



ANNUAL REPORT AUGUST 31, 2008

Evolution Managed Bond Fund
Evolution All-Cap Equity Fund
Evolution Large Cap Fund
Evolution Small Cap Fund
Evolution Total Return Fund

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LETTER TO SHAREHOLDERS

Dear Shareholders,

This Annual Report for the Evolution Funds covers the fiscal year September 1, 2007 to August 31, 2008, (the "Annual Period"). This Annual Report covers the Evolution Managed Bond Fund (the "Managed Bond Fund"), Evolution All-Cap Equity Fund ("All-Cap Equity Fund"), the Evolution Large Cap Fund ("Large Cap Fund"), the Evolution Small Cap Fund ("Small Cap Fund") and the Evolution Total Return Fund ("Total Return Fund"). Flexible Plan Investments, Ltd. (the "Sub-Advisor"), serves as the sub-advisor to the Evolution Funds.

U.S. equities declined during the Annual Period, with the DJ Industrial Average Index declining 11.35%, the S&P 500 Index declining 11.14% and the Nasdaq-100 Index declining 5.84%. Despite the steps taken by the Federal Reserve Board to stimulate the U.S. economy, overall U.S. equity returns were negatively impacted by rising energy and commodity prices and the continued fallout of the sub-prime credit crisis. International Markets followed a similar path, with the MSCI Emerging Markets Index declining 12.03% for the Annual Period.

The Managed Bond Fund seeks the highest appreciation on an annual basis consistent with a high tolerance for risk. The Managed Bond Fund gained 1.78%, on a total return basis, during the Annual Period, compared to 5.86% for the Lehman Aggregate Bond Index. The management changes made near year-end last year have improved performance. For the six-month period the fund fell 1.47%, while that index lost 1.61%.

Equity fund returns in the last two months were negatively impacted by positions in energy and commodity-related issues, the very investments that aided them in the first six months of 2008. Actively hedging the portfolios through the recent market declines continued to positively contribute to performance.

The All-Cap Equity Fund seeks the highest appreciation on an annual basis consistent with a high tolerance for risk. The All-Cap Equity Fund declined 10.07%, on a total return basis, during the Annual Period, compared to -11.14% for the S&P 500 Index. In the last three months the fund lost 6.41% compared to the S&P's 7.88% decline.

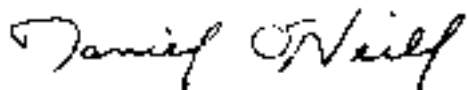
The Large Cap Fund seeks the highest appreciation on an annual basis consistent with a high tolerance for risk. The Large Cap Fund declined 15.91% on a total return basis, during the Annual Period, compared to -11.14% for the S&P 500 Index. The fund closed to new investments on October 17, 2008.

The Small Cap Fund seeks the highest appreciation on an annual basis consistent with a high tolerance for risk. The Small Cap Fund declined 10.86% on a total return basis, during the Annual Period, compared to -5.48% for the Russell 2000 Index. The Small Cap Fund completed its change over to the Market Leaders Fund on October 17, 2008.

The Total Return Fund seeks high total return on an annual basis consistent with a high tolerance for risk. The Total Return Fund declined 10.77% on a total return basis, during the Annual Period, compared to -11.14% for the S&P Index and 5.86% for the Lehman Aggregate Bond Index. Year to date the fund is down 8.75% compared to that index's 11.38% loss. During October 2008 the fund will complete its conversion to the Alternative Investment Fund.

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

Best Regards,



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 Managed Bond Fund, All-Cap Equity Fund, Large Cap Fund, Small Cap Fund and the Total Return Fund is 1.75%, 1.75%, 1.75%, 1.75% and 1.75%, 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. 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. The prospectus should be read carefully before investing.

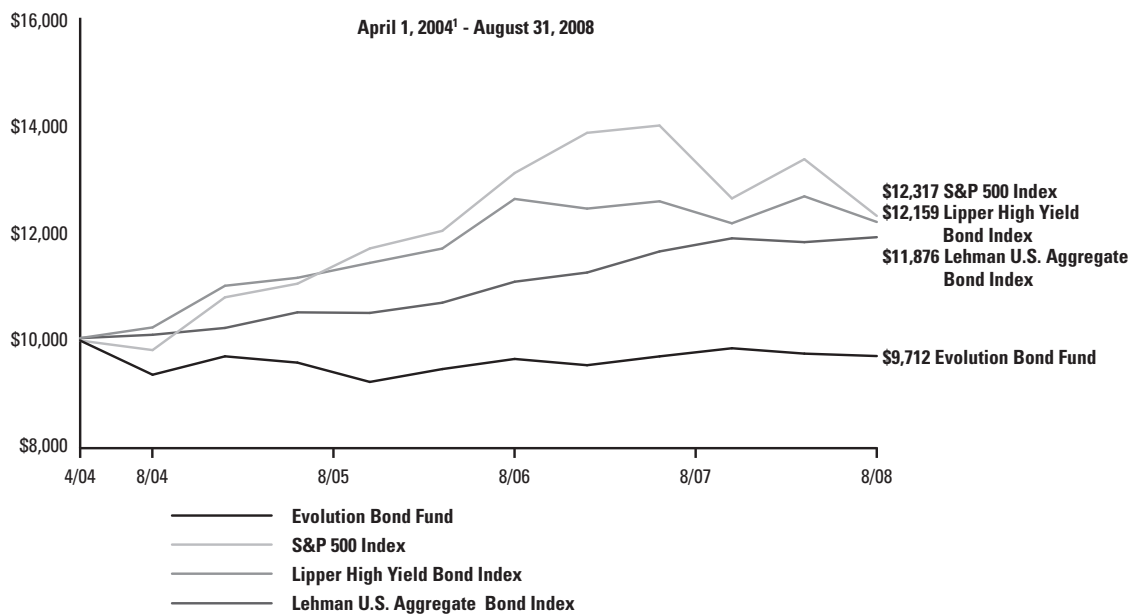
Distributed by: Rafferty Capital Markets, LLC

Date of First Use: October 30, 2008

Evolution Managed Bond Fund

April 1, 2004¹ - August 31, 2008

Investment Objective: Seeks the highest appreciation on an annual basis consistent with a high tolerance for risk.



Average Annual Total Return²

	Average Annual Total Return ²		
	1 Year	3 Years	Since Inception
Evolution Managed Bond Fund	1.78%	0.42%	(0.66)%
S&P 500 Index	(11.14)%	3.66%	4.83%
Lipper High Yield Bond Index	(2.00)%	3.02%	4.53%
Lehman U.S. Aggregate Bond Index	5.86%	4.26%	3.97%

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, Lipper High Yield Bond Index and Lehman U.S. Aggregate Bond 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 waived and/or reimbursed fees for various expenses. Had these waivers and/or reimbursements not been in effect, performance would have been lower.

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

Market Exposure

Investment Type	%
Investment Companies	99.6%
Total Exposure	99.6%

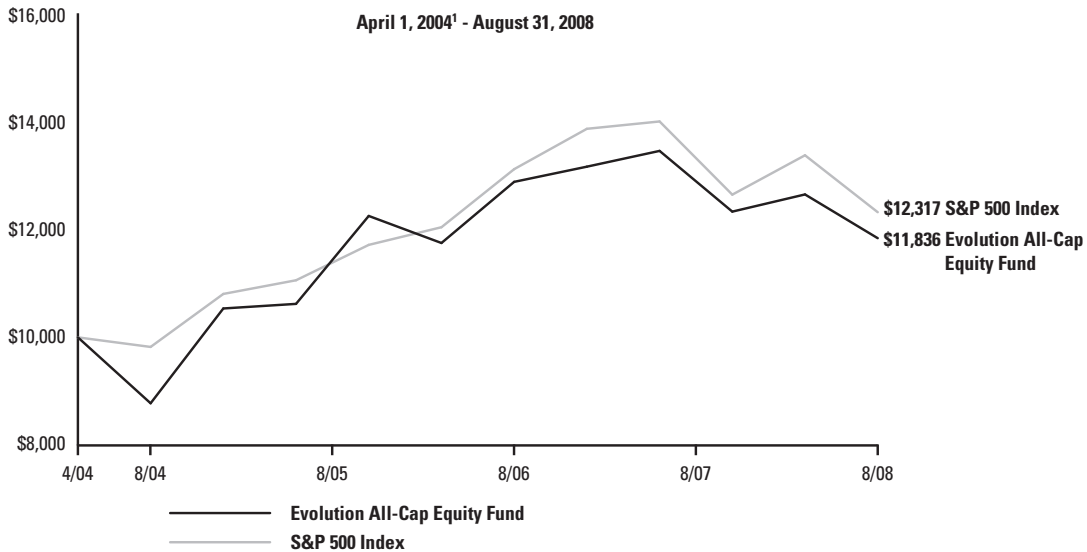
"Market Exposure" includes the value of total investments (including the contract value of any derivatives) and excludes any short-term investments and cash equivalents divided by Net Assets.

