



ANNUAL REPORT DECEMBER 31, 2008

Evolution VP Managed Bond Fund
Evolution VP All-Cap Equity Fund

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LETTER TO SHAREHOLDERS

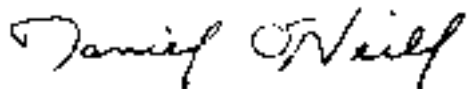
Dear Shareholders,

This Annual Report for the Evolution VP Funds covers the annual period of January 1, 2008 to December 31, 2008 (the "Annual Period"). The Evolution VP Managed Bond Fund (the "Managed Bond Fund") and the Evolution VP All-Cap Equity Fund (the "All-Cap Equity Fund") investment objectives are to seek high appreciation on an annual basis consistent with a high tolerance for risk. Flexible Plan Investments, Ltd. (the "Sub-Advisor"), serves as the sub-advisor to the Evolution Funds. During the Annual Period, the S&P 500 Index returned -37% on a total return basis. Increased volatility, erratic energy and commodity prices, decreased consumer confidence, problems in the financial system, and the potential failure of U.S. Auto Industry have all negatively affected U.S. Equities. During the Annual Period, U.S. equities declined in the first 3 months, rallied in April and May and then fell sharply in from June through December. Bonds fared better than stocks with the Barclays Aggregate Bond Index (formerly Lehman Aggregate Bond Index) rising 5.24% during the Annual Period. For the Annual Period, the Managed Bond Fund returned 3.15%, on a total return basis, compared with a return of 5.24% for the Barclays Aggregate Bond Index. For the Annual Period, the All-Cap Equity Fund returned -26.37%, on a total return basis, compared with the S&P 500 Index return of -37%.

Additionally, the All-Cap Equity Fund was awarded a 5-star rating by independent data and research firm Morningstar*.

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

Sincerely,



Daniel O'Neill
Direxion Funds



Jerry Wagner
Flexible Plan Investments, Ltd.

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

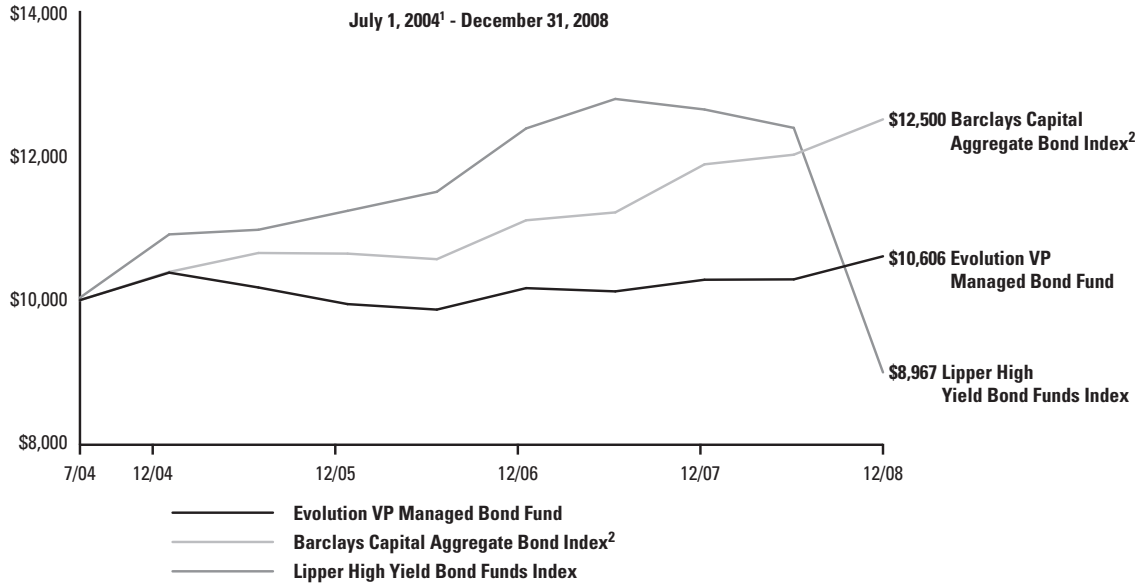
The total annual fund operating expense ratio of the Evolution VP Managed Bond Fund and Evolution VP All-Cap Equity Fund is 2.00% and 2.00%, respectively, net of any fee, waivers or expense reimbursements.

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. Investors considering an investment may obtain a prospectus by calling 1-800-851-0511. Investors should read the prospectus carefully for more complete information, including charges, expenses, objectives, and additional risks, before investing.

*** Five-Star rating is out of 415 funds in the Mid-Cap Blend Category as of 11-30-2008.**

**Distributed by: Rafferty Capital Markets, LLC
Date of First Use: February 27, 2009**

Evolution VP Managed Bond Fund
July 1, 2004¹ - December 31, 2008



	Average Annual Total Return ³		
	1 Year	3 Year	Since Inception ¹
Evolution VP Managed Bond Fund	3.15%	2.17%	1.31%
Barclays Capital Aggregate Bond Index ²	5.24%	5.51%	5.08%
Lipper High Yield Bond Fund Index	(28.84)%	(7.15)%	(2.39)%

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 Barclays Capital Aggregate Bond Index and the Lipper High Yield Bond Fund 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. During the period shown, Rafferty Asset Management, LLC, reimbursed fees for various expenses. Had these reimbursements not been in effect, performance would have been lower.

The performance data quoted represents past performance; past performance does not guarantee future results.

Market Exposure

<u>Investment Type</u>	<u>% of Net Assets</u>
Investment Companies	100.4%
Total Exposure	100.4%

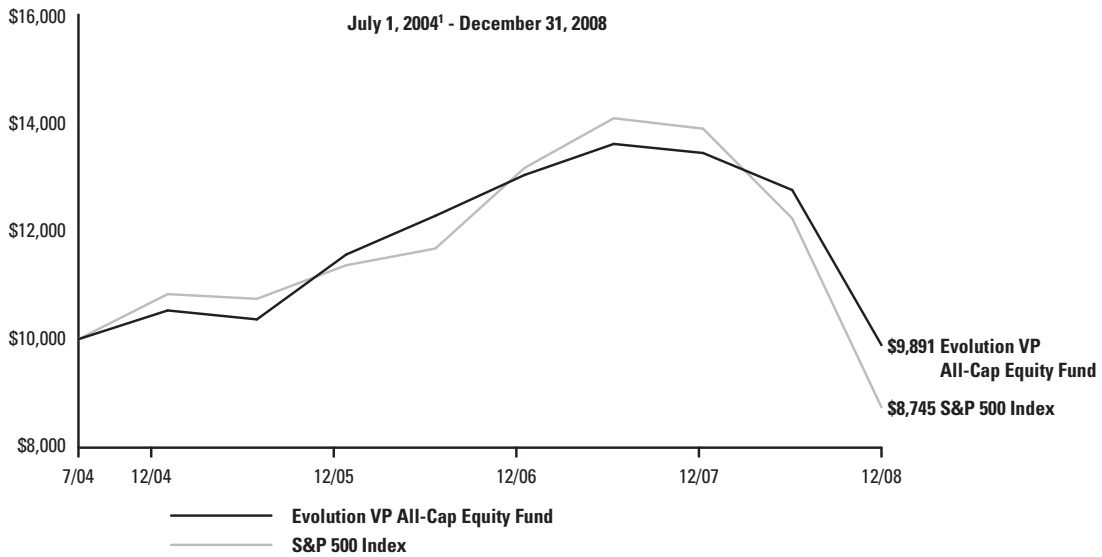
"Market Exposure" includes the value of total investments (including the notional value and any upfront payments of swaps) and excludes any short-term investments and cash equivalents divided by Net Assets.

¹ Commencement of operations was July 1, 2004.

² Formerly Lehman Aggregate Bond Index.

³ As of December 31, 2008.

