05%	1,311%
Year ended August 31, 2008	17.46	0.06	(0.70)	(0.64)	(2.14)	—	(2.14)	—	14.68	(4.43%)	25,517	2.50%	2.45%	0.35%	2,866%
Year ended August 31, 2007	18.11	0.34	(0.11)	0.23	(0.88)	—	(0.88)	—	17.46	1.32%	28,642	2.19%	2.18%	1.98%	4,042%

¹ Annualized.

² Net investment income (loss) per share represents net investment income (loss) divided by the daily average shares of beneficial interest outstanding throughout each period.

³ All returns reflect reinvested dividends, if any, but do not reflect the impact of taxes.

⁴ Portfolio turnover is calculated without regard to short-term securities having a maturity of less than one year. Investments in swaps and futures contracts and repurchase agreements are deemed short-term securities. The Fund's aggressive investment to take advantage of anticipated changes in market conditions.

Direxion Funds
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2011

1. ORGANIZATION

Direxion Funds (the "Trust") was organized as a Massachusetts Business Trust on June 6, 1997 and is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company issuing its shares in series, each series representing a distinct portfolio with its own investment objective and policies. The Trust currently has 30 series of which 1 is included in this report: HCM Freedom Fund (the "Fund"). The Fund is a "non-diversified" series of the Trust pursuant to the 1940 Act.

The HCM Freedom Fund's objective is long-term capital appreciation with lower volatility than the overall market by employing a dynamic asset allocation strategy. The Fund has great flexibility in deciding in what to invest and when to invest, and may invest in a broad range of equity and fixed income securities, both domestically and internationally, as well as derivative instruments of these securities.

2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. These policies are in conformity with U.S. generally accepted accounting principles ("GAAP").

a) Investment Valuation – The Net Asset Value ("NAV") of the Fund is determined daily, Monday through Friday, as of the close of regular trading on the New York Stock Exchange ("NYSE"), each day the NYSE is open for business. The value of all portfolio securities and other assets held by the Fund will be determined as of the time the Fund calculates its NAV, 4:00 p.m. Eastern Time ("Valuation Time"). Equity securities and exchange-traded funds are valued at their last sales price, or if not available, at the average of the last bid and ask prices. Investments in open-end mutual funds are valued at their respective quoted net asset values on the valuation dates. Futures are valued at the settlement price established on the exchange on which they are traded, if that settlement price reflects trading prior to the Valuation Time. If the settlement price established by the exchange reflects trading after the Valuation Time, then the last sales price prior to Valuation Time will be used. Over-the-counter securities are valued at the average of the last bid and ask prices. Securities primarily traded on the NASDAQ National Market are valued using the NASDAQ Official Closing Price. Swaps are valued based upon prices from third party vendor models or quotations from market makers to the extent available. Short-term debt securities with a maturity of 60 days or less and money market securities are valued using the amortized cost method. Other debt securities are valued by using the mean prices provided by the Fund's pricing service or, if such services are unavailable, by a pricing matrix method. Securities for which reliable market quotations are not readily available, the Fund's pricing service does not provide a valuation for such securities, the Fund's pricing service provides valuation that in the judgment of Rafferty Asset Management, LLC (the "Adviser") does not represent fair value, or the Fund or Adviser believes the market price is stale will be fair valued as determined by the Adviser under the supervision of the Board of Trustees.

b) Repurchase Agreements – The Fund may enter into repurchase agreements with institutions that are members of the Federal Reserve System or securities dealers who are members of a national securities exchange or are primary dealers in U.S. government securities. In connection with transactions in repurchase agreements, it is the Trust's policy that the Fund receives, as collateral, cash and/or securities (primarily U.S. government securities) whose market value, including accrued interest, at all times will be at least equal to 100% of the amount invested by the Fund in each repurchase agreement. If the seller defaults, and the value of the collateral declines, realization of the collateral by the Fund may be delayed or limited. The Fund was not invested in repurchase agreements at August 31, 2011.

c) Swap Contracts – The Fund may enter into equity swap contracts. Standard equity swap contracts are between two parties that agree to exchange the returns (or differentials in rates of return) earned or realized on particular predetermined investments or instruments. The gross amount to be exchanged is calculated with respect to a "notional amount" (i.e. the return on or increase in value of a particular dollar amount invested in a "basket" of securities representing a particular index or industry sector). The Fund enters into master netting agreements with the counterparty. These agreements

calculate the obligations of the parties on a “net basis”. Consequently, the Fund’s current obligations under a swap agreement generally will be equal to the net amount to be paid or received under the agreement based on the relative value of the positions held by each party. However, the Fund does not offset the fair value amounts of the swap contract and the related collateral in the Statement of Assets and Liabilities arising from swap contracts executed with the same counterparty under such master netting agreements. The Fund’s obligations are accrued daily (offset by any amounts owed to the Fund.)