¹ Commencement of operations.

² As of August 31, 2008.

Evolution All-Cap Equity Fund
April 1, 2004¹ - August 31, 2008

Investment Objective: Seeks high appreciation on an annual basis consistent with a high tolerance for risk.



	Average Annual Total Return ²		
	1 Year	3 Year	Since Inception
Evolution All-Cap Equity Fund	(10.07)%	3.68%	3.89%
S&P 500 Index	(11.14)%	3.66%	4.83%

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 waived and/or reimbursed fees for various expenses. Had these waivers and/or reimbursements not been in effect, performance would have been lower.

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

Market Exposure

Investment Type	% Net Assets
Common Stock	94.3%
Investment Companies	1.9%
Futures Contracts	(24.4)%
Total Exposure	71.8%

"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.

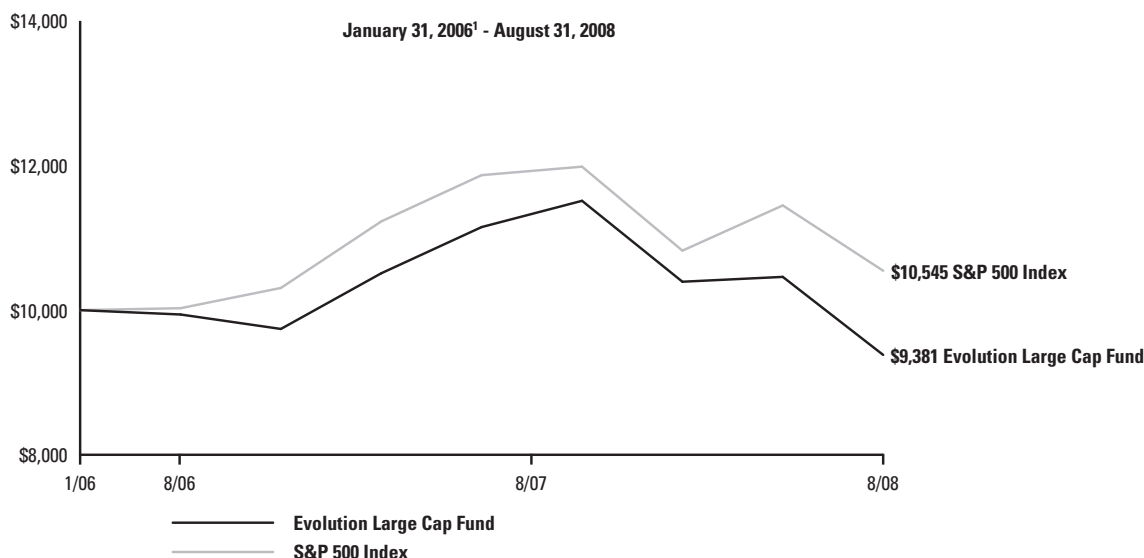
¹ Commencement of operations.

² As of August 31, 2008.

Evolution Large Cap Fund

January 31, 2006¹ - August 31, 2008

Investment Objective: Seeks high appreciation on an annual basis consistent with a high tolerance for risk.



	Average Annual Total Return ²	
	1 Year	Since Inception
Evolution Large Cap Fund	(15.91)%	(2.44)%
S&P 500 Index	(11.14)%	2.08%

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 waived and/or reimbursed fees for various expenses. Had these waivers and/or reimbursements not been in effect, performance would have been lower.

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

Market Exposure

Investment Type	% Net Assets
Common Stock	89.3%
Investment Companies	2.5%
Futures Contracts	(18.1)%
Total Exposure	73.7%

"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.

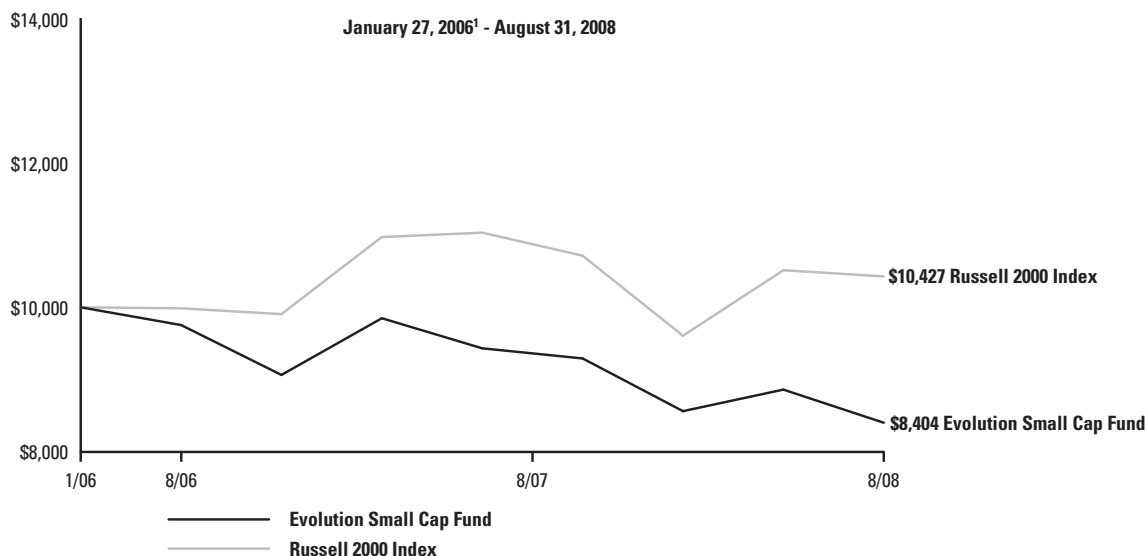
¹ Commencement of operations.

² As of August 31, 2008.

Evolution Small Cap Fund

January 27, 2006¹ - August 31, 2008

Investment Objective: Seeks high appreciation on an annual basis consistent with a high tolerance for risk.



	Average Annual Total Return ²	
	1 Year	Since Inception
Evolution Small Cap Fund	(10.86)%	(6.49)%
Russell 2000 Index	(5.48)%	1.63%

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 Russell 2000 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 waived and/or reimbursed fees for various expenses. Had these waivers and/or reimbursements not been in effect, performance would have been lower.

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

Market Exposure

Investment Type	% Net Assets
Common Stock	94.2%
Investment Companies	1.6%
Futures Contracts	(17.9)%
Total Exposure	77.9%

"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.

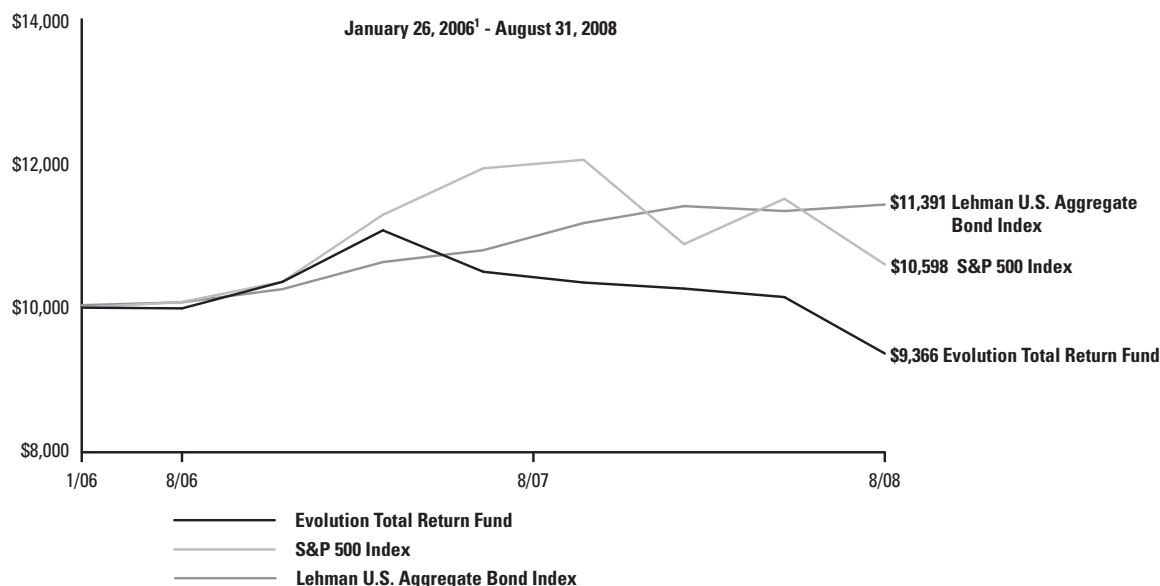
¹ Commencement of operations.