Evolution VP All-Cap Equity Fund
July 1, 2004¹ - December 31, 2008



	Average Annual Total Return ²		
	1 Year	3 Year	Since Inception ¹
Evolution VP All-Cap Equity Fund	(26.37)%	(5.06)%	(0.24)%
S&P 500 Index	(37.00)%	(8.36)%	(2.93)%

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. During the period shown, Rafferty Asset Management, LLC, reimbursed fees for various expenses. Had these reimbursements not been in effect, performance would have been lower.

The performance data quoted represents past performance; past performance does not guarantee future results.

Market Exposure

Investment Type	% of Net Assets
Common Stock	71.6%
Investment Companies	1.0%
Futures Contracts	(46.0)%
Total Exposure	26.6%

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

¹ Commencement of operations was July 1, 2004.

² As of December 31, 2008.

Expense Example

December 31, 2008 (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 the 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 (July 1, 2008 — December 31, 2008).

Actual Expenses

The first line of the table below provides information about actual account values and actual expenses. Although the Fund charges no sales load or transactions fees, you will be assessed fees for outgoing wire transfers, returned checks or stop payment orders at prevailing rates charged by U.S. Bancorp Fund Services, LLC, the Funds' transfer agent. If you request a redemption be made by wire transfer, currently a \$15.00 fee is charged by the Funds' transfer agent. However, the example below does not include portfolio trading commissions and related expenses or other extraordinary expenses as determined under generally accepted accounting principles. 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 Tables
December 31, 2008 (Unaudited)

	<u>Expense Ratio¹</u>	<u>Beginning Account Value July 1, 2008</u>	<u>Ending Account Value December 31, 2008</u>	<u>Expenses Paid During Period²</u>
Evolution VP Managed Bond Fund				
Based on actual fund return	2.00%	\$1,000.00	\$1,031.00	\$10.21
Based on hypothetical 5% return	2.00%	1,000.00	1,015.08	10.13
Evolution VP All-Cap Equity Fund				
Based on actual fund return	2.00%	1,000.00	775.77	8.93
Based on hypothetical 5% return	2.00%	1,000.00	1,015.08	10.13

¹ Annualized ratio of net expenses incurred in the most recent fiscal half-year.

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 366.

Allocation of Portfolio Holdings
December 31, 2008 (Unaudited)

	<u>Cash*</u>	<u>Common Stock</u>	<u>Investment Companies</u>	<u>Futures**</u>
Evolution VP Managed Bond Fund	0%***	—	100%	—
Evolution VP All-Cap Equity Fund	28%	72%	1%	(1)%

* Cash, cash equivalents and other assets less liabilities.

** Allocated by unrealized appreciation/depreciation.

*** Percentage is less than 0.5%.

Evolution VP Managed Bond Fund

Schedule of Investments

December 31, 2008

<u>Shares</u>		<u>Value</u>	<u>Shares</u>		<u>Value</u>
INVESTMENT COMPANIES - 100.4%					
4,626	Alliance World Dollar Government Fund II	\$ 35,204	2,172	SPDR Barclays Capital 1-3 Month T-Bill Fund	\$ 99,478
5,839	BlackRock Corporate High Yield Fund VI	36,611	7,923	SPDR Barclays Capital International Treasury Bond Fund	431,011
3,834	BlackRock Floating Rate Income Strategy Fund	33,586	4,053	Templeton Emerging Markets Income Fund	37,044
5,353	BlackRock Preferred Income Strategies Fund	34,848	34,570	Vanguard Total Bond Market ETF	2,737,944
3,332	Evergreen Multi-Sector Income Fund	33,986	3,077	Western Asset Emerging Market Debt Fund	38,740
8,389	iShares Barclays 1-3 Year Treasury Bond Fund	710,196	7,207	Western Asset High Income Fund II	36,395
767	iShares Barclays 1-3 Yr Credit Bond Fund	77,344	3,406	Western Asset/Claymore Inflation-Linked Opportunities & Income Fund	35,729
9,327	iShares Barclays 20+ Year Treasury Bond Fund	1,113,178		TOTAL INVESTMENT COMPANIES	
3,850	iShares Barclays 3-7 Yr Treasury Bond Fund	444,944		(Cost \$10,076,809)	<u>\$10,864,928</u>
15,966	iShares Barclays 7-10 Year Treasury Bond Fund	1,573,130		SHORT TERM INVESTMENTS - 4.6%	
15,433	iShares Barclays Aggregate Bond Fund	1,603,180		MONEY MARKET FUNDS - 4.6%	
4,956	iShares Barclays MBS Bond Fund	519,934	132,379	AIM Liquid Assets Portfolio Fund(a)	132,379
1,806	iShares Barclays Short Treasury Bond	199,364	132,378	AIM STIT-STIC Prime Portfolio	132,378
5,298	iShares GS \$InvesTop Corporate Bond Fund	538,542	97,136	Federated Prime Obligations Fund	97,136
3,323	iShares S&P National Municipal Bond Fund	330,639	132,378	Fidelity Institutional Money Market Portfolio	132,378
6,461	MFS Charter Income Trust	47,424		TOTAL SHORT TERM INVESTMENTS	
5,746	MFS Government Markets Income Trust	45,393		(Cost \$494,271)	\$ 494,271
5,745	MFS Intermediate Income Trust	35,906		TOTAL INVESTMENTS	
9,090	Putnam Premier Income Trust	35,178		(Cost \$10,571,080) - 105.0%	\$11,359,199
				Liabilities in Excess of Other Assets - (5.0)%	<u>(541,018)</u>
				TOTAL NET ASSETS - 100.0%	<u>\$10,818,181</u>

Percentages are stated as a percent of net assets.

(a) Non Income Producing

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

Evolution VP All-Cap Equity Fund

Schedule of Investments

December 31, 2008

Shares		Value	Shares		Value
Electrical Equipment (continued)			Health Care Technology - 0.1%		
209	Emerson Electric Co.(a)	\$ 7,652	197	Cerner Corp.(a)	\$ 7,574
686	Flir Systems, Inc.(a)	21,046	519	HLTH Corporation(a)	5,429
1,133	II-VI, Inc.(a)	21,629			13,003
955	Regal-Beloit Corp.	36,280	Hotels Restaurants & Leisure - 1.2%		
1,303	Thomas & Betts Corp.(a)	31,298	2,600	CEC Entertainment, Inc.(a)	63,050
		219,406	317	Ctrip.com International Ltd. ADR	7,545
Energy Equipment & Services - 1.8%			1,802	McDonald's Corp.	112,066
984	Baker Hughes, Inc.	31,557			182,661
773	ENSCO International, Inc.	21,945	Household Durables - 0.6%		
1,987	Halliburton Co.	36,124	4,842	Garmin Ltd.(a)	92,821
1,946	Helmerich & Payne, Inc.	44,272	Household Products - 2.0%		
1,181	National-Oilwell, Inc.(a)	28,864	1,647	Colgate-Palmolive Co.	112,885
985	Noble Corp.	21,759	894	Chattem, Inc.(a)	63,948
732	Oceaneering International, Inc.(a)	21,330	2,404	Kimberly-Clark Corp.	126,787
183	Schlumberger Ltd.(a)	7,746			303,620
664	Transocean Ltd.(a)	31,374	Industrial Conglomerates - 1.4%		
820	Unit Corp.(a)	21,910	1,946	3M Co.	111,973
716	Weatherford International Ltd.(a)	7,747	1,526	Carlisle Cos., Inc.	31,588
		274,628	2,784	Raven Industries, Inc.	67,094
Food Products - 3.0%					210,655
190	Cal-Maine Foods, Inc.(a)	5,453	Industrial & Construction Supplies - 0.9%		
4,753	Corn Products International, Inc.	137,124	1,859	Applied Industrial Technologies, Inc.	35,172
3,919	General Mills, Inc.	238,079	957	Greif, Inc.	31,992
136	Nash Finch Co.	6,105	225	MSC Industrial Direct Co., Inc. - Class A(a)	8,287
1,174	Ralcorp Holdings, Inc.(a)	68,562	1,997	NCI Building Systems, Inc.(a)	32,551
		455,323	1,676	WESCO International, Inc.(a)	32,229
Freight & Logistics - 1.4%					140,231
527	C.H. Robinson Worldwide, Inc.	29,001	Insurance - 3.6%		
127	Dryships, Inc.(a)	1,354	604	Ace Ltd.	31,964
5,417	Eagle Bulk Shipping, Inc.	36,944	271	American Financial Group, Inc.	6,200
2,007	Expeditors International of Washington, Inc.	66,773	122	Chubb Corp.	6,222
2,820	Genco Shipping & Trading Ltd.	41,736	2,508	Hanover Insurance Group, Inc.	107,769
657	TBS International Limited(a)	6,589	130	Infinity Property & Casualty Corp.	6,075
2,680	Teekay Tankers Ltd.	34,036	1,065	IPC Holdings Ltd.	31,843
		216,433	1,774	Life Partners Holdings, Inc.	77,417
Health Care Equipment & Supplies - 2.9%			1,666	Lincoln National Corp.	31,387
2,083	Baxter International, Inc.	111,628	5,273	Marsh & McLennan Companies, Inc.	127,976
1,741	Haemonetics Corp.(a)	98,367	113	Navigators Group, Inc.(a)	6,205
810	Immucor, Inc.(a)	21,530	674	Presidential Life Corp.	6,666
1,120	Kensey Nash Corp.(a)	21,739	117	ProAssurance Corp.(a)	6,175
4,224	Mine Safety Appliances Co.	100,996	2,253	Protective Life Corp.	32,331
2,194	Stryker Corp.	87,650	102	RLI Corp.	6,238
		441,910	160	Safety Insurance Group, Inc.	6,090
Health Care Providers & Services - 1.4%			278	Selective Insurance Group, Inc.	6,375
483	Almost Family, Inc.(a)	21,725	807	Torchmark Corp.	36,073
2,485	Bio-Reference Labs, Inc.(a)	65,181	137	Travelers Companies, Inc.	6,192
196	Chemed Corp.(a)	7,795	335	UnumProvident Corp.	6,231
2,746	Humana, Inc.(a)	102,371	253	Validus Holdings Ltd.(a)	6,618
299	Landauer, Inc.	21,917	196	Zenith National Insurance Corp.	6,188
		218,989			558,235