In a “long” equity swap agreement, the counterparty will generally agree to pay the Fund the amount, if any, by which the notional amount of swap contract would have increased in value if the Fund had been invested in the particular securities, plus dividends that would have been received on those securities. The Fund will agree to pay the counterparty a floating rate of interest on the notional amount of the swap contract plus the amount, if any, by which the notional amount would have decreased in value had it been invested in such securities plus, in certain instances, commissions or trading spreads on the notional amounts. Thus, the return on the swap contract should be the gain or loss on the notional amount plus dividends on the securities less the interest paid by the Fund on the notional amount. However, in certain instances, market factors such as the interest rate environment and the demand to borrow the securities underlying the swap agreement can cause a scenario in which the counterparty will pay the Fund interest. Payments may be made at the conclusion of the contract or periodically during its term. Swap contracts do not include the delivery of securities. The net amount of the excess, if any, of the Fund’s obligations over its entitlement with respect to each swap is accrued on a daily basis and an amount of cash or liquid assets, having an aggregate net asset value at least equal to such accrued excess is maintained in a segregated account. Until a swap contract is settled in cash, the gain or loss on the notional amount plus dividends on the securities less the interest paid by the Fund on the notional amount are recorded as “unrealized gains or losses on swaps” and when cash is exchanged, the gain or loss is recorded as “realized gains or losses on swaps”.

The Fund may enter into swap contracts that provide the opposite return of the particular benchmark or security (“short” the index or security). The operations are similar to that of the swaps disclosed above except that the counterparty pays interest to the Fund on the notional amount outstanding and the dividends on the underlying securities reduce the return of the swap. However, in certain instances, market factors such as the interest rate environment and the demand to borrow the securities underlying the swap agreement can cause a scenario in which the Fund pays the counterparty interest. These amounts are netted with any unrealized appreciation or depreciation to determine the value of the swap. The Fund will typically enter into equity swap agreements in instances where the Adviser believes that it may be more cost effective or practical than buying a security or the securities represented by a particular index.

The Fund collateralizes swap agreements with cash and certain securities as indicated on the Schedule of Investments of the Fund. Such collateral is held for the benefit of the counterparty in a segregated account at the Custodian to protect the counterparty against non-payment by the Fund. The Fund does not net collateral. In the event of a default by the counterparty, the Fund will seek return of this collateral and may incur certain costs exercising their rights with respect to the collateral. Amounts expected to be owed to the Fund are regularly collateralized either directly with the Fund or in a segregated account at the Custodian.

The Fund bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or bankruptcy of swap agreement counterparty to the extent that posted collateral is insufficient. The Fund will enter into swap agreements only with large, well-capitalized and established financial institutions. The creditworthiness of each of the firms that is counterparty to a swap agreement is monitored by the Adviser. The financial statements of these counterparties are available by accessing the SEC’s website, at www.sec.gov.

d) Short Positions – The Fund may engage in short sale transactions. For financial statement purposes, an amount equal to the settlement amount is included in the Statement of Assets and Liabilities as an asset and an equivalent liability. The amount of the liability is subsequently marked-to-market to reflect the current value of the short position. Subsequent fluctuations in the market prices of short positions may require purchasing the securities at prices which may differ from the market value reflected on the Statement of Assets and Liabilities. The Fund is liable to the buyer for any dividends payable on securities while those securities are in a short position. As collateral for its short positions, the Fund is required under the 1940 Act to maintain assets consisting of cash, cash equivalents or liquid securities equal to the market value of the securities sold short. This collateral is required to be adjusted daily. The Fund was not invested in short positions at August 31, 2011.

e) Stock Index Futures Contracts and Options on Futures Contracts – The Fund may purchase and sell stock index futures contracts and options on such futures contracts. The Fund may use futures contracts to gain exposure to, or hedge against changes in the value of equities, interest rates or foreign countries. Upon entering into a contract, the Fund deposits and maintains as collateral such initial margin as required by the exchange on which the transaction is effected. Pursuant to the contract, the Fund agrees to receive from or pay to the broker an amount of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as “variation margin” and are recorded by the Fund as unrealized gains and losses. When the contract is closed, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. As collateral for futures contracts, the Fund is required under the 1940 Act to maintain assets consisting of cash, cash equivalents or liquid securities. This collateral is required to be adjusted daily to reflect the market value of the purchase obligation for long futures contracts or the market value of the instrument underlying the contract, but not less than the market price at which the futures contract was established, for short futures contracts. The Fund was not invested in options on futures contracts at August 31, 2011.

f) Risks of Options, Futures Contracts, Options on Futures Contracts and Short Positions – The risks inherent in the use of options, futures contracts, options on futures contracts and short positions include 1) adverse changes in the value of such instruments; 2) imperfect correlation between the price of options and futures contracts and options thereon and movements in the price of the underlying securities, index or futures contracts; 3) the possible absence of a liquid secondary market for any particular instrument at any time; 4) the possible need to defer closing out certain positions to avoid adverse tax consequences; and 5) the possible nonperformance by the counterparty under the terms of the contract. The Funds designate all cash, cash equivalents and liquid securities as collateral for written options, futures contracts, options on futures contracts and short positions.