² As of August 31, 2008.

Evolution Total Return Fund

January 26, 2006¹ - August 31, 2008

Investment Objective: Seeks high total return on an annual basis consistent with a high tolerance for risk.



	Average Annual Total Return ²	
	1 Year	Since Inception
Evolution Total Return Fund	(10.77)%	(2.49)%
S&P 500 Index	(11.14)%	2.26%
Lehman U.S. Aggregate Bond Index	5.86%	5.15%

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 and the Lehman U.S. Aggregate Bond 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 waived and/or reimbursed fees for various expenses. Had these waivers and/or reimbursements not been in effect, performance would have been lower.

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

Market Exposure

Investment Type	% Net Assets
Common Stock	49.7%
Investment Companies	49.6%
Total Exposure	99.3%

"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, 2008.

Expense Example

August 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 (March 1, 2008 — August 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
August 31, 2008 (Unaudited)

	<u>Net Expense Ratio¹</u>	<u>Beginning Account Value March 1, 2008</u>	<u>Ending Account Value August 31, 2008</u>	<u>Expenses Paid During Period²</u>
Evolution Managed Bond Fund				
Based on actual fund return	1.75%	\$1,000.00	\$ 985.30	\$8.73
Based on hypothetical 5% return	1.75%	1,000.00	1,016.34	8.87
Evolution All-Cap Equity Fund				
Based on actual fund return	1.75%	1,000.00	963.10	8.64
Based on hypothetical 5% return	1.75%	1,000.00	1,016.34	8.87
Evolution Large Cap Fund				
Based on actual fund return	1.75%	1,000.00	902.60	8.37
Based on hypothetical 5% return	1.75%	1,000.00	1,016.34	8.87
Evolution Small Cap Fund				
Based on actual fund return	1.75%	1,000.00	981.80	8.72
Based on hypothetical 5% return	1.75%	1,000.00	1,016.34	8.87
Evolution Total Return Fund				
Based on actual fund return	1.75%	1,000.00	912.50	8.41
Based on hypothetical 5% return	1.75%	1,000.00	1,016.34	8.87

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 366.

Allocation of Portfolio Holdings
August 31, 2008 (Unaudited)

	<u>Cash*</u>	<u>U.S. Government Agency Obligations</u>	<u>Common Stock</u>	<u>Investment Companies</u>	<u>Futures</u>	<u>Total</u>
Evolution Managed Bond Fund	1%	—	—	99%	—	100%
Evolution All-Cap Equity Fund	4%	0%**	94%	2%	0%**	100%
Evolution Large Cap Fund	0%**	9%	89%	2%	0%**	100%
Evolution Small Cap Fund	2%	2%	94%	2%	0%**	100%
Evolution Total Return Fund	1%	—	49%	50%	—	100%

* Cash, cash equivalents and other assets less liabilities.

** Percentage is less than 0.5%.

Evolution Managed Bond Fund

Schedule of Investments

August 31, 2008

Shares		Value	Shares		Value
INVESTMENT COMPANIES - 99.6%					
13,452	Alliance World Dollar Government Fund II	\$ 167,746	28,721	Putnam Premier Income Trust	\$ 168,018
16,443	BlackRock Corporate High Yield Fund VI	166,732	11,992	SPDR Lehman 1-3 Month T-Bill Fund	550,673
11,578	BlackRock Floating Rate Income Strategies Fund	167,765	7,289	SPDR Lehman International Treasury Bond Fund	388,212
12,703	BlackRock Preferred Income Strategies Fund	164,885	11,727	Templeton Emerging Markets Income Fund	166,641
11,504	Evergreen Multi-Sector Income Fund	166,923	96,745	Vanguard Total Bond Market	7,381,644
14,982	iShares Lehman 1-3 Year Credit Bond Fund	1,526,666	9,820	Western Asset Emerging Markets Debt Fund	165,762
13,249	iShares Lehman 1-3 Year Treasury Bond Fund	1,101,654	18,490	Western Asset High Income Fund II	166,965
16,590	iShares Lehman 7-10 Year Treasury Bond Fund	1,482,814	13,889	Western Asset/Claymore Inflation-Linked Opportunities & Income Fund	166,112
20,465	iShares Lehman 20+ Year Treasury Bond Fund	1,920,640	TOTAL INVESTMENT COMPANIES		
65,476	iShares Lehman Aggregate Bond Fund	6,596,707	(Cost \$25,835,796)		
12,915	iShares Lehman MBS Fixed-Rate Bond Fund	1,311,002	\$26,145,377		
4,984	iShares Lehman Treasury Inflation Protected Securities Fund	530,098	SHORT TERM INVESTMENTS - 0.7%		
4,304	iShares S&P National Municipal Bond Fund	434,231	MONEY MARKET FUNDS - 0.7%		
5,388	iShares Lehman Short Treasury	593,380	183,995	Fidelity Institutional Money Market Portfolio	183,995
30,413	MFS Charter Income Trust	250,299	TOTAL SHORT TERM INVESTMENTS		
35,036	MFS Government Markets Income Trust	244,201	(Cost \$183,995)		
26,754	MFS Intermediate Income Trust	165,607	TOTAL INVESTMENTS		
			(Cost \$26,019,791) - 100.3%		
			Liabilities in Excess of Other Assets - (0.3%)		
			TOTAL NET ASSETS - 100.0%		
			\$26,242,224		

Percentages are stated as a percent of net assets.