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

Evolution VP All-Cap Equity Fund

Schedule of Investments

December 31, 2008

Shares	Value	Shares	Value
Internet & Catalog Retail - 0.8%		Multi-Utilities & Unregulated Power - 0.5%	
385	Liberty Media Corp.(a) \$ 6,730	991	Energen Corp. \$ 29,066
1,464	NutriSystem Inc. 21,360	2,034	MDU Resources Group, Inc. 43,894
5,010	PetMed Express, Inc.(a) 88,326	166	SCANA Corp. 5,909
	116,416		78,869
Internet Software & Services - 1.1%		Oil & Gas - 1.9%	
55	Baidu.com, Inc. ADR(a) 7,181	6,347	Arch Coal, Inc. 103,393
450	Google, Inc.(a) 138,443	272	Knightsbridge Tankers Ltd.(a) 3,985
1,426	j2 Global Communications, Inc.(a) 28,577	1,305	Petro-Canada 28,566
	174,201	3,523	Petroquest Energy, Inc.(a) 23,815
IT Services - 1.9%		2,004	Ultra Petroleum Corp.(a) 69,158
3,735	Cognizant Technology Solutions Corp.(a) 67,454	4,746	W&T Offshore, Inc. 67,963
231	Global Payments, Inc.(a) 7,575		296,880
299	Infosys Technologies Ltd. ADR 7,346	Oil, Gas & Consumable Fuels - 2.9%	
8,445	Tyler Technologies, Inc.(a) 101,171	911	Apache Corp. 67,897
2,148	Visa, Inc. 112,663	284	Arena Resources, Inc.(a) 7,978
	296,209	814	Cimarex Energy Co. 21,799
Leisure Equipment & Products - 0.4%		713	Denbury Resources, Inc.(a) 7,786
3,853	Callaway Golf Co. 35,795	1,713	Devon Energy Corp. 112,561
695	Marvel Entertainment, Inc.(a) 21,371	3,965	Dorchester Minerals L.P. 62,924
	57,166	1,525	Murphy Oil Corp. 67,634
Machinery - 1.8%		182	Overseas Shipholding Group, Inc.(a) 7,664
2,537	Barnes Group, Inc. 36,787	309	Petroleo Brasileiro S.A. ADR 7,567
698	Caterpillar, Inc. 31,180	1,368	Pioneer Natural Resources Co. 22,134
1,181	Cummins, Inc. 31,568	747	Southwestern Energy Co.(a) 21,641
1,086	Dover Corp. 35,751	3,683	Stone Energy Corp.(a) 40,587
633	Eaton Corp. 31,466		448,172
924	Gardner Denver, Inc.(a) 21,566	Pharmaceuticals - 1.8%	
306	L.B. Foster Co.(a) 9,572	243	Alcon, Inc. 21,673
704	Lincoln Electric Holdings, Inc. 35,855	10,032	American Oriental Bioengineering, Inc.(a) 68,117
1,775	Pentair, Inc. 42,014	891	Eli Lilly & Co. 35,881
131	Valmont Industries, Inc.(a) 8,038	198	GlaxoSmithKline PLC ADR 7,379
	283,797	3,762	Merck & Co., Inc. 114,365
Media - 0.7%		147	Novartis AG ADR 7,315
495	Grupo Televisa S.A. ADR 7,395	1,229	Questcor Pharmaceuticals, Inc.(a) 11,442
13,593	New York Times Co. 99,637	173	Teva Pharmaceutical Industries Ltd. ADR 7,365
335	The Walt Disney Co.(a) 7,601		273,537
	114,633	Real Estate Investment Trusts - 0.9%	
Metals & Mining - 1.6%		366	Alexandria Real Estate Equities, Inc. 22,084
435	Carpenter Technology Corp.(a) 8,935	523	Health Care REIT, Inc. 22,071
842	Cliffs Natural Resources Inc. 21,564	1,087	LTC Properties, Inc. 22,044
577	Companhia Siderurgica Nacional S.A. ADR 7,391	787	Nationwide Health Properties, Inc. 22,603
764	Gold Fields Ltd. ADR 7,586	279	Public Storage, Inc. 22,181
2,417	Nucor Corp. 111,665	1,390	Urstadt Biddle Properties, Inc. 22,143
345	Olympic Steel, Inc.(a) 7,028		133,126
4,036	PAN American Silver Corp.(a) 68,895	Road & Rail - 0.7%	
172	Randgold Resources Ltd. ADR 7,554	2,347	Union Pacific Corp. 112,187
184	Schnitzer Steel Industries, Inc. - Class A(a) 6,928	Semiconductor & Semiconductor Equipment - 1.1%	
175	Teck Cominco Ltd.(a) 861	2,735	Applied Materials, Inc. 27,705
	248,407	1,288	Cymer, Inc.(a) 28,220
		4,699	Diodes, Inc.(a) 28,476
		1,306	Lam Research Corp.(a) 27,792