g) Security Transactions – Investment transactions are recorded on the trade date. The Funds determine the gain or loss realized from the investment transactions by comparing the identified cost, which is the same basis used for federal income tax purposes, with the net sales proceeds.

h) Federal Income Taxes – The Fund intends to comply with the requirements of Subchapter M of the Internal Revenue Code necessary to qualify as a regulated investment company and to make the requisite distributions of income and capital gains to its shareholders sufficient to relieve it from all or substantially all federal income. No provision for federal income taxes has been made.

i) Income and Expenses – Dividend income is recorded on the ex-dividend date. Interest income, including amortization of premium and discount, and dividends received from money market funds, is recognized on an accrual basis. Expenses are charged to the Fund daily. Expenses are computed based on the Fund’s respective daily net assets. For additional discussion on expenses refer to Note 4.

j) Distributions to Shareholders – The Fund generally pays dividends from net investment income and distributes net realized capital gains, if any, at least annually. Income and capital gain distributions are determined in accordance with income tax regulations which may differ from GAAP. Distributions to shareholders are recorded on the ex-dividend date.

The tax character of distributions for the Fund during the years ended August 31, 2011 and August 31, 2010 were as follows:

	<u>Year Ended August 31, 2011</u>	<u>Year Ended August 31, 2010</u>
Distributions paid from:		
Ordinary Income	\$862,997	\$1,474,611
Long-Term Capital Gains	—	—
Total Distributions paid	<u>\$862,997</u>	<u>\$1,474,611</u>

The Fund is designating as long-term capital gain dividends, pursuant to Internal Revenue Code 852(b)(3), the amount necessary to reduce the earnings and profits of the Fund related to net capital gain to zero for the tax year ended

August 31, 2011. To the extent necessary to fully distribute such capital gains, the Fund also designates earnings and profits distributed to shareholders on the redemption of shares.

As of August 31, 2011, the components of distributable earnings of the Fund on a tax basis was as follows:

	HCM Freedom Fund
Tax cost of investments	\$ —
Gross unrealized appreciation	—
Gross unrealized depreciation	—
Net unrealized appreciation/(depreciation)	—
Undistributed ordinary income	152,149
Undistributed long-term capital gain	—
Total distributable earnings	<u>152,149</u>
Other accumulated loss	<u>(19,135,084)</u>
Total accumulated loss	<u><u>\$(18,982,935)</u></u>

Other accumulated gain/ (loss) is generally comprised of capital loss carryforwards, post-October capital loss deferrals and/or unrealized gain/ (loss) on derivative positions.

On the Statement of Assets and Liabilities, the following adjustments were made for permanent tax differences between accounting for net investment income and realized gain and losses under GAAP and tax reporting:

<u>Net Investment Income (Loss)</u>	<u>Realized Gain (Loss)</u>	<u>Capital Stock</u>
\$39,409	\$(39,409)	\$—

Net investment income and realized gains and losses for federal income tax purposes may differ from that reported on the financial statements because of permanent book-to-tax differences. GAAP requires that permanent differences in net investment income and realized gains and losses due to differences between financial reporting and tax reporting be reclassified between various components of net assets. The permanent differences primarily relate to dividend reclasses.

In order to meet certain excise tax distribution requirements, the Fund is required to measure and distribute annually, net capital gains realized during a twelve-month period ending October 31. In connection with this, the Fund is permitted for tax purposes to defer into their next fiscal year any net capital losses incurred between November 1 and the end of their fiscal year, August 31, 2011.

At August 31, 2011, the Fund deferred, on a tax basis, \$32,268 of post-October losses.

At August 31, 2011, the Fund had capital loss carryforwards on a tax basis of:

<u>Expires</u>				
<u>8/31/2014</u>	<u>8/31/2015</u>	<u>8/31/2016</u>	<u>8/31/2017</u>	<u>Total</u>
\$6,321,052	\$5,679,579	\$1,637,612	\$5,404,099	\$19,042,342

During the year ended August 31, 2011, the Fund utilized \$813,880 of prior capital losses. To the extent the Fund realizes future net capital gains, those gains will be offset by any unused capital loss carryover.

The Fund follows authoritative financial reporting rules regarding recognition and measurement of tax positions taken or expected to be taken on a tax return. The Fund has reviewed all open tax years and concluded that there is no effect to the Fund's financial positions or results of operations and no tax liability resulting from unrecognized tax benefits relating to uncertain income tax position take or expected to be taken on a tax return. Open tax years are those years that are open for examination by the relevant income taxing authority. As of August 31, 2011, open Federal and state income tax years include

the tax years ended August 31, 2008, August 31, 2009, August 31, 2010 and August 31, 2011. The Fund has no examination in progress. The Fund is also not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax expense will significantly change in twelve months.