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

Evolution All-Cap Equity Fund

Schedule of Investments

August 31, 2008

Shares	Value	Shares	Value
COMMON STOCKS - 94.3%		Communications Equipment - 5.0%	
Aerospace & Defense - 1.8%		58,121	Airvana, Inc.(a) \$ 295,836
4,127	Ceradyne, Inc.(a) \$ 185,963	48,347	Cogo Group, Inc.(a) 266,392
4,930	Heico Corp. 175,656	4,213	Comtech Telecommunications Corp.(a) 192,618
161	L-3 Communications Holdings, Inc. 16,734	36,916	Corning, Inc. 758,255
4,010	Teledyne Technologies, Inc.(a) 249,943	10,845	Netgear, Inc.(a) 182,738
	628,296	9,234	Qiao Xing Mobile Communication Co., Ltd.(a) 45,801
Airlines - 0.8%		249	QUALCOMM, Inc. 13,110
30,580	Republic Airways Holdings, Inc.(a) 264,211	131	Research In Motion Ltd. (Canada)(a) 15,929
Beverages - 1.8%			1,770,679
21,916	Hansen Natural Corp.(a) 602,252	Computer Programming Services - 0.1%	
1,335	Pepsi Bottling Group, Inc. 39,489	2,566	Perficient, Inc.(a) 20,374
	641,741	Computers & Peripherals - 3.1%	
Biotechnology - 2.4%		10,594	Stratasys, Inc.(a) 176,496
3,319	Biogen Idec, Inc.(a) 169,037	25,962	Super Micro Computer, Inc.(a) 258,841
246	Gilead Sciences, Inc.(a) 12,959	23,842	Western Digital Corp.(a) 649,933
3,959	Invitrogen Corp.(a) 168,099		1,085,270
5,056	Martek Biosciences Corp.(a) 168,921	Construction & Engineering - 1.9%	
6,626	Nabi Biopharmaceuticals(a) 38,166	5,139	Fluor Corp. 411,788
4,764	Savient Pharmaceuticals, Inc.(a) 108,286	9,813	KHD Humboldt Wedag International Ltd. (Canada)(a) 259,554
11,547	ViroPharma, Inc.(a) 169,163		671,342
	834,631	Distributors - 0.2%	
Building Products - 0.2%		382	Andersons, Inc. 17,175
1,068	Lennox International, Inc. 39,516	1,053	WESCO International, Inc.(a) 40,477
450	NCI Building Systems, Inc.(a) 17,226		57,652
	56,742	Diversified Financial Services - 1.0%	
Capital Markets - 0.6%		518	CME Group, Inc. 173,726
255	Greenhill & Co., Inc. 16,856	11,274	Ezcorp, Inc.(a) 175,762
18,308	TradeStation Group, Inc.(a) 183,812		349,488
	200,668	Diversified Telecommunication Services - 0.2%	
Chemicals - 2.8%		2,856	Compania Anonima Nacional Telefonos de Venezuela ADR (Venezuela) 22,848
5,421	Balchem Corp. 147,939	1,083	TELUS Corp. (Canada) 42,010
2,346	CF Industries Holdings, Inc. 357,530		64,858
1,051	Monsanto Co. 120,077	Electrical Equipment - 1.2%	
7,104	Terra Industries, Inc. 356,976	918	Acuity Brands, Inc. 39,942
	982,522	248	Anixter International, Inc.(a) 18,305
Commercial Banks - 0.0%		509	Arrow Electronics, Inc.(a) 16,894
0	Southside Bancshares, Inc.(b) 4	363	Cooper Industries Ltd. 17,293
Commercial Services & Supplies - 2.6%		3,722	Emerson Electric Co. 174,190
7,251	CDI Corp. 182,000	2,925	Flir Systems, Inc.(a) 104,423
310	Copart, Inc.(a) 13,643	3,133	LoJack Corp.(a) 22,714
2,092	DeVry, Inc. 107,905	368	Thomas & Betts Corp.(a) 16,957
6,499	Diamond Mgmt & Technology Cons 38,864		410,718
1,297	Heidrick & Struggles International, Inc. 39,377	Electronic Equipment & Instruments - 3.3%	
279	Huron Consulting Group, Inc.(a) 17,990	2,600	Measurement Specialties, Inc.(a) 46,488
189	ITT Educational Services, Inc.(a) 16,804	58,324	Mellanox Technologies Ltd. (Israel)(a) 706,887
6,502	Multi Color Corp. 151,757	5,433	National Instruments Corp. 175,377
2,422	Navigant Consulting, Inc.(a) 41,925		
1,285	School Specialty, Inc.(a) 39,192		
63	Strayer Education, Inc. 13,220		
4,044	Watson Wyatt Worldwide, Inc. - Class A 236,938		
	899,615		

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

Evolution All-Cap Equity Fund

Schedule of Investments

August 31, 2008

Shares		Value	Shares		Value
Electronic Equipment & Instruments (continued)			Hotels Restaurants & Leisure - 0.6%		
5,837	Scansource, Inc.(a)	\$ 175,636	4,842	Buffalo Wild Wings, Inc.(a)	\$ 174,699
3,285	TTM Technologies, Inc.(a)	39,354	1,318	MGM Mirage(a)	46,381
		1,143,742			221,080
Energy Equipment & Services - 6.9%			Household Durables - 0.5%		
2,186	A-Power Energy Generation Systems Ltd.(a)	46,212	4,705	Garmin Ltd.	163,546
325	Atwood Oceanics, Inc.(a)	13,215	Industrial Conglomerates - 0.1%		
22,654	Cal Dive International, Inc.(a)	261,654	2	Alleghany Corp.(a)	640
2,173	ENSCO International, Inc.	147,286	396	Raven Industries, Inc.	17,911
4,300	Gulf Island Fabrication, Inc.	185,201			18,551
8,816	Helmerich & Payne, Inc.	503,570	Industrial & Construction Supplies - 1.0%		
2,354	National-Oilwell, Inc.(a)	173,560	3,358	Fastenal Co.	174,381
2,939	Noble Corp.	147,802	3,403	MSC Industrial Direct Co., Inc. - Class A	173,315
1,852	Schlumberger Ltd.	174,495			347,696
455	SEACOR Holdings, Inc.(a)	40,108	Insurance - 2.8%		
8,120	Unit Corp.(a)	549,968	17,613	First Mercury Financial Corp.(a)	259,440
4,564	Weatherford International Ltd.(a)	176,079	360	Hanover Insurance Group, Inc.	17,003
		2,419,150	5,847	HCC Insurance Holdings, Inc.	147,227
Food Products - 0.6%			535	IPC Holdings Ltd	16,943
1,163	Cal-Maine Foods, Inc.	45,927	2,151	Life Partners Holdings, Inc.	62,293
7,931	Darling International, Inc.(a)	108,892	6,398	Philadelphia Consolidated Holding Corp.(a)	382,153
1,110	Lancaster Colony Corp.	38,606	557	Prudential Financial, Inc.	41,056
280	Ralcorp Holdings, Inc.(a)	17,192	297	RLI Corp.	16,605
		210,617	396	Safety Insurance Group, Inc.	17,028
Freight & Logistics - 1.1%			906	Travelers Companies, Inc.	40,009
623	Dryships, Inc.	45,753			999,757
2,841	C.H. Robinson Worldwide, Inc.	148,045	Internet & Catalog Retail - 3.2%		
5,327	Expeditors International of Washington, Inc.	192,251	955	Blue Nile, Inc.(a)	39,757
		386,049	1,639	Liberty Media Corp.(a)	45,548
Health Care Equipment & Supplies - 1.1%			3,464	NetFlix, Inc.(a)	106,830
244	Baxter International, Inc.	16,533	16,929	Nutri/System, Inc.	336,379
190	Becton, Dickinson & Co.	16,602	42,921	PetMed Express, Inc.(a)	611,195
5,101	Immucor, Inc.(a)	164,303			1,139,709
44	Intuitive Surgical, Inc.(a)	12,992	Internet Software & Services - 1.9%		
2,446	Stryker Corp.	164,347	5,203	Bidz.com, Inc.(a)	45,370
		374,777	25,325	RealNetworks, Inc.(a)	167,905
Health Care Providers & Services - 2.8%			17,330	United Online, Inc.	182,485
5,063	Air Methods Corp.(a)	146,169	43,634	Website Pros, Inc.(a)	263,549
3,283	Almost Family, Inc.(a)	148,424			659,309
8,223	Bioscrip, Inc.(a)	33,056	IT Services - 1.2%		
4,006	Chemed Corp.	175,222	576	Cognizant Technology Solutions Corp.(a)	16,888
291	DaVita, Inc.(a)	16,701	1,490	Gartner, Inc.(a)	39,351
11,817	Inventiv Health, Inc.(a)	260,801	4,957	MAXIMUS, Inc.	183,409
288	McKesson Corp.	16,641	9,269	SYKES Enterprises, Inc.(a)	186,678
5,686	VCA Antech, Inc.(a)	174,788			426,326
		971,802	Leisure Equipment & Products - 0.0%		
Health Care Technology - 0.6%			404	Marvel Entertainment, Inc.(a)	13,683
3,796	Cerner Corp.(a)	174,806	Life Science Tools & Services - 0.0%		
3,680	HLTH Corporation(a)	45,816	171	Techne Corp.(a)	13,196
		220,622			