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

Evolution VP All-Cap Equity Fund

Schedule of Investments

December 31, 2008

Shares		Value	Shares		Value
Semiconductor & Semiconductor Equipment (continued)			Tobacco - 2.6%		
2,473	Maxim Integrated Products, Inc.	\$ 28,242	1,801	Lorillard, Inc.	\$ 101,486
3,001	Sigma Designs, Inc.(a)	28,509	2,550	Philip Morris International, Inc.	110,950
920	Taiwan Semiconductor Manufacturing Co. Ltd. ADR	7,268	883	Reynolds American, Inc.	35,594
		176,212	2,125	UST, Inc.	147,433
					395,463
Software - 3.3%			Wireless Telecommunication Services - 0.2%		
1,322	Adobe Systems, Inc.(a)	28,145	239	America Movil S.A. de C.V. ADR	7,407
1,426	Autodesk, Inc.(a)	28,021	144	China Mobile Hong Kong Ltd. ADR	7,323
2,076	Blackbaud, Inc.	28,026	280	Mobile TeleSystems ADR(a)	7,470
6,060	CA, Inc.	112,292	1,014	Vimpel-Communications ADR	7,260
2,762	Ebix, Inc.(a)	66,012			29,460
2,041	Informatica Corp.(a)	28,023		TOTAL COMMON STOCKS	
5,852	MICRO Systems, Inc.(a)	95,504		(Cost \$10,159,824)	\$11,044,883
2,875	Microsoft Corp.	55,890			
1,511	Quality Systems, Inc.	65,910		INVESTMENT COMPANIES - 1.0%	
203	SAP AG ADR	7,353	6,121	iShares MSCI Emerging Markets Index Fund	152,841
		515,176		TOTAL INVESTMENT COMPANIES	
				(Cost \$150,097)	\$ 152,841
Specialty Retail - 3.2%			SHORT TERM INVESTMENTS - 23.5%		
1,680	Abercrombie & Fitch Co. - Class A	38,758	MONEY MARKET FUNDS - 23.5%		
44	Autozone, Inc.(a)	6,137	945,112	AIM Liquid Assets Portfolio Fund(a)	945,112
2,826	The Buckle, Inc.	61,663	945,113	AIM STIT-STIC Prime Portfolio	945,113
4,881	Family Dollar Stores, Inc.	127,248	783,876	Federated Prime Obligations Fund	783,876
831	Gymboree Corp.(a)	21,681	945,113	Fidelity Institutional Money Market Portfolio	945,113
231	Jos. A. Bank Clothiers, Inc.(a)	6,041		TOTAL SHORT TERM INVESTMENTS (Cost \$3,619,214)	\$ 3,619,214
2,098	The Sherwin-Williams Co.	125,355		TOTAL INVESTMENTS	
1,507	Tiffany & Co.	35,610		(Cost \$13,929,135) - 96.1%	\$14,816,938
6,120	Volcom, Inc.(a)	66,708		Other Assets in Excess of Liabilities - 3.9%	597,981
		489,201		TOTAL NET ASSETS - 100.0%	\$15,414,919
Textiles, Apparel & Luxury Goods - 0.3%					
315	Coach, Inc.(a)	6,543			
651	VF Corp.	35,655			
		42,198			

Percentages are stated as a percent of net assets.

ADR American Depository Receipt

(a) Non Income Producing

Evolution VP All-Cap Equity Fund

Short Futures Contracts

December 31, 2008

Contracts		Unrealized Depreciation
293	NASDAQ-100 Index E-Mini Futures Expiring March 2009 (Underlying Face Amount at Market Value \$7,093,530)	\$(104,657)

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

Statements of Assets and Liabilities

December 31, 2008

	<u>Evolution VP Managed Bond Fund</u>	<u>Evolution VP All-Cap Equity Fund</u>
Assets:		
Investments, at market value (Note 2)	\$11,359,199	\$14,816,938
Cash	530	1,171
Receivable for investments sold	459,131	1,678,654
Deposit at broker for futures	—	894,079
Dividends and interest receivable	34,615	22,801
Other Assets	101	90
Total Assets	<u>11,853,576</u>	<u>17,413,733</u>
Liabilities:		
Payable for Fund shares redeemed	32,262	628
Payable for investments purchased	945,341	1,811,712
Due to broker for futures	—	81,279
Variation margin payable	—	23,377
Accrued distribution expense	2,273	3,298
Accrued advisory expense	11,137	8,281
Accrued expenses and other liabilities	44,382	70,239
Total Liabilities	<u>1,035,395</u>	<u>1,998,814</u>
Net Assets	<u>\$10,818,181</u>	<u>\$15,414,919</u>
Net Assets Consist Of:		
Capital stock	\$11,029,287	\$23,572,562
Accumulated undistributed net investment income (loss)	305,927	—
Accumulated undistributed net realized gain (loss)	(1,305,152)	(8,940,789)
Net unrealized appreciation/(depreciation) on:		
Investments	788,119	887,803
Futures	—	(104,657)
Total Net Assets	<u>\$10,818,181</u>	<u>\$15,414,919</u>
Calculation of Net Asset Value Per Share:		
Net assets	\$10,818,181	\$15,414,919
Shares outstanding (unlimited shares of beneficial interest authorized, no par value)	557,352	1,011,681
Net asset value, redemption price and offering price per share	<u>\$ 19.41</u>	<u>\$ 15.24</u>
Cost of Investments	<u>\$10,571,080</u>	<u>\$13,929,135</u>

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

Statements of Operations
For The Year Ended December 31, 2008

	<u>Evolution VP Managed Bond Fund</u>	<u>Evolution VP All-Cap Equity Fund</u>
Investment income:		
Dividend income (net of foreign withholding tax of \$— and \$5,184, respectively)	\$ 526,482	\$ 257,441
Interest income	<u>6,402</u>	<u>67,365</u>
Total investment income	<u>532,884</u>	<u>324,806</u>
Expenses:		
Investment advisory fees	113,478	219,773
Distribution expenses	28,369	54,943
Shareholder servicing fees	22,696	43,955
Administration fees	5,155	10,210
Fund accounting fees	11,617	37,331
Custody fees	3,067	3,233
Transfer agent fees	9,593	20,254
Professional fees	37,700	59,643
Reports to shareholders	5,599	15,864
Trustees' fees and expenses	557	702
Other	<u>9,172</u>	<u>17,155</u>
Total expenses before reimbursement	247,003	483,063
Less: Reimbursement of expenses from Adviser	<u>(20,047)</u>	<u>(43,401)</u>
Total expenses	<u>226,956</u>	<u>439,662</u>
Net investment income (loss)	<u>305,928</u>	<u>(114,856)</u>
Realized and unrealized gain (loss) on investments:		
Net realized gain (loss) on:		
Investments	(549,154)	(9,605,061)
Futures	<u>—</u>	<u>3,137,461</u>
	<u>(549,154)</u>	<u>(6,467,600)</u>
Capital gain distributions from regulated investment companies	<u>2,331</u>	<u>—</u>
Change in unrealized appreciation (depreciation) on:		
Investments	601,256	20,358
Futures	<u>—</u>	<u>(104,657)</u>
	<u>601,256</u>	<u>(84,299)</u>
Net realized and unrealized gain (loss) on investments	<u>54,433</u>	<u>(6,551,899)</u>
Net increase (decrease) in net assets resulting from operations	<u>\$ 360,361</u>	<u>\$(6,666,755)</u>

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

Statements of Changes in Net Assets
December 31, 2008

	Evolution VP Managed Bond Fund		Evolution VP All-Cap Equity Fund	
	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2008	Year Ended December 31, 2007
Operations:				
Net investment income (loss)	\$ 305,928	\$ 449,961	\$ (114,856)	\$ (78,939)
Net realized gain (loss) on investments	(549,154)	(394,686)	(6,467,600)	1,595,753
Capital gain distributions from regulated investment companies	2,331	3,333	—	—
Change in unrealized appreciation (depreciation) on investments	<u>601,256</u>	<u>71,417</u>	<u>(84,299)</u>	<u>(685,109)</u>
Net increase (decrease) in net assets resulting from operations	<u>360,361</u>	<u>130,025</u>	<u>(6,666,755)</u>	<u>831,705</u>
Distributions to shareholders:				
Net investment income	(469,818)	(347,306)	—	(78,978)
Net realized gains	<u>—</u>	<u>—</u>	<u>(2,691,024)</u>	<u>(1,319,400)</u>
Total distributions	<u>(469,818)</u>	<u>(347,306)</u>	<u>(2,691,024)</u>	<u>(1,398,378)</u>
Capital share transactions:				
Proceeds from shares sold	6,623,432	2,510,649	1,452,721	8,391,398
Proceeds from shares issued to holders in reinvestment of distributions	469,818	347,305	2,691,024	1,398,379
Cost of shares redeemed	<u>(7,932,663)</u>	<u>(4,113,820)</u>	<u>(7,235,661)</u>	<u>(8,562,377)</u>
Net increase in net assets resulting from capital share transactions	<u>(839,413)</u>	<u>(1,255,866)</u>	<u>(3,091,916)</u>	<u>1,227,400</u>
Total increase (decrease) in net assets	<u>(948,870)</u>	<u>(1,473,147)</u>	<u>(12,449,695)</u>	<u>660,727</u>
Net assets:				
Beginning of year	<u>11,767,051</u>	<u>13,240,198</u>	<u>27,864,614</u>	<u>27,203,887</u>
End of year	<u>\$10,818,181</u>	<u>\$11,767,051</u>	<u>\$ 15,414,919</u>	<u>\$27,864,614</u>
Accumulated undistributed net investment income end of year	<u>\$ 305,927</u>	<u>\$ 469,925</u>	<u>\$ —</u>	<u>\$ —</u>