On December 22, 2010, the Regulated Investment Company Modernization Act of 2010 (the "Act") was enacted, which changed various technical rules governing the tax treatment of regulated investment companies. The changes are generally effective for taxable years beginning after the date of enactment. One of the more prominent changes addresses capital loss carryforwards. Under the Act, each fund will be permitted to carry forward capital losses incurred in taxable years beginning after the date of enactment for an unlimited period. However, any losses incurred during those future taxable years will be required to be utilized prior to the losses incurred in pre-enactment taxable years, which carry an expiration date. As a result of this ordering rule, pre-enactment capital loss carryforwards may be more likely to expire unused. Additionally, post-enactment capital loss carryforwards will retain their character as either short-term or long-term capital losses rather than being considered all short-term as permitted under previous regulation.

k) Guarantees and Indemnifications – In the ordinary course of business, the Fund enters into contracts that contain a variety of indemnification provisions pursuant to which the Fund agrees to indemnify third parties upon occurrence of specified events. The Fund's maximum exposure relating to these indemnification agreements is unknown. However, the Fund has not had prior claims or losses in connection with these provisions and believe the risk of loss is remote.

l) Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. INVESTMENT TRANSACTIONS

During the year ended August 31, 2011, the aggregate purchases and sales of investments (excluding short-term investments, swaps and futures contracts) were:

<u>Purchases</u>	<u>Sales</u>
\$45,902,418	\$74,181,105

4. INVESTMENT ADVISORY AND OTHER AGREEMENTS

Investment Advisory Agreement: The Fund has entered into an investment advisory agreement with the Adviser. The Adviser receives a fee, computed daily and payable monthly, applied to the Fund's average daily net assets at an annual rate of 1.00%.

In addition, the Adviser has entered into sub-advisory agreements with Horizon Capital Management, Inc. whereby the sub-advisor will direct investment activities of the Fund. The Adviser pays, out of the management fees it receives from the Fund, a fee for these sub-advisory services.

Operating Services Agreement: The Fund has entered into an Operating Service Agreement (the "Agreement") with the Adviser. Under the Agreement, the Adviser will be responsible for all expenses of the Trust except the following: management fees, distribution and/or service fees, acquired fund fees, taxes, leverage interest, dividends or interest on short positions, other interest expenses, brokerage commission and other extraordinary expenses outside the typical day-to-day operations of the Funds. In consideration for the services rendered pursuant to the Agreement, the Fund will pay to the Adviser, as compensation for the services provided by the Adviser under the Agreement, a monthly fee of 0.55%. The monthly fee is calculated on an annualized basis on the average net assets of the Fund.

Distribution Expenses: Shares are subject to an annual Rule 12b-1 fee of 0.80% for the Fund's average daily net assets.

Rafferty Capital Markets, LLC (the "Distributor") serves as principal underwriter of the Funds and acts as the Funds' distributor in a continuous public offering of the Fund's shares. There were no Rule 12b-1 fees retained by the Distributor for the year ended August 31, 2011. The Distributor is an affiliate of the Adviser.

5. VALUATION MEASUREMENTS

The Fund follows authoritative fair valuation accounting standards which establish an authoritative definition of fair value and set out a hierarchy for measuring fair value. These standards require additional disclosures about the various inputs and valuation techniques used to develop the measurements of fair value and a discussion in changes in valuation techniques and related inputs during the period. These inputs are summarized in the three broad levels listed below:

Level 1 – Quoted prices in active markets for identical securities

Level 2 – Evaluated price based on other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)

Level 3 – Significant unobservable inputs (including the Fund's own assumptions in determining fair value of investments)

The inputs or methodology used for valuing securities are not an indication of the credit risk associated with investing in those securities.

The following is a summary of the inputs used to value the Fund's net assets as of August 31, 2011:

<u>Asset Class</u>	<u>HCM Freedom Fund</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Other Financial Instruments*	\$—	\$(60,474)	\$—	\$(60,474)

For further detail on each asset class, see Schedule of Investments.

* Other financial instruments are swap contracts, which are valued at the unrealized appreciation (depreciation) on the instrument.

There were no significant transfers between Level 1 and Level 2 securities.

6. ADDITIONAL DISCLOSURES ABOUT DERIVATIVE INSTRUMENTS

The Fund follows authoritative standards of accounting for derivative instruments which establish disclosure requirement for derivative instruments. These standards improve financial reporting for derivative instruments by requiring enhanced disclosures that enables investors to understand how and why a fund uses derivatives instruments, how derivatives instruments are accounted for and how derivative instruments affect a fund's financial position and results of operations.

The Fund uses derivative instruments as part of its principal investment strategy to achieve its investment objective. For additional discussion on the risks associated with derivative instruments refer to Note 2. As of August 31, 2011, the Fund was invested in equity swap contracts.