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

Evolution All-Cap Equity Fund

Schedule of Investments

August 31, 2008

<u>Shares</u>		<u>Value</u>	<u>Shares</u>		<u>Value</u>
Machinery - 4.7%			Personal Products - 0.6%		
4,511	AGCO Corp.(a)	\$ 278,013	363	Herbalife Ltd.	\$ 17,097
5,367	Astec Industries, Inc.(a)	184,625	4,437	NBTY, Inc.(a)	147,486
3,580	Cummins, Inc.	233,273	1,211	USANA Health Sciences, Inc.(a)	45,849
3,314	Harsco Corp.	174,449			<u>210,432</u>
1,180	L.B. Foster Co.(a)	45,501	Pharmaceuticals - 4.7%		
2,711	Parker Hannifin Corp.	173,694	3,016	Allergan, Inc.	168,504
9,752	Reliance Steel & Aluminum Co.	555,961	72,705	American Oriental Bioengineering, Inc.(a)	601,997
		<u>1,645,516</u>	3,614	Eli Lilly & Co.	168,593
Media - 0.9%			7,459	Endo Pharmaceuticals Holdings, Inc.(a)	169,469
1,315	Fisher Communications, Inc.	45,723	2,392	Johnson & Johnson	168,469
3,103	Scholastic Corp.(a)	80,988	7,002	Medicines Co.(a)	170,569
5,403	The Walt Disney Co.	174,787	8,374	Questcor Pharmaceuticals Inc.(a)	45,722
		<u>301,498</u>	24,878	Salix Pharmaceuticals, Ltd.(a)	169,170
Metals & Mining - 3.0%					<u>1,662,493</u>
1,213	Cleveland-Cliffs, Inc.	122,780	Real Estate Investment Trusts - 0.1%		
5,715	Horsehead Holding Corp.(a)	47,549	267	Health Care REIT, Inc.	13,849
26,147	Iamgold Corp. (Canada)	172,376	502	LTC Properties, Inc.	13,489
1,632	Massey Energy Co.	107,647	414	Nationwide Health Properties, Inc.	14,250
6,373	Pan American Silver Corp. (Canada)(a)	169,394			<u>41,588</u>
1,675	Peabody Energy Corp.	105,441	Semiconductor & Semiconductor Equipment - 6.2%		
2,553	United States Steel Corp.	339,728	2,153	Applied Materials, Inc.	38,582
		<u>1,064,915</u>	4,136	Brooks Automation, Inc.(a)	39,747
Oil & Gas - 3.8%			17,396	Integrated Device Technology, Inc.(a)	184,224
1,982	Arch Coal, Inc.	107,504	18,940	Lam Research Corp.(a)	696,234
10,973	Denbury Resources, Inc.(a)	273,118	5,291	MEMC Electronic Materials, Inc.(a)	259,735
2,072	Encore Acquisition Co.(a)	106,832	20,276	Micrel, Inc.	186,742
334	Enbridge Energy Management LLC(a)	16,887	3,515	Omnivision Technologies, Inc.(a)	41,055
5,808	Energen Corp.	324,319	40,471	Sigma Designs, Inc.(a)	693,268
3,352	Petro-Canada (Canada)	147,957	1,160	Varian Semiconductor Equipment Associates, Inc.(a)	37,468
19,215	Petroquest Energy, Inc.(a)	355,286			<u>2,177,055</u>
241	Ultra Petroleum Corp. (Canada)(a)	16,424	Software - 5.1%		
		<u>1,348,327</u>	11,285	Ansys, Inc.(a)	500,490
Oil, Gas & Consumable Fuels - 4.9%			1,091	Autodesk, Inc.(a)	38,763
263	Apache Corp.	30,082	267	Factset Research Systems, Inc.	16,743
272	Chesapeake Energy Corp.	13,165	6,939	Manhattan Associates, Inc.(a)	170,075
2,724	Chevron Corp.	235,135	1,004	McAfee, Inc.(a)	39,718
3,246	Cimarex Energy Co.	180,283	2,833	Netscout Systems, Inc.(a)	42,212
477	ConocoPhillips	39,357	63,566	Opentv Corp.(a)	119,504
2,177	Exxon Mobil Corp.	174,182	71,166	Pros Holdings, Inc.(a)	686,040
1,030	Hess Corp.	107,851	4,513	Quality Systems, Inc.	193,247
763	Imperial Oil Ltd. (Canada)	39,119			<u>1,806,792</u>
3,208	Murphy Oil Corp.	251,924	Specialty Retail - 6.0%		
163	Occidental Petroleum Corp.	12,936	3,334	Abercrombie & Fitch Co. - Class A	174,868
346	Southwestern Energy Co.(a)	13,276	7,550	AnnTaylor Stores Corp.(a)	183,314
5,210	Stone Energy Corp.(a)	248,361	1,623	Barnes & Noble, Inc.	40,137
3,655	Swift Energy Co.(a)	170,725	889	Best Buy Co, Inc.	39,801
14,027	TXCO Resources, Inc.(a)	169,867	10,664	The Cato Corp.	187,793
2,668	Williams Pipeline Partners L.P.	45,863	15,384	Charlotte Russe Holding, Inc.(a)	181,685
		<u>1,732,126</u>	32,729	Chico's FAS, Inc.(a)	187,864
			18,697	Christopher & Banks Corp.	179,865
			8,978	Finish Line, Inc.(a)	108,544

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

Evolution All-Cap Equity Fund

Schedule of Investments

August 31, 2008

Shares	Value	Principal Amount	Value
Specialty Retail (continued)		SHORT TERM INVESTMENTS - 1.5%	
26,066	\$ 261,703	U.S. GOVERNMENT AGENCY OBLIGATIONS - 0.3%	
7,036	182,866	\$100,000	Federal Home Loan Bank Discount
679	39,755		Note, 1.9667%, 9/2/2008
3,066	109,211		<u>\$ 99,995</u>
11,056	197,239	Shares	
1,716	46,864	MONEY MARKET FUNDS - 1.2%	
	<u>2,121,509</u>	438,924	Fidelity Institutional Money Market Portfolio
Textiles, Apparel & Luxury Goods - 0.8%			<u>438,924</u>
1,566	45,399	TOTAL SHORT TERM INVESTMENTS	
8,674	235,499		(Cost \$538,919)
217	17,197		<u>\$ 538,919</u>
	<u>298,095</u>	TOTAL INVESTMENTS	
Tobacco - 0.1%			(Cost \$33,476,969) - 97.7%
634	45,800		Other Assets in Excess of
			Liabilities - 2.3%
			<u>801,432</u>
	<u>\$33,143,847</u>	TOTAL NET ASSETS - 100.0%	
			<u><u>\$35,137,207</u></u>
INVESTMENT COMPANIES - 1.9%		Percentages are stated as a percent of net assets.	
14,044	672,287	ADR American Depository Receipt	
		(a) Non Income Producing	
	<u>\$ 672,287</u>	(b) Fund holds less than one share.	

Evolution All-Cap Equity Fund

Short Futures Contracts

August 31, 2008

Contracts	Unrealized Appreciation
228 NASDAQ-100 Index E-Mini Futures Expiring September 2008 (Underlying Face Amount at Market Value \$8,557,980)	<u>\$127,299</u>