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

Financial Highlights December 31, 2008

Year/Period	RATIOS TO AVERAGE NET ASSETS															
	Net Asset Value, Beginning of Year/Period	Net Investment Income (Loss) ⁴	Net Realized and Unrealized Gain (Loss) on Investments ⁴	Net Increase (Decrease) in Net Asset Value Resulting from Operations	Dividends from Investment Income	Dividends from Realized Capital Gains	Total Distributions	Net Asset Value, End of Year/Period	Total Return ⁵ Year/Period	Net Assets, End of Year/Period (,000)	Including Short Interest		Excluding Short Interest		Net Investment Income (Loss) After Expense Reimbursement/Recoupment	Portfolio Turnover Rate ⁵
											Total Expenses	Net Expenses	Total Expenses	Net Expenses		
Evolution VP Managed Bond Fund																
Year ended December 31, 2008	19.64	\$ 0.52	\$ 0.08	\$ 0.60	\$ (0.83)	—	(0.83)	\$ 19.41	3.15%	\$ 10,818	—	—	2.18%	2.00%	2.70%	323%
Year ended December 31, 2007	20.00	0.73	(0.51)	0.22	(0.58)	—	(0.58)	19.64	1.14%	11,767	—	—	2.06%	2.00%	3.62%	958%
Year ended December 31, 2006	19.61	0.63	(0.19)	0.44	(0.05)	—	(0.05)	20.00	2.23%	13,240	—	—	2.55%	2.00%	3.19%	954%
Year ended December 31, 2005	20.76	0.67 ⁶	(1.54)	(0.87)	(0.25)	(0.03)	(0.28)	19.61	(4.19%)	4,197	4.93%	2.24%	4.69%	2.00%	3.37% ⁷	978%
July 1, 2004 ¹ to December 31, 2004	20.00	0.32	0.44	0.76	—	—	—	20.76	3.80% ²	754	—	—	23.17% ³	2.00% ³	3.19% ³	7% ²
Evolution VP All-Cap Equity Fund																
Year ended December 31, 2008	25.19	(0.12)	(6.60)	(6.72)	(3.23)	(3.23)	(3.23)	15.24	(26.37%)	15,415	—	—	2.20%	2.00%	(0.52%)	1,796%
Year ended December 31, 2007	25.71	(0.07)	0.88	0.81	(1.25)	(1.25)	(1.33)	25.19	3.11%	27,865	—	—	1.94%	2.00%	(0.27%)	1,018%
Year ended December 31, 2006	23.12	0.11	2.83	2.94	(0.00) ⁸	(0.35)	(0.35)	25.71	12.70%	27,204	—	—	2.09%	2.00%	0.44%	909%
Year ended December 31, 2005	21.06	0.03	2.03	2.06	—	—	—	23.12	9.78%	7,980	—	—	3.84%	2.00%	0.12%	1,001%
July 1, 2004 ¹ to December 31, 2004	20.00	(0.15)	1.21	1.06	—	—	—	21.06	5.30% ²	1,044	—	—	20.13% ³	2.00% ³	(1.53%) ³	2% ²

¹ Commencement of operations.

² Not annualized.

³ Annualized.

⁴ Net investment income (loss) per share represents net investment income (loss) divided by the daily average shares of beneficial interest outstanding throughout each period/year.

⁵ Portfolio turnover ratio is calculated without regard to short-term securities having a maturity of less than one year. Investments in options, swaps, futures contracts and repurchase agreements are deemed short-term securities. Each Fund's aggressive investment strategy may result in significant portfolio turnover to take advantage of anticipated changes in market conditions.

⁶ Net investment income (loss) before dividends on short positions for the year ended December 31, 2005 was \$0.72 for the Evolution VP Managed Bond Fund.

⁷ The net investment income (loss) ratio included dividends on short positions. The ratio excluding dividends on short positions for the year ended December 31, 2005 was 3.60% for the Evolution VP Managed Bond Fund.

⁸ Amount less than \$0.005 per share.

⁹ All returns reflect reinvested dividends, if any, but do not reflect the impact of taxes or any fees and expenses imposed under the Contracts and Plans, which would increase overall fees and expenses. Please refer to your Contract or Plan prospectus for a description of those fees and expenses.

Evolution VP Managed Bond Fund
Evolution VP All-Cap Equity Fund
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

1. ORGANIZATION

Direxion Insurance Trust (the "Trust") was organized as a Massachusetts business trust on December 28, 1999 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 three series in operation of which two are included in this report, the Evolution VP Managed Bond Fund and the Evolution VP All-Cap Equity Fund (each a "Fund" and collectively, the "Funds"). Each Fund is a "non-diversified" series of the Trust pursuant to the 1940 Act. The Trust offers shares to unaffiliated life insurance separate accounts (registered as unit investment trusts under the 1940 Act) to fund the benefits under variable annuity and variable life contracts. The Evolution VP Managed Bond Fund and Evolution VP All-Cap Equity Fund commenced operations on July 1, 2004.

The objective of the Evolution VP Managed Bond Fund is to seek the highest appreciation on an annual basis consistent with a high tolerance for risk by investing at least 80% of its assets (plus any borrowing for investment purposes) in fixed-income securities indirectly through securities that invest in or are a derivative of fixed-income securities, including exchange traded funds ("ETFs") and closed-end investment companies (collectively, fixed-income securities). The objective of the Evolution VP All-Cap Equity Fund is to seek the highest appreciation on an annual basis consistent with a high tolerance for risk by investing at least 80% of its assets (plus any borrowing for investment purposes) in equity securities either directly through individual stocks and American Depository Receipts ("ADRs") or indirectly through securities that invest in or are a derivative of equity securities.

2. SIGNIFICANT ACCOUNTING POLICIES

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

a) Investment Valuation – Equity securities, ETFs, closed-end investment companies, options, futures, and options on futures are valued at their last sales price, or if not available, the average of the last bid and asked prices. Over-the-counter ("OTC") 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 ("NOCP"). Investments in open-end mutual funds are valued at their respective net asset values on valuation date. 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 closing bid and asked prices provided by the Funds' pricing service or, if such services are unavailable, by a pricing matrix method. Securities for which reliable market quotations are not readily available, the Funds' pricing service does not provide a valuation for such securities, the Funds' pricing service provides valuation that in the judgment of Rafferty Asset Managements, 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 – Each 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 Funds were not invested in repurchase agreements at December 31, 2008.

c) Swap Contracts – Each Fund may enter into equity swap contracts. Standard 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’s obligations are accrued daily (offset by any amounts owed to the funds.)

In a “long” swap agreement, the counterparty will generally agree to pay the Funds the amount, if any, by which the notional amount of swap contract would have increased in value if the Funds had been invested in the particular securities, plus dividends that would have been received on those securities. The Funds 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. Payments may be made at the conclusion of the contract or periodically during its term. Swap contracts do not include the delivery of securities or other underlying 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 by the Fund’s custodian. 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 Funds on the notional amount are recorded as “unrealized gains or losses on swaps and futures” and when cash is exchanged, the gain or loss is recorded as “realized gains or losses on swaps and futures.” Swap contracts are collateralized by cash, cash equivalents and securities of the Fund held as deposits at broker.