At August 31, 2011, the fair value of derivatives instruments were as follows:

		<u>Liability derivatives¹</u>	
		<u>Equity risk</u>	<u>Total</u>
HCM Freedom Fund	Swap contracts	\$60,474	\$60,474
	Total	\$60,474	\$60,474

¹ Statement of Assets and Liabilities location: Unrealized depreciation on swaps.

Transactions in derivative instruments during the year ended August 31, 2011, were as follows:

		Equity risk	Total
HCM Freedom Fund	Realized gain (loss)¹		
	Futures contracts	\$(66,649)	\$(66,649)
	Total realized gain (loss)	\$(66,649)	\$(66,649)
	Change in unrealized appreciation (depreciation)²		
	Swap contracts	\$(60,474)	\$(60,474)
	Total change in unrealized appreciation (depreciation)	\$(60,474)	\$(60,474)

¹ Statement of Operations location: Net unrealized gain (loss) on futures.

² Statement of Operations location: Change in unrealized appreciation (depreciation) on swaps.

For the year ended August 31, 2011, the volume of the derivatives held by the Funds were as follows:

	Short Equity Swaps Contracts
HCM Freedom Fund	\$60,001

The Fund utilizes this volume of derivatives as a substitute for investing in comparable positions in underlying securities and/or as a means to limit exposure of the Fund's position. During the year ended August 31, 2011, the Fund invested in a short equity swap contracts towards the end of the year.

7. NEW ACCOUNTING PRONOUNCEMENT

In January 2010, the Financial Accounting Standards Board ("FASB") issued an update to improve disclosure about fair value measurements. This update required additional disclosures regarding fair value measurements. Specifically, the amendment requires reporting entities to disclose a) the input and valuation techniques used to measure fair value for both recurring and nonrecurring fair value measurements, for Level 2 or Level 3 positions, b) transfers between all levels (including Level and Level 2) will be required to be disclosed on a gross basis (i.e. transfers out must be disclosed separately from transfers in) as well as the reason(s) for the transfers and c) purchases and sales must be shown on a gross basis in the Level 3 rollforward rather than as one net number.

The effective date of this guidance is for interim and annual periods beginning after December 15, 2009; however, the requirement to provide the Level 3 activity for purchases and sales on a gross basis will be effective for interim and annual periods beginning after December 15, 2010. The Funds have disclosed the applicable requirements of the accounting standard in their financial statements.

In April 2011, FASB issued an update intended to improve the accounting for repurchase and other similar agreements. Specifically, the update modifies the criteria for determining when these agreements would be accounted for as financing transactions (secured borrowings/lending agreements) as opposed to sale (purchase) transactions with commitments to repurchase (resell). At this time, management is evaluating the implications of this guidance and the impact it will have to the financial statements or footnote disclosures, if any.

In May 2011, FASB issued an update to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with GAAP and International Financial Reporting Standards. This update will require reporting entities to disclose the following information for fair value measurements categorized within Level 3 of the fair value hierarchy: quantitative information about unobservable inputs used in the fair value measurement, the valuation processes used by the reporting entity and a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs. In addition, the update will require reporting entities to make disclosure about amounts and reason for all transfers in and out of Level 1 and Level 2 fair value measurements. The new and revised disclosures are effective for interim and annual reporting periods beginning after December 15, 2011. At this time, management is evaluating the implications of this update and the impact it will have to the financial statements or footnote disclosures, if any.

8. SUBSEQUENT EVENT

The Fund follows authoritative standards for accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. These standards require the Fund to recognize in the financial statements the effects of all recognized subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet. For nonrecognized subsequent events that must be disclosed to keep the financial statements from being misleading, the Fund is required to disclose the nature of the event as well as an estimate of its financial effect, or a statement that such an estimate cannot be made. The Fund has evaluated subsequent events through the issuance of the Fund's financial statements and has determined there is no impact to the Fund's financial statements.

Direxion Funds

Report of Independent Registered Public Accounting Firm

To the Shareholders and
Board of Trustees of the Direxion Funds:

We have audited the accompanying statement of assets and liabilities of the HCM Freedom Fund (one of the series of the Direxion Funds) (the "Fund"), including the schedule of investments, as of August 31, 2011, and the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of August 31, 2011, by correspondence with the custodian and brokers. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the above mentioned Fund at August 31, 2011, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

New York, New York
October 21, 2011

Additional Information
(Unaudited)

For the fiscal year ended August 31, 2011 certain dividends paid by the Funds may be subject to a maximum tax rate of 15%, as provided for by the Jobs and growth Tax Relief Reconciliation Act of 2003. The percentage of dividends declared from ordinary income designated as qualified income was 100% for the Fund

For corporate shareholders, the percent of ordinary income distributions qualifying for the corporate dividends received deduction for the fiscal year ended August 31, 2011 100% for the Fund.