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

Evolution Large Cap Fund

Schedule of Investments

August 31, 2008

Shares	Value	Shares	Value
COMMON STOCKS - 89.3%		Computers & Peripherals - 3.0%	
Aerospace & Defense - 2.9%		587	Dell, Inc.(a) \$ 12,756
4,059	The Boeing Co. \$ 266,108	10,107	NetApp, Inc.(a) 257,526
4,592	General Dynamics Corp. 423,842	12,384	Seagate Technology 184,646
382	Lockheed Martin Corp. 44,480	18,670	Western Digital Corp.(a) 508,944
3,379	Raytheon Co. 202,706		963,872
	937,136	Construction & Engineering - 1.8%	
Air Freight & Logistics - 0.4%		1,221	Fluor Corp. 97,839
718	C.H. Robinson Worldwide, Inc. 37,415	5,836	McDermott International, Inc. (Panama)(a) 202,684
2,342	Expeditors International of Washington, Inc. 84,523	5,918	URS Corp.(a) 283,827
	121,938		584,350
Automobiles - 0.2%		Diversified Financial Services - 2.3%	
1,228	DaimlerChrysler AG (Germany) 71,691	1,647	Bank of Montreal (Canada) 71,908
Beverages - 1.3%		2,386	BB&T Corp. 71,580
14,138	Hansen Natural Corp.(a) 388,512	248	CME Group, Inc. 83,174
430	Pepsi Bottling Group, Inc. 12,720	842	Deutsche Bank AG (Germany) 71,461
186	PepsiCo, Inc. 12,737	1,708	SunTrust Banks, Inc. 71,548
	413,969	608	UnionBanCal Corp. 44,797
Biotechnology - 2.2%		2,258	US Bancorp 71,940
708	Amgen, Inc.(a) 44,498	2,386	Wells Fargo & Co. 72,224
5,628	Biogen Idec, Inc.(a) 286,634	7,070	Zions Bancorporation 189,759
453	Genentech, Inc.(a) 44,734		748,391
6,666	Invitrogen Corp.(a) 283,038	Diversified Telecommunication Services - 2.7%	
893	OSI Pharmaceuticals, Inc.(a) 45,096	2,223	AT&T, Inc. 71,114
	704,000	3,028	Compania Anonima Nacional Telefonos de Venezuela - ADR (Venezuela) 24,224
Chemicals - 3.4%		1,519	Embarq Corp. 71,636
285	Agrium, Inc. (Canada) 24,026	43	Fairpoint Communications, Inc. 381
4,846	Celanese Corp. 186,862	18,666	Qwest Communications International, Inc. 70,557
248	CF Industries Holdings, Inc. 37,795	14,131	TELUS Corp. (Canada) 548,141
2,095	The Dow Chemical Co. 71,502	2,031	Verizon Communications, Inc. 71,329
2,767	FMC Corp. 203,485		857,382
207	Monsanto Co. 23,650	Electrical Equipment - 2.4%	
2,237	Mosaic Co. 238,777	6,345	Avnet, Inc.(a) 186,226
136	Potash Corporation of Saskatchewan, Inc. (Canada) 23,610	1,790	Emerson Electric Co. 83,772
595	Rohm & Haas Co. 44,655	85	First Solar, Inc.(a) 23,515
749	Terra Industries, Inc. 37,637	10,248	Thomas & Betts Corp.(a) 472,228
1,743	Terra Nitrogen Co. L.P. 208,916		765,741
	1,100,915	Electronic Equipment & Instruments - 0.4%	
Commercial Services & Supplies - 1.8%		942	Amphenol Corp. - Class A 44,764
200	Apollo Group, Inc.(a) 12,736	2,620	National Instruments Corp. 84,573
138	Dun & Bradstreet Corp. 12,692		129,337
622	FTI Consulting, Inc.(a) 45,655	Energy Equipment & Services - 3.4%	
11,110	Robert Half International, Inc. 284,416	3,528	ENSCO International, Inc. 239,128
3,795	Watson Wyatt Worldwide, Inc. - Class A 222,349	900	Helmerich & Payne, Inc. 51,408
	577,848	1,120	National-Oilwell, Inc.(a) 82,578
Communications & Communications Equipment - 1.6%		4,779	Noble Corp. 240,336
20,163	Corning, Inc. 414,148	883	Schlumberger Ltd. 83,196
853	QUALCOMM, Inc. 44,910	4,707	Unit Corp.(a) 318,805
315	Research In Motion Ltd. (Canada)(a) 38,304	2,174	Weatherford International Ltd.(a) 83,873
	497,362		1,099,324

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

Evolution Large Cap Fund

Schedule of Investments

August 31, 2008

Shares	Value	Shares	Value
Food & Staples Retailing - 0.8%		Life Sciences Tools & Services - 1.1%	
3,042 Costco Wholesale Corp.	\$ 203,996	1,222 Applied Biosystems Inc.	\$ 44,591
2,077 The Kroger Co.	57,367	3,350 Millipore Corp.(a)	251,283
	261,363	962 Thermo Fisher Scientific, Inc.(a)	58,259
			354,133
Food Products - 1.1%		Machinery - 6.0%	
673 General Mills, Inc.	44,539	7,621 AGCO Corp.(a)	469,682
5,805 H.J. Heinz Co.	292,108	345 Bucyrus International, Inc. - Class A	24,098
	336,647	181 Caterpillar, Inc.	12,802
Health Care Equipment & Supplies - 1.8%		3,100 Cummins, Inc.	201,996
6,209 Cerner Corp.(a)	285,924	258 Dover Corp.	12,740
5,188 DENTSPLY International, Inc.	203,318	2,828 Dryships, Inc.	207,688
554 Stryker Corp.	37,223	1,593 Harsco Corp.	83,856
706 Varian Medical Systems, Inc.(a)	44,591	1,207 IDEX Corp.	44,743
	571,056	134 Ingersoll-Rand Company Ltd. - Class A	4,949
Health Care Providers & Services - 0.9%		4,179 Parker Hannifin Corp.	267,749
20,112 Service Corp. International	205,344	6,793 Reliance Steel & Aluminum Co.	387,269
2,750 VCA Antech, Inc.(a)	84,535	255 Terex Corp.(a)	12,824
	289,879	6,409 Timken Co.	207,139
Hotels Restaurants & Leisure - 1.5%			1,937,535
9,975 Burger King Holdings, Inc.	247,579	Media - 0.5%	
2,943 Chipotle Mexican Grill, Inc.(a)	204,009	4,408 CBS Corp. - Class B	71,321
377 MGM Mirage(a)	13,267	2,602 The Walt Disney Co.	84,175
	464,855		155,496
Household Durables - 0.2%		Metals & Mining - 1.5%	
1,483 Garmin Ltd.	51,549	456 AK Steel Holding Corp.	23,990
Insurance - 4.1%		398 Alcoa, Inc.	12,788
3,545 Ace Ltd. (Switzerland)	186,502	237 Cleveland-Cliffs, Inc.	23,989
3,882 Chubb Corp.	186,375	353 Consol Energy, Inc.	23,902
431 Cincinnati Financial Corp.	12,775	428 Fording Canadian Coal Trust (Canada)	38,297
278 Erie Indemnity Co.	12,857	359 Massey Energy Co.	23,680
205 Hartford Financial Services Group, Inc.	12,931	378 Peabody Energy Corp.	23,795
1,492 HCC Insurance Holdings, Inc.	37,569	10,575 Southern Copper Corp.	269,980
626 Philadelphia Consolidated Holding Corp.(a)	37,391	963 Steel Dynamics, Inc.	23,911
173 Prudential Financial, Inc.	12,752	179 United States Steel Corp.	23,819
3,719 RenaissanceRe Holdings Ltd.	188,591		488,151
662 Safeco Corp.	44,751	Oil, Gas & Consumable Fuels - 9.4%	
3,123 Transatlantic Holdings, Inc.	187,692	122 Apache Corp.	13,954
4,508 Travelers Companies, Inc.	199,073	436 Arch Coal, Inc.	23,649
7,918 W.R. Berkley Corp.	186,548	2,159 Chevron Corp.	186,365
	1,305,807	5,343 Cimarex Energy Co.	296,750
Internet & Catalog Retail - 1.5%		3,204 ConocoPhillips	264,362
10,726 eBay, Inc.(a)	267,399	8,834 Denbury Resources, Inc.(a)	219,878
7,405 Liberty Media Corp New(a)	205,785	2,158 Energen Corp.	120,503
	473,184	2,484 Energy Transer Equity LP	71,663
IT Services - 1.7%		1,599 Energy Transfer Partners LP	71,156
3,919 Alliance Data Systems Corp.(a)	251,757	4,332 Exxon Mobil Corp.	346,603
7,900 VeriSign, Inc.(a)	252,563	654 Frontier Oil Corp.	12,668
1,617 Western Un Co.	44,661	227 Hess Corp.	23,769
	548,981	4,949 Imperial Oil Ltd. (Canada)	253,735
		3,599 Murphy Oil Corp.	282,630
		3,509 Noble Energy, Inc.	251,701
		175 Occidental Petroleum Corp.	13,888
		846 Petro-Canada (Canada)	37,342
		688 Petrohawk Energy Corp.(a)	23,812