Each 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 value of the swap, plus, in certain instances, the Fund will agree to pay to the counterparty commissions or trading spreads on the notional amount. These amounts are netted with any unrealized appreciation or depreciation to determine the value of the swap.

Swap contracts involve, to varying degrees, elements of market risk and exposure to loss in excess of the amount reflected in the Statements of Assets and Liabilities. The notional amounts reflect the extent of the total investment exposure that each Fund has under the swap contract. The primary risks associated with the use of swap agreements are imperfect correlation between movements in the notional amount and the price of the underlying securities and the inability of counterparties to perform. A Fund bears the risk of loss of the amount expected to be received under a swap contract in the event of default or bankruptcy of a swap contract counterparty. In order to minimize credit risk, the Funds will attempt to enter into swap contracts with multiple counterparties. The Funds will not enter into swap agreements unless the Adviser believes that the other party to the transaction is creditworthy, the Funds do bear the risk of loss of the amount in the event of the default or bankruptcy of the agreement counterparty. The Funds have established counterparty credit guidelines and entered into transactions only with financial institutions of investment grade or better. The Funds were not invested in swap contracts at December 31, 2008.

d) Short Positions – Each 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 Funds were not invested in short positions at December 31, 2008.

e) Stock Index Futures Contracts and Options on Futures Contracts – Each Fund may purchase and sell stock index futures contracts and options on such futures contracts. 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.

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 cash, cash equivalents and liquid securities as collateral for written options, futures contracts, options on futures contracts and short positions.

g) Risks of Investing in Foreign Securities – Investments in foreign securities involve greater risks than investing in domestic securities. As a result, the Fund’s returns and net asset values may be affected to a large degree by fluctuations in currency exchange rates, political, diplomatic or economic conditions and regulatory requirements in other countries. The laws and accounting, auditing, and financial reporting standards in foreign countries typically are not as strict as they are in the U.S., and there may be less public information available about foreign companies.

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

i) Federal Income Taxes – Each 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 and excise taxes.

j) Income and Expenses – Dividend income is recorded on the ex-dividend date. Interest income, including amortization of premium and discount, is recognized on an accrual basis. The Funds are charged for those expenses that are directly attributable to each series, such as Advisory fees and registration costs. Expenses that are not directly attributable to a series are generally allocated among the Trust’s series in proportion to their respective net assets.

k) Distributions to Shareholders – Each 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 U.S. generally accepted accounting principles. Distributions to shareholders are recorded on the ex-dividend date. Each Fund may utilize earnings and profits distributed to shareholders on redemption of shares as part of the dividend paid deduction.

The tax character of distributions for the Funds during the years ended December 31, 2008 and December 31, 2007, were as follows:

	<u>Evolution VP Managed Bond Fund</u>		<u>Evolution VP All-Cap Equity Fund</u>	
	<u>Year Ended December 31, 2008</u>	<u>Year Ended December 31, 2007</u>	<u>Year Ended December 31, 2008</u>	<u>Year Ended December 31, 2007</u>
Distributions paid from:				
Ordinary income	\$469,818	\$347,306	\$2,691,024	\$1,326,536
Long-term capital gain	—	—	—	71,842
Total distributions paid	<u>\$469,818</u>	<u>\$347,306</u>	<u>\$2,691,024</u>	<u>\$1,398,378</u>

The Funds designate as long-term capital gain dividend, pursuant to Internal Revenue Code Section 852(b)(3), the amount necessary to reduce the earnings and profits of the Funds related to net capital gain to zero for the tax year ended December 31, 2008. The Funds may utilize earnings and profits distributed to shareholders on redemption of shares as part of the dividend paid deduction.

As of December 31, 2008, the components of distributable earnings of the Funds on a tax basis were as follows:

	Evolution VP Managed Bond Fund	Evolution VP All-Cap Equity Fund
Tax cost of investments	\$10,994,820	\$15,935,078
Gross unrealized appreciation	830,032	1,025,481
Gross unrealized depreciation	(465,653)	(2,143,621)
Net unrealized appreciation/(depreciation)	<u>364,379</u>	<u>(1,118,140)</u>
Undistributed ordinary income/(loss)	305,927	—
Undistributed long-term capital gain/(loss)	—	—
Total distributable earnings	<u>305,927</u>	<u>—</u>
Other accumulated gain/(loss)	(881,412)	(7,144,160)
Other Temporary Difference	—	104,657
Total accumulated earnings /(losses)	<u>\$ (211,106)</u>	<u>\$ (8,157,643)</u>

The difference between book cost of investments and tax cost of investments is attributable primarily to the tax deferral of losses on wash sales.

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

	Accumulated Realized Gain/(Loss)	Accumulated Net Investment Income/(Loss)	Capital Stock
Evolution VP Managed Bond Fund	\$ 108	\$ (108)	\$ —
Evolution VP All-Cap Equity Fund	5,448	114,856	(120,304)

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 net operating losses, and dividends on redemption adjustments with differing book and tax methods.

In order to meet certain excise tax distribution requirements, the Funds are required to measure and distribute annually, net capital gains realized during a twelve-month period ending October 31st. In connection with this, the Funds are permitted for tax purposes to defer into their next fiscal year any net capital losses incurred between November 1st and the end of their fiscal year, December 31, 2008.

At December 31, 2008 the Evolution VP All-Cap Equity Fund deferred, on a tax basis, post-October losses of \$1,877,201.

As of December 31, 2008, the Funds had capital loss carryforwards on a tax basis of:

	Expires				
	<u>12/31/2013</u>	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>12/31/2016</u>	<u>Total</u>
Evolution VP Managed Bond Fund	\$143,203	\$38,577	\$280,466	\$ 419,166	\$ 881,412
Evolution VP All-Cap Equity Fund	—	—	—	5,162,302	5,162,302

To the extent that the Fund realizes future net capital gains, those gains will be offset by any unused capital loss carryforward.

FIN 48 requires the Funds to analyze all open tax years. Open tax years are those years that are open for examination by the relevant income taxing authority. As of December 31, 2008, open Federal and state income tax years include the tax years ended December 31, 2005 through December 31, 2008. The Funds have no examinations in progress.

The Funds have reviewed all open tax years and major jurisdictions and concluded that the adoption of FIN 48 resulted in no effect to the Funds' financial position or results of operations. There is no tax liability resulting from unrecognized tax benefits relating to uncertain income tax positions taken or expected to be taken on the tax returns for the fiscal year-end December 31, 2005 through December 31, 2008. The Funds are also not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months.

l) 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 believes the risk of loss is remote.

m) Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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. CAPITAL SHARE TRANSACTIONS

Capital share transactions for the Funds during the years ended December 31, 2008 and December 31, 2007 were as follows:

	Evolution VP Managed Bond Fund		Evolution VP All-Cap Equity Fund	
	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2008	Year Ended December 31, 2007
Shares sold	343,607	126,197	63,755	316,075
Shares issued to holders in reinvestment of distributions	24,292	17,875	180,727	55,098
Shares redeemed	(409,572)	(207,080)	(338,874)	(323,161)
Total increase (decrease) from capital share transactions	<u>(41,673)</u>	<u>(63,008)</u>	<u>(94,392)</u>	<u>48,012</u>

4. INVESTMENT TRANSACTIONS

During the year ended December 31, 2008, the aggregate purchases and sales of investments (excluding short-term investments) for each Fund were as follows:

	Purchases	Sales
Evolution VP Managed Bond Fund	\$ 36,270,169	\$ 36,992,225
Evolution VP All-Cap Equity Fund	344,226,609	345,149,495

There were no purchases or sales of long-term U.S. Government securities during the period ended December 31, 2008.