HOUSEHOLDING

In an effort to decrease costs, the Funds intend to reduce the number of duplicate prospectuses, Annual and Semi-Annual Reports, proxy statements and other similar documents you receive by sending only one copy of each to those addresses shared by two or more accounts and to shareholders we reasonably believe are from the same family or household. Householding begins once you have signed your account application. After such time, if you would like to discontinue householding for your accounts, please call toll-free at (800) 851-0511 to request individual copies of these documents. Once the Funds receive notice to stop householding, we will begin sending individual copies thirty days after receiving your request. This policy does not apply to account statements.

Provided below is a summary of certain of the factors the Board considered at its August 17, 2011 Board meeting in renewing, as applicable: (1) the Advisory Agreement between Rafferty Asset Management (“Rafferty”) and the Direxion Funds (the “Trust”), on behalf of the HCM Freedom Fund, a series of the Trust (“Fund”); and (2) the Subadvisory Agreement between Rafferty and Horizon Capital Management, Inc. (“Horizon”) on behalf of the Fund. The Board did not identify any particular information that was most relevant to its consideration to approve the Advisory or Subadvisory Agreement (each an “Agreement” and collectively, the “Agreements”) and each Trustee may have afforded different weight to the various factors. In determining whether to approve the continuance of the Agreements, the Board noted that the Trustees have considered various reports and information provided throughout the year at their regular Board meetings and otherwise.

The Board considered, among others, the following factors: (1) the nature and quality of the services provided; (2) the investment performance of the Fund; (3) the profitability of the advisory business to Rafferty or Horizon, if such information was provided; (4) the extent to which economies of scale have been taken into account in setting fee schedules; (5) whether fee levels reflect these economies of scale, if any, for the benefit of Fund shareholders; (6) comparisons of services and fees with contracts entered into by Rafferty and Horizon with other clients (such as pension funds and other institutional investors), if any; and (7) other benefits derived or anticipated to be derived and identified by Rafferty or Horizon from its relationship with the Fund.

Nature, Extent and Quality of Services Provided. The Board reviewed the nature, extent and quality of the services provided or to be provided under the Advisory Agreement by Rafferty. The Board noted that Rafferty has provided services to the Trust since its inception and has developed an expertise in managing the Fund. The Board also noted that Rafferty trades efficiently with low commission schedules, which helps improve performance results. The Board considered Rafferty’s representation that it has the financial resources and appropriate staffing to manage the Fund and meet its expense reimbursement obligations, if any. The Board also considered that Rafferty utilizes the services of an independent compliance consulting firm and that reports from the chief compliance officer are provided to the Board at its regularly scheduled quarterly Board meetings. The Board considered that Rafferty oversees all aspects of the operation of the Fund, including oversight of the Fund’s service providers and Horizon. Regarding the Subadvisory Agreement with Horizon, the Board noted that Horizon utilizes the Fund as the primary investment for its separate account clients. Based on these and other considerations, the Board determined that, in the exercise of its business judgment, the nature, extent and quality of the services provided by Rafferty and Horizon to the Fund under the Agreements were fair and reasonable.

Performance of the Funds. The Board evaluated the performance of the Fund relative to: (1) its benchmark index for year-to-date, one-year and since inception periods ended June 30, 2011; and (2) the average performance of the relevant Morningstar peer fund universe for monthly and annual periods ended June 30, 2011. The Board considered management’s description of the performance of the Morningstar universe of large growth funds. The Board also considered that as of June 30, 2011, the Fund outperformed the average of its relevant Morningstar peer funds for the three-year period, but underperformed for the year-to-date, one-year and five-year periods. In this regard, the Board noted Horizon’s representation that the Fund’s underperformance was in part due to its investments in sectors that underperformed as compared to the sectors selected by its peer group funds.

Costs of Services Provided to the Funds and Profits Realized. The Board considered the overall fees paid to Rafferty on an annual basis since the Fund’s commencement of operations, including any fee waivers and recoupment of fees previously waived. The Board also considered the fees that Rafferty charges for the services that it provides to a pooled trading vehicle for domestic hedge funds. In addition, the Board considered the overall profitability of Rafferty’s investment business and its representation that it does not allocate internal costs and assess profitability with respect to its services to individual Funds. Based on these considerations, the Board determined that, in the exercise of its business judgment, the costs of the services provided and the profits realized under the Advisory Agreement were fair and reasonable.

In considering the fees paid by Rafferty to Horizon, the Board considered the representation that the current expense ratio of the Fund is lower compared to the total cost of investing when the Fund was part of the wrap account advisory programs. The Board also considered that Horizon did not provide comparable subadvisory services to any other client. The Board

considered Horizon's profits or losses for its services. In this regard, the Board in part noted Horizon's pre-tax profits with respect to the services it provided to the Fund. Based on these considerations, the Board determined that, in the exercise of its business judgment, the costs of the services provided and the profits realized under the Agreements were fair and reasonable.