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

Evolution Large Cap Fund

Schedule of Investments

August 31, 2008

Shares		Value	Shares		Value
Oil, Gas & Consumable Fuels (continued)					
7,259	SCANA Corp.	\$ 284,553	10,135	Lowe's Companies, Inc.	\$ 249,726
3,499	Sempra Energy	202,662	3,696	The Sherwin-Williams Co.	216,401
		3,001,643			2,674,065
Pharmaceuticals - 6.4%					
5,076	Allergan, Inc.	283,596	7,142	Coach, Inc.(a)	207,047
662	Barr Pharmaceuticals, Inc.(a)	44,712	892	The Estee Lauder Companies, Inc.	44,395
6,099	Eli Lilly & Co.	284,518	8,888	Gildan Activewear, Inc. (Canada)(a)	207,712
12,574	Endo Pharmaceuticals Holdings, Inc.(a)	285,681	2,691	Polo Ralph Lauren Corp.	204,193
572	Genzyme Corp.(a)	44,788			663,347
4,036	Johnson & Johnson	284,256	Tobacco - 0.9%		
24,994	King Pharmaceuticals, Inc.(a)	285,931	2,862	Lorillard, Inc.	206,751
9,442	Watson Pharmaceuticals, Inc.(a)	286,187	1,347	Reynolds American, Inc.	71,364
5,854	Wyeth	253,361			278,115
		2,053,030	Trading Companies & Distributor - 1.2%		
Real Estate Investment Trusts- 0.4%					
863	Health Care REIT, Inc.	44,764	1,618	Fastenal Co.	84,023
1,670	Prologis	71,910	5,605	MSC Industrial Direct Co., Inc. - Class A	285,463
		116,674	142	W.W. Grainger, Inc.	12,784
Semiconductor & Semiconductor Equipment - 5.4%					
14,130	Applied Materials, Inc.	253,210			382,270
6,773	KLA-Tencor Corp.	251,007	TOTAL COMMON STOCKS		
12,582	Lam Research Corp.(a)	462,514		(Cost \$28,268,601)	\$28,559,731
4,271	MEMC Electronic Materials, Inc.(a)	209,663	INVESTMENT COMPANIES - 2.5%		
11,857	National Semiconductor Corp.	254,096	12,075	iShares S&P 500 Value Index Fund	786,686
1	Taiwan Semiconductor Manufacturing Co. Ltd. - ADR (Taiwan)	10	TOTAL INVESTMENT COMPANIES		
10,314	Texas Instruments, Inc.	252,796		(Cost \$780,852)	\$ 786,686
1,739	Xilinx, Inc.	45,179	Principal Amount		
		1,728,475	SHORT TERM INVESTMENTS - 10.2%		
Software - 2.6%					
843	Ansys, Inc.(a)	37,387	U.S. GOVERNMENT AGENCY OBLIGATIONS - 8.8%		
7,051	Autodesk, Inc.(a)	250,522	\$2,800,000	Federal Home Loan Bank Discount Note, 1.9667%, 9/2/2008	2,799,862
395	BMC Software, Inc.(a)	12,861	Shares		
322	McAfee, Inc.(a)	12,738	MONEY MARKET FUNDS - 1.4%		
7,570	Microsoft Corp.	206,585	445,951	Fidelity Institutional Money Market Portfolio	445,951
2,014	Symantec Corp.(a)	44,933	TOTAL SHORT TERM INVESTMENTS		
12,297	Synopsys, Inc.(a)	264,755		(Cost \$3,245,813)	\$ 3,245,813
		829,781	TOTAL INVESTMENTS		
Specialty Retail - 8.4%					
5,156	Abercrombie & Fitch Co. - Class A	270,432		(Cost \$32,295,266) - 102.0%	\$32,571,791
1,041	Advance Auto Parts	44,805	Liabilities in Excess of Other Assets - (2.0%)		
12,409	American Eagle Outfitters, Inc.	186,755			(652,213)
5,654	Best Buy Co, Inc.	253,130	TOTAL NET ASSETS - 100.0%		
13,738	CarMax, Inc.(a)	203,322			\$31,919,578
10,894	Dick's Sporting Goods, Inc.(a)	249,364	Percentages are stated as a percent of net assets.		
6,533	Dollar Tree, Inc.(a)	250,606	(a) Non-income producing security		
5,668	Gamestop Corp(a)	248,655			
9,206	The Home Depot, Inc.	249,667			
12,077	Limited Brands, Inc.	251,202			

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

Evolution Large Cap Fund

Short Futures Contracts

August 31, 2008

Contracts

Unrealized
Depreciation

18 S&P 500 Index Futures
Expiring September 2008 (Underlying Face Amount at Market Value \$5,773,500)

\$(51,808)

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

Evolution Small Cap Fund

Schedule of Investments

August 31, 2008

Shares		Value	Shares		Value
COMMON STOCKS - 94.2%			Commercial Banks - 0.6%		
Aerospace & Defense - 5.0%					
1,923	AAR Corp.(a)	\$ 30,518	591	Oriental Financial Group	\$ 10,213
12,852	Ceradyne, Inc.(a)	579,111	4,264	Southside Bancshares, Inc.	92,733
1,245	Cubic Corp.	34,474			102,946
620	Curtiss-Wright Corp.	33,399	Commercial Services & Supplies - 2.2%		
564	DRS Technologies, Inc.	44,906	286	Brady Corp.	10,499
1,158	Esterline Technologies Corp.(a)	65,415	1,496	COMSYS IT Partners, Inc.(a)	17,712
1,352	LMI Aerospace, Inc.(a)	31,894	2,229	Geoeeye, Inc.(a)	55,168
833	Moog, Inc.(a)	39,484	1,583	Kforce, Inc.(a)	16,906
175	Teledyne Technologies, Inc.(a)	10,908	677	Layne Christensen Co.(a)	37,154
		870,109	12,725	LECG Corp.(a)	103,709
			803	Metalico, Inc.(a)	10,343
Airlines - 0.1%			1,801	PeopleSupport, Inc.(a)	21,882
1,332	Northwest Airlines Corp.(a)	13,027	1,713	Watson Wyatt Worldwide, Inc. - Class A	100,365
4,041	Pinnacle Airlines Corp.(a)	19,235			373,738
		32,262	Communications & Communications Equipment- 3.3%		
Auto Components - 0.7%			6,006	3Com Corp.(a)	12,733
2,141	Drew Industries, Inc.(a)	34,320	1,812	Arris Group, Inc.(a)	17,142
1,845	LKQ Corp.(a)	34,557	2,180	Black Box Corp.	78,131
5,553	Wonder Auto Technology, Inc.(a)	46,812	1,374	Blue Coat Systems, Inc.(a)	25,556
		115,689	19,253	Cogo Group, Inc.(a)	106,084
Beverages - 2.2%			3,294	Alaska Communications Systems Group, Inc.	34,653
13,865	Hansen Natural Corp.(a)	381,010	3,268	EXFO Electro-Optical Engineering, Inc. (Canada)(a)	13,726
Biotechnology - 2.2%			7,623	Globecomm Systems, Inc.(a)	77,754
6,609	Celera Corp.(a)	92,526	1,951	Immersion Corp.(a)	12,974
1,081	Cepheid, Inc.(a)	20,107	810	Liberty Media Holdings Corp.(a)	13,162
1,949	Incyte Corp.(a)	19,938	1,706	Netgear, Inc.(a)	28,746
234	Kendle International, Inc.(a)	11,572	1,550	Oplink Communications, Inc.(a)	20,367
5,115	Martek Biosciences Corp.(a)	170,892	863	Plantronics, Inc.	22,265
2,460	Repligen Corp.(a)	13,210	775	Polycom, Inc.(a)	21,731
855	Rigel Pharmaceuticals, Inc.(a)	20,229	1,780	Sierra Wireless, Inc. (Canada)(a)	22,624
877	Savient Pharmaceuticals, Inc.(a)	19,934	1,914	USA Mobility, Inc.	21,571
3,175	Trimeris, Inc.	12,891	1,098	Viasat, Inc.(a)	28,801
		381,299	946	Xyratex Ltd.(a)	13,613
Building Products - 0.3%					571,633
1,718	Apogee Enterprises, Inc.	34,360	Construction & Engineering - 0.3%		
443	NCI Building Systems, Inc.(a)	16,958	1,292	Perini Corp.(a)	34,509
		51,318	267	Texas Industries, Inc.	14,063
Capital Markets - 0.6%					48,572
1,614	FCStone Group, Inc.(a)	33,749	Distributors - 0.3%		
656	Greenhill & Co., Inc.	43,362	735	Andersons, Inc.	33,045
1,194	Knight Capital Group, Inc. - Class A(a)	20,584	452	WESCO International, Inc.(a)	17,375
		97,695			50,420
Chemicals - 5.0%			Diversified Financial Services - 1.2%		
3,220	A. Schulman, Inc.	77,988	3,590	Advance America Cash Advance Centers, Inc.	17,663
13,936	Balchem Corp.	380,314	737	Dime Community Bancshares	12,101
2,000	Koppers Holdings, Inc.	91,620	1,476	Ezcorp, Inc.(a)	23,011
22,696	Landec Corp.(a)	213,115	2,085	Horizon Financial Corp.	16,993
463	NewMarket Corp.	31,456	5,498	First Cash Financial Services, Inc.(a)	101,878
616	Terra Nitrogen Co. L.P.	73,834	2,920	The First Marblehead Corp.	12,030
		868,327			