5. INVESTMENT ADVISORY AND OTHER AGREEMENTS

Investment Advisory Fees: The Funds have entered into an investment advisory agreement with the Adviser. The Adviser receives a fee, computed daily and payable monthly, at the annual rates presented below as applied to each Fund's average daily net assets. In addition, the Adviser has entered into a sub-advisory agreement relating to the Funds whereby the sub-adviser, Flexible Plan Investments, Ltd., will direct investment activities of the Funds. The Adviser pays, out of the management fees it receives from the Funds, a fee for these sub-advisory services. For the year ended December 31, 2008, the Adviser has contractually agreed to pay all operating expenses (excluding dividends on short positions), in excess of the

annual cap on expenses presented below as applied to each Fund's average daily net assets. On November 6, 2008, the Board of Trustees approved charges to the annual expense cap of the Funds. Effective January 1, 2009 extending through December 31, 2009, the annual expense caps of the Funds increased from 2.00% to 2.35%. Additionally, the Adviser may waive fees it may otherwise normally charge the Fund. For the year ended December 31, 2008, the Fund did not voluntarily waive any additional fees. The Adviser may change, or end, any voluntary waiver at any time. The Adviser may recover from the Funds the expenses paid in excess of the annual cap on expenses (either due to the contractual or any voluntary waiver) for the three previous years, as long as the recovery does not cause the Fund to exceed such annual cap on expenses. For the year ended December 31, 2008, the Adviser paid or recouped the following expenses:

	<u>Evolution VP Managed Bond Fund</u>	<u>Evolution VP All-Cap Equity Fund</u>
Annual Advisory rate	1.00%	1.00%
Annual cap on expenses	2.00%	2.00%
Reimbursement of expenses from Adviser - 2008	\$20,047	\$43,401

Expenses subject to potential recovery expiring in:

	<u>Evolution VP Managed Bond Fund</u>	<u>Evolution VP All-Cap Equity Fund</u>
2009	\$49,690	\$16,813
2010	\$ 8,065	\$ —
2011	<u>\$20,047</u>	<u>\$43,401</u>
Total	<u>\$77,802</u>	<u>\$60,214</u>

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 December 31, 2008. The Distributor is an affiliate of the Advisor.

Distribution Expenses: Shares of the Evolution VP Managed Bond and the Evolution VP All-Cap Equity Funds are subject to an annual Rule 12b-1 fee of up to .25% of Fund's average daily net assets. During the year ended December 31, 2008, the Evolution VP Managed Bond Fund and the Evolution VP All-Cap Equity Fund incurred expenses of \$28,369 and \$54,943, respectively, under Rule 12b-1. The fee is paid to the insurance company of the plan sponsor (i.e. various enrolled employers) for distribution-related activities on behalf of the funds.

Shareholder Servicing Fees: The Board has authorized each Fund to pay a shareholder servicing fee of 0.20% of the Fund's average daily net assets. During the year ended December 31, 2008, the Evolution VP Managed Bond Fund and the Evolution VP All-Cap Equity Fund incurred expenses of \$22,696 and \$43,955, respectively, for shareholder servicing fees. The Trust, on behalf of each Fund, pays the fee to the insurance company of the plan sponsor for the servicing of shareholder accounts.

6. FINANCIAL ACCOUNTING STANDARDS BOARD STANDARD NO. 157

In September 2006, FASB issued its Statement on Financial Accounting Standards No. 157, *Fair Value Measurements* ("FAS 157") effective for fiscal years beginning after November 15, 2007. FAS 157 clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable. The Funds have adopted FAS 157 effective January 1, 2008. A summary of the fair value hierarchy under FAS 157 is described below:

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels listed below:

Level 1 — Quoted prices in active markets for identical securities,

Level 2 — 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 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 December 31, 2008:

Description	Evolution VP Managed Bond Fund		Evolution VP All-Cap Equity Fund	
	Investments in Securities (Asset)	Other Financial Instruments*	Investments in Securities (Asset)	Other Financial Instruments* (Liability)
Level 1 — Quoted prices	\$11,359,199	\$—	\$14,816,938	\$(104,657)
Level 2 — Other significant observable inputs	—	—	—	—
Level 3 — Significant unobservable inputs	—	—	—	—
Total	<u>\$11,359,199</u>	<u>\$—</u>	<u>\$14,816,938</u>	<u>\$(104,657)</u>

* Other financial instruments are derivative instruments not reflected in the Schedule of Investments, such as futures, written options and swap contracts, which are valued at the unrealized appreciation (depreciation) on the instrument.

7. NEW ACCOUNTING PRONOUNCEMENT

In March 2008, FASB issued its Statement on Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("FAS 161"). This standard is intended to enhance financial statement disclosure for derivative instruments and hedging activities and enable investors to understand: a) how and why a fund uses derivatives instruments, b) how derivatives instruments and related hedge items are accounted for, and c) how derivative instruments and related hedge items affect a fund's financial position, results of operations and cash flows. FAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. As of December 31, 2008, management does not believe the adoption of FAS 161 will impact the financial statement amounts; however, additional footnote disclosures may be required about the use of derivative instruments and hedge items.

To the Shareholders and
Board of Trustees of Direxion Insurance Trust:

We have audited the accompanying statements of assets and liabilities of the Evolution VP Managed Bond Fund and Evolution VP All-Cap Equity Fund (two of the series constituting Direxion Insurance Trust) (the "Funds"), including the schedules of investments, as of December 31, 2008, and the related statements of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the four years in the period then ended and for the period from July 1, 2004 (commencement of operations) to December 31, 2004. These financial statements and financial highlights are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits 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 Funds' internal control over financial reporting. Our audits 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 Funds' 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 December 31, 2008, by correspondence with the custodian and brokers. We believe that our audits provide 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 Evolution VP Managed Bond Fund and Evolution VP All-Cap Equity Fund at December 31, 2008, the results of their operations for the year then ended, the changes in their net assets for each of the two years in the period then ended, and the financial highlights for each of the four years in the period then ended and for the period from July 1, 2004 (commencement of operations) to December 31, 2004 in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

February 25, 2009
Milwaukee, Wisconsin

ADDITIONAL INFORMATION

(UNAUDITED)

QUALIFIED DIVIDEND INCOME/DIVIDENDS RECEIVED DEDUCTION

For the fiscal year ended December 31, 2008, 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 as follows:

Evolution VP Managed Bond Fund	58.78%
Evolution VP All Cap Equity Fund	12.60%

For corporate shareholders, the percent of ordinary income distributions qualifying for the corporate dividends received deduction for the fiscal year ended December 31, 2008 was as follows:

Evolution VP Managed Bond Fund	59.40%
Evolution VP All Cap Equity Fund	4.20%

Direxion Funds
TRUSTEES AND OFFICERS

The business affairs of each Fund are managed by or under the direction of the Board of Trustees. Information pertaining to the Trustees and Officers of the Funds is set forth below. The SAI includes additional information about the Funds' Trustee 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 Complex Overseen by Trustee⁽²⁾</u>	<u>Other Trusteeships/ Directorships Held by Trustee</u>
Lawrence C. Rafferty ⁽¹⁾ Age: 66	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.	109	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 Complex Overseen by Trustee⁽²⁾</u>	<u>Other Trusteeships/ Directorships Held by Trustee</u>
Daniel J. Byrne Age: 64	Trustee	Lifetime of Trust until removal or resignation; Since 1997	President and Chief Executive Officer of Byrne Securities Inc., 1992-present.	109	Trustee, The Opening Word Program, Wyandanch, New York
Gerald E. Shanley III Age: 65	Trustee	Lifetime of Trust until removal or resignation; Since 1997	Business Consultant, 1985-present; Trustee of Trust Under Will of Charles S. Payson, 1987-present; C.P.A. 1979-present.	109	None
John Weisser Age: 67	Trustee	Lifetime of Trust until removal or resignation; Since 2007	Retired, Since 1995; Salomon Brothers, Inc, 1971-1995, most recently as Managing Director.	109	MainStay VP Series Fund, Inc.