Economies of Scale. The Board considered Rafferty's representation that it believes that asset levels at this time are not sufficient to achieve economies of scale or warrant a reduction in fee rates or the addition of breakpoints. Rafferty noted that it was continuing to work on its sales and marketing efforts to raise additional assets. Based on these and other considerations, the Board determined that, in the exercise of its business judgment, the reduction in fee rates or additions of breakpoints were not necessary at this time.

Other Benefits. The Board considered Rafferty's representation that its relationship with the Fund has permitted Rafferty to attract business to its non-mutual fund account. The Board also considered that Rafferty's overall business with brokerage firms helps to lower commission rates and provide better execution for Fund portfolio transactions. In addition, the Board considered that Horizon represented that it realized no benefits other than its direct compensation. Based on these and other considerations, the Board determined that, in the exercise of its business judgment, the benefits were fair and reasonable.

Conclusion. Based on, but not limited to, the above considerations and determinations, the Board determined that the Agreements for the Fund were fair and reasonable in light of the services to be performed, fees, expenses and such other matters as the Board considered relevant in the exercise of its business judgment. On this basis, the Board unanimously voted in favor of the continuance of the Agreements.

Direxion Funds
TRUSTEES AND OFFICERS

The business affairs of the Funds are managed by or under the direction of the Board of Trustees. Information pertaining to the Trustees and Officers of the Funds is set below. The SAI includes additional information about the Funds' Trustees and Officers and is available without charge, upon request by calling 1-800-851-0511.

Interested Trustees

<u>Name, Address and Age</u>	<u>Position(s) Held with Fund</u>	<u>Term of Office and Length of Time Served</u>	<u>Principal Occupation(s) During Past Five Years</u>	<u># of Portfolios in Direxion Family of Investment Companies Overseen by Trustee⁽²⁾</u>	<u>Other Trusteeships/ Directorships Held by Trustee</u>
Lawrence C. Rafferty ⁽¹⁾ Age: 68	Chairman of the Board of Trustees	Lifetime of Trust until removal or resignation; Since 1997	Chairman and Chief Executive Officer of Rafferty, 1997-present; Chief Executive Officer of Rafferty Companies, LLC, 1996-present; Chief Executive Officer of Rafferty Capital Markets, Inc., 1995-present.	165	Board of Trustees, Fairfield University; Board of Directors, St. Vincent's Services; Executive Committee, Metropolitan Golf Association

Non-Interested Trustees

<u>Name, Address and Age</u>	<u>Position(s) Held with Fund</u>	<u>Term of Office and Length of Time Served</u>	<u>Principal Occupation(s) During Past Five Years</u>	<u># of Portfolios in Direxion Family of Investment Companies Overseen by Trustee⁽²⁾</u>	<u>Other Trusteeships/ Directorships Held by Trustee</u>
Daniel J. Byrne Age: 67	Trustee	Lifetime of Trust until removal or resignation; Since 1997	President and Chief Executive Officer of Byrne Securities Florida Inc. (formerly, Byrne Securities Inc.), 1992-present.	165	None.
Gerald E. Shanley III Age: 67	Trustee	Lifetime of Trust until removal or resignation; Since 1997	Retired, Since 2002; Business Consultant, 1985-present; Trustee of Trust Under Will of Charles S. Payson, 1987-present; C.P.A., 1979- present.	165	None.
John Weisser Age: 69	Trustee	Lifetime of Trust until removal or resignation; Since 2007	Retired, Since 1995; Salomon Brothers, Inc, 1971-1995, most recently as Managing Director.	165	Director, MainStay VP Fund Series, The MainStay Funds, The MainStay Funds Trust; Director ICAP Funds, Inc; Director, Eclipse Funds, Inc., Eclipse Funds; (66 Funds Total)

⁽¹⁾ Mr. Rafferty is affiliated with Rafferty. Mr. Rafferty is the Chairman and Chief Executive Officer of Rafferty and owns a beneficial interest in Rafferty.

⁽²⁾ The Direxion Family of Investment Companies consists of the Direxion Funds which currently offers for sale to the public 30 portfolios, the Direxion Insurance Trust which currently offers for sale 1 portfolio and the Direxion Shares ETF Trust which currently offers for sale to the public 51 of the 134 funds currently registered with the SEC.

Direxion Funds
TRUSTEES AND OFFICERS

Principal Officers of the Trust

The officers of the Trust conduct and supervise its daily business. Unless otherwise noted, an individual's business address is 33 Whitehall Street, 10th Floor, New York, New York 10004. As of the date of this report, the officers of the Trust, their ages, their business address and their principal occupations during the past five years are as follows:

Name, Address and Age	Position(s) Held with Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	# of Portfolios in the Direxion Family of Investment Companies Overseen by Trustee ⁽²⁾	Other Trusteeships/ Directorships Held by Trustee
Daniel D. O'Neill ⁽¹⁾ Age: 43	President; Chief Operating Officer and Chief Investment Officer	One Year; Since 1999 One Year; Since 2006	Managing Director of Rafferty, 1999-present.	134	N/A
Christopher Lewis Age: 40	Chief Compliance Officer	One Year; Since 2009	Director, Alaric Compliance Services, LLC, 2009 – present; Partner, Thacher Proffitt & Wood LLP, 2004-2008; Partner, Simmons & Simmons, 2002-2004.	N/A	N/A
Patrick J. Rudnick 777 East Wisconsin Avenue Milwaukee, WI 53202 Age: 37	Principal Financial Officer and Treasurer	One Year; Since 2010	Vice President, U.S. Bancorp Fund Services, LLC, Since 2006; formerly, Manager, PricewaterhouseCoopers LLP (1999-2006).	N/A	N/A
Angela Brickl Age: 35	Secretary ³	One Year; Since 2011	Vice President, Rafferty Asset Management, LLC, since October 2010; Summer Associate at Skadden, Arps, Slate, Meagher & Flom, LLP, May – August 2009; Summer Associate at Foley & Lardner, LLP, May – August 2008; Vice President, U.S. Bancorp Fund Services, LLC, November 2003 – August 2007.	N/A	N/A

⁽¹⁾ Mr. O'Neill serves as Chairman of the Board of Trustees of the Direxion Shares ETF Trust.

⁽²⁾ The Direxion Family of Investment Companies consists of the Direxion Funds which currently offers for sale to the public 30 portfolios, the Direxion Insurance Trust which currently offers for sale 1 portfolio and the Direxion Shares ETF Trust which currently offers for sale to the public 51 of the 134 funds currently registered with the SEC.

⁽³⁾ Ms. Brickl replaced Eric W. Falkeis as Secretary effective August 17, 2011.

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PRIVACY NOTICE

At the Direxion Funds, we are committed to protecting your privacy. To open and service your Direxion accounts, we collect and maintain certain nonpublic personal information about you, such as your address, phone number, social security number, purchases, sales, account balances, bank account information and other personal financial information. We collect this information from the following sources:

- Account applications or other forms on which you provide information,
- Mail, e-mail, the telephone and our website, and
- Your transactions and account inquiries with us.

We safeguard the personal information that you have entrusted to us in the following ways:

- As a general policy, only those employees who maintain your account and respond to your requests for additional services have access to your account information.
- We maintain physical, electronic, and procedural safeguards to insure the security of your personal information and to prevent unauthorized access to your information.

We do not disclose any nonpublic personal information about you or our former shareholders to anyone, except as permitted or required by law. In the course of conducting business and maintaining your account we may share shareholder information, as allowed by law, with our affiliated companies and with other service providers, including financial intermediaries, custodians, transfer agents and marketing consultants. Those companies are contractually bound to use that information only for the services for which we hired them. They are not permitted to use or share our shareholders' nonpublic personal information for any other purpose. There also may be times when we provide information to federal, state or local authorities as required by law.

In the event that you hold fund shares of Direxion through a financial intermediary, including, but not limited to, a broker-dealer, bank, or trust company, the privacy policy of your financial intermediary would govern how your nonpublic personal information would be shared with nonaffiliated third parties.

For questions about our policy, please contact us at (800) 851-0511.



Horizon Capital Management, Inc.

ANNUAL REPORT

Adviser

Rafferty Asset Management, LLC
33 Whitehall St. 10th Floor
New York, NY 10004

Sub-Advisor

HCM Sub-Advisor
Horizon Capital Management, Inc.
106 Valerie Drive
Lafayette, LA 70508

Administrator, Transfer Agent, Dividend Paying Agent & Shareholding Servicing Agent

U.S. Bancorp Fund Services, LLC
P.O. Box 1993
Milwaukee, WI 53201-1993

Custodian

U.S. Bank, N.A.
1555 RiverCenter Dr., Suite 302
Milwaukee, WI 53212

Independent Registered Public Accounting Firm

Ernst & Young LLP
5 Times Square
New York, NY 10036

Distributor

Rafferty Capital Markets, LLC
59 Hilton Avenue
Garden City, NY 11530

The Fund's Proxy Voting Policies are available without charge by calling 1-800-851-0511, or by accessing the SEC's website, at www.sec.gov.

The actual voting records relating to portfolio securities during the most recent period ended June 30 (starting with the year ended June 30, 2005) is available without charge by calling 1-800-851-0511 or by accessing the SEC's website at www.sec.gov.

The Funds file its complete schedule of portfolio holdings with the Commission for the first and third quarters of each fiscal year on Form N-Q. The Form N-Q is available without charge, upon request, by calling 1-800-851-0511, or by accessing the SEC's website, at www.sec.gov. The Funds' Forms N-Q may be reviewed and copied at the Commission's Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

This report has been prepared for shareholders and may be distributed to others only if preceded or accompanied by a current prospectus.