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

Evolution Small Cap Fund

Schedule of Investments

August 31, 2008

Shares		Value	Shares		Value
Diversified Financial Services (continued)					
699	Interactive Brokers Group, Inc.(a)	\$ 19,083	1,349	Immucor, Inc.(a)	\$ 43,451
		202,759	432	Invacare Corp.	10,986
Diversified Investments - 0.1%					
552	Permian Basin Royalty Trust	11,426	2,887	Inverness Medical Innovations, Inc.(a)	102,546
308	San Juan Basin Royalty Trust	11,338	563	Merit Medical Systems, Inc.(a)	10,900
		22,764	1,070	Neogen Corp.(a)	27,895
Electronic Equipment & Instruments - 4.1%					
471	Anixter International, Inc.(a)	34,764			
789	Azz, Inc.(a)	34,282			
4,643	Benchmark Electronics, Inc.(a)	76,563			
1,766	Hubbell, Inc.	76,839			
797	II-VI, Inc.(a)	34,996			
629	Multi-Fineline Electronix, Inc.(a)	10,731			
6,268	National Instruments Corp.	202,331			
1,032	Scansource, Inc.(a)	31,053			
4,910	Technitrol, Inc.	77,627			
7,449	TTM Technologies, Inc.(a)	89,239			
741	Woodward Governor Co.	34,331			
		702,756			
Energy Equipment & Services - 3.7%					
3,053	Bristow Group, Inc.(a)	124,471			
1,124	Complete Production Services(a)	33,214			
3,662	Dril-Quip, Inc.(a)	201,447			
8,858	Grey Wolf, Inc.(a)	77,153			
4,780	Ion Geophysical Corp.(a)	77,054			
3,564	Natural Gas Services Group(a)	92,450			
659	Oil States International, Inc.(a)	36,660			
		642,449			
Financial Services - 0.1%					
1,729	AmeriCredit Corp.(a)	18,293			
Food & Staples Retailing - 0.8%					
2,678	Casey's General Stores, Inc.	77,662			
1,471	PriceSmart, Inc.	31,259			
1,036	Ruddick Corp.	32,986			
		141,907			
Food Products - 1.8%					
1,703	Cal-Maine Foods, Inc.	67,252			
7,089	Darling International, Inc.(a)	97,332			
981	Lancaster Colony Corp.	34,119			
3,278	Sanderson Farms, Inc.	112,468			
		311,171			
Freight & Logistics - 0.9%					
999	Arkansas Best Corp.	34,585			
178	Dryships, Inc.	13,072			
1,528	Excel Maritime Carriers Ltd. (Liberia)	54,535			
808	HUB Group, Inc.(a)	32,272			
1,244	Navios Maritime Holdings, Inc.	13,149			
754	UTI Worldwide, Inc.	15,155			
		162,768			
Health Care Equipment & Supplies - 2.3%					
105	Bio-Rad Laboratories, Inc.(a)	11,298			
9,166	Cutera, Inc.(a)	102,384			
4,440	Cyberonics, Inc.(a)	95,238			
Health Care Providers & Services - 4.7%					
			5,359	Amedisys, Inc.(a)	285,206
			1,079	Bio-Reference Labs, Inc.(a)	30,568
			19,422	Bioscrip, Inc.(a)	78,076
			6,789	eResearch Technology, Inc.(a)	91,583
			514	Lincare Holdings, Inc.(a)	16,962
			786	Magellan Health Services, Inc.(a)	34,238
			657	National Healthcare Corp.	32,666
			248	Owens & Minor, Inc.	11,438
			570	Res-Care, Inc.(a)	10,967
			680	Triple-S Management Corp.(a)	11,805
			550	US Physical Therapy, Inc.(a)	10,895
			6,543	VCA Antech, Inc.(a)	201,132
					815,536
Hotels Restaurants & Leisure - 1.2%					
			5,551	Buffalo Wild Wings, Inc.(a)	200,280
Household Products - 1.9%					
			2,575	Tupperware Corp.	91,979
			8,722	Universal Electronics, Inc.(a)	228,691
			310	WD-40 Co.	10,816
					331,486
Industrial Conglomerates - 0.5%					
			894	Walter Industries, Inc.	83,857
Industrial Products & Supplies - 2.5%					
			11,417	Applied Industrial Technologies, Inc.	332,349
			439	Energysys(a)	12,345
			991	Houston Wire & Cable Co.	16,708
			4,012	Schweitzer-Mauduit International, Inc.	76,068
					437,470
Insurance - 9.4%					
			933	Amerisafe, Inc.(a)	17,251
			7,577	Amtrust Financial Services, Inc.	106,533
			9,997	Brown & Brown, Inc.	203,139
			643	Delphi Financial Group, Inc. - Class A	17,252
			7,041	First Mercury Financial Corp.(a)	103,714
			539	IPC Holdings Ltd.	17,070
			1,471	Life Partners Holdings, Inc.	42,600
			671	Max Capital Group Ltd.	17,446
			1,045	Montpelier Re Holdings Ltd.	16,918
			11,483	Philadelphia Consolidated Holding Corp.(a)	685,880
			7,102	RLI Corp.	397,073
					1,624,876
Internet & Catalog Retail - 1.6%					
			667	Nutri/System, Inc.	13,253
			16,137	PetMed Express, Inc.(a)	229,791

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

Evolution Small Cap Fund

Schedule of Investments

August 31, 2008

Shares		Value	Shares		Value
Internet & Catalog Retail, (continued)			2,135	Sutor Tech Group Ltd.(a)	\$ 13,536
3,681	Shutterfly, Inc.(a)	\$ 34,233			365,012
		277,277			
Internet Software & Services - 0.8%			Oil, Gas & Consumable Fuels - 3.3%		
968	Aladdin Knowledge Systems (Israel)(a)	12,206	5,724	Brigham Exploration Co.(a)	77,674
12,251	S1 Corp.(a)	93,475	564	Callon Petroleum Co.(a)	11,207
2,462	United Online, Inc.	25,925	1,090	Contango Oil & Gas Company(a)	77,521
		131,606	1,243	CVR Energy, Inc.(a)	17,327
			346	Foundation Coal Holdings, Inc.	20,466
			389	Mariner Energy, Inc.(a)	11,316
			1,079	Overseas Shipholding Group, Inc.	77,408
			147	Patriot Coal Corp.(a)	8,814
			514	Petroleum Development Corp.(a)	31,246
			831	Union Drilling, Inc.(a)	11,817
			9,858	Vaalco Energy, Inc.(a)	77,188
			6,774	Western Gas Partners L.P.(a)	103,439
			762	Williams Pipeline Partners L.P.	13,099
			886	W&T Offshore, Inc.	31,152
					569,674
Life Sciences Tools & Services - 0.2%			Personal Products - 2.9%		
978	Parexel International Corp.(a)	31,071	6,489	Inter Parfums, Inc.	92,072
419	PharmaNet Development Group, Inc.(a)	10,936	12,395	NBTY, Inc.(a)	412,010
		42,007			504,082
Machinery - 4.7%			Pharmaceuticals - 3.2%		
1,369	Actuant Corp. Class A	43,192	38,034	American Oriental Bioengineering, Inc.(a)	314,921
948	Astec Industries, Inc.(a)	32,611	483	Auxilium Pharmaceuticals, Inc.(a)	18,987
751	Badger Meter, Inc.	34,576	10,734	Obagi Medical Products, Inc.(a)	103,583
573	CIRCOR International, Inc.	34,529	2,406	Questcor Pharmaceuticals, Inc.(a)	13,137
3,320	Force Protection, Inc.(a)	13,214	5,400	Sciele Pharma, Inc.	104,058
709	Gardner Denver, Inc.(a)	32,004			554,686
1,191	Graham Corp.	111,239			
5,418	IDEX Corp.	200,845			
346	K-Tron International, Inc.(a)	51,481			
2,605	L.B. Foster Co.