Direxion Funds
TRUSTEES AND OFFICERS

Officers

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 Direxion Complex Overseen by Trustee ⁽²⁾	Other Trusteeships/ Directorships Held by Trustee
Daniel D. O'Neill Age: 40	President; Chief Operating Officer and Chief Investment Officer	One Year; Since 1999 One Year; Since 2006	Managing Director of Rafferty, 1999-present.	N/A	N/A
William Franca Age: 52	Executive Vice President – Head of Distribution	One Year; Since 2006	Senior Vice President – National Sales, Massachusetts Financial Services/SunLife Financial Distributors, 2002-2004; Executive Vice President, Distribution, SunLife, 2001-2002.	N/A	N/A
Peter Wilson Age: 31	Chief Compliance Officer	One Year; Since 2008	Director, Alaric Compliance Services, LLC, 2004 – present; Attorney, US Army JAG Corps, 2003-2007.	N/A	N/A
Guy F. Talarico Age: 53	Principal Financial Officer	One Year; Since 2008	CEO, Alaric Compliance Services LLC, 2006-present; Co-CEO EOS Compliance Services, LLC, 2004-2006; Senior Director, Investors Bank and Trust Co, 2001-2004; Division Executive, JP Morgan-Chase Bank, 1986-2001; Group Product Manager, Lever Brothers Company, 1977-1986.	N/A	N/A
Eric W. Falkeis 615 East Michigan Street Milwaukee, WI 53202 Age: 36	Secretary	One Year; Since 2004	Senior Vice President USBFS since September 2007; Chief Financial Officer, U.S. Bancorp Fund Services, LLC, since April 2006; Vice President, U.S. Bancorp Fund Services LLC, 1997 – present; formerly, Chief Financial Officer, Quasar Distributors, LLC, 2000-2003.	N/A	N/A

⁽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 Complex consists of the Direxion Funds which currently offers for sale to the public 32 portfolios of the 32 currently registered with the SEC and the Direxion Insurance Trust which currently offers for sale 3 portfolios of the 45 currently registered with the SEC and the Direxion ETF Trust which currently offers for sale to the public 8 of the 32 funds currently registered with the SEC.
The address for all trustees and officers except Eric W. Falkeis is 33 Whitehall St., New York, NY 10004.

Provided below is a summary of certain of the factors the Board considered at its August 13, 2008 Board meeting in renewing, as applicable: (1) the Advisory Agreement between Rafferty Asset Management (“Rafferty”) and the Direxion Insurance Trust (the “Trust”) on behalf of the Evolution VP Managed Bond Fund and Evolution VP All-Cap Equity Fund (each, a “Fund” and collectively, the “Funds”); and (2) the Subadvisory Agreement between Rafferty and Flexible Plan Investments, Inc. (“Flexible”) on behalf of the Funds. The Board did not identify any particular information that was most relevant to its consideration to approve the Advisory Agreement or Subadvisory Agreement and each Trustee may have afforded different weight to the various factors.

In determining whether to approve the continuance of the Advisory Agreement and Subadvisory Agreement (collectively, the “Agreements”), the Board considered the best interests of each Fund separately. In addition, the Board noted that the Trustees have considered various reports and information provided throughout the year at their regular Board meetings and otherwise. While the Agreements for both Funds were considered at the same Board meeting, the Board considered each Fund’s investment advisory and subadvisory relationships separately. In each instance, the Board considered, among other things, the following factors: (1) the nature and quality of the services provided; (2) the investment performance of the Fund to the extent applicable; (3) the cost to Rafferty or Flexible for providing services and the profitability of the advisory business to Rafferty or Flexible, 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, in certain cases, Flexible, with other clients (such as pension funds and other institutional investors), if any; and (7) other benefits derived or anticipated to be derived by Rafferty or Flexible from its relationship with the Funds.

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 Funds. 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 Funds and meet its expense reimbursement obligations, if any. The Board also considered that Rafferty had enhanced the compliance programs of the Trust by utilizing the services of an independent compliance consulting firm and that a report from the chief compliance officer is provided to the Board at its regularly scheduled quarterly Board meetings. The Board noted Rafferty’s marketing and distribution efforts, including offering additional investment options to shareholders through the creation of new funds and promoting the Funds through new broker and platform relationships. The Board considered that Rafferty oversees all aspects of the operation of the Funds, including oversight of the Funds’ service providers and Flexible.

Regarding the Subadvisory Agreement with Flexible, the Board noted that Flexible utilizes those Funds it subadvise as the primary investments for its separate account clients. The Board also noted that there would be no change in the services provided by Flexible.

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 to the Funds under the Advisory Agreement and Flexible under the Subadvisory Agreement were fair and reasonable.

Performance of the Funds. Unless otherwise noted, the Board evaluated the performance of each Fund compared to its benchmark index for monthly periods and the year-to-date period ended July 31, 2008, and the average performance of the relevant Lipper fund universe for various monthly periods and the year-to-date period ended July 31, 2008. Although the Board received monthly performance reports for its consideration, the Board generally assigned more weight to the longer-term performance of the Funds.

With respect to the Evolution VP Managed Bond Fund, the Board considered that, as of June 30, 2008: (1) the Fund outperformed its benchmark index for the one-month, six-month and one-year periods, but underperformed for the three-month period; and (2) the Fund outperformed the average of the relevant Lipper fund universe for the one-month and six-month periods, but underperformed for the three-month and one-year periods. With respect to the Evolution VP All-Cap Equity Fund, the Board considered that: (1) the Fund outperformed its benchmark index for the year-to-date period; and (2) the Fund underperformed the average of the relevant Lipper fund universe for the one-month and one-year periods, but

outperformed for the three-month, six-month and three-year periods. Based on these and other considerations, the Board determined that, in the exercise of its business judgment, each Fund's performance was reasonable.

Costs of Services Provided to the Funds and Profits Realized. The Board considered the overall fees paid to Rafferty on an annual basis since each Fund's commencement of operations, including any fee waivers and recoupment of fees previously waived. With respect to the Funds, the Board also considered advisory fees charged by, and total expense ratios of, comparable fund groups. In this regard, management advised the Board that the advisory fees for each of the Funds is similar to and, in some cases lower than, the advisory fees for the comparable fund groups. The Board also considered that the total expense ratio for each Fund is generally higher than comparable funds. However, Rafferty indicated that the comparable fund groups generally have higher asset levels, which account in part for their lower total expense ratios. The Board also noted that Rafferty does not have any non-mutual fund clients, except for one hedge fund client. In this connection, the Board considered that Rafferty charges higher fees for that hedge fund compared to the advisory fees of the Funds. The Board also considered that Rafferty contractually agreed to limit the total expenses for the most recent and upcoming fiscal years for each Fund via fee waivers and/or expense limitations. The Board also 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 Flexible, the Board considered Rafferty's representation that the fees and expenses generally are higher than industry averages. However, Rafferty explained that, in certain cases, the Funds help to lower the overall fees paid by Flexible's clients. The Board also noted that, in some cases, Flexible uses the fees it receives from the Funds to reduce the asset-based fees it charges clients for providing investment advisory services. The Board also noted that Rafferty negotiated the lowest fee that Flexible charges for comparable client accounts. With respect to each Fund, the Board considered Flexible's profits for its services to the extent such information was provided. In this regard, the Board noted Flexible's representation that it did not earn any pre- or post-tax profits with respect to its services to the 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 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 its sales and marketing efforts in order 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 was not necessary at this time.

Other Benefits. The Board considered Rafferty's representation that its relationship with the Funds 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. The Board also considered that Flexible has greater access to certain trust platforms due to its subadvisory services to the Funds. 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 Funds 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.



ANNUAL REPORT DECEMBER 31, 2008

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New York, NY 10004

Sub-Advisor

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

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Custodian

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Independent Registered Public Accounting Firm

Ernst & Young LLP
875 E. Wisconsin Ave.
Milwaukee, WI 53202

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 Fund files complete schedules of portfolio holdings with the SEC on Form N-Q. The Form N-Q is available without charge, upon request, by calling 1-800-851-0511, by accessing the SEC's website, at www.sec.gov, or by calling the SEC at 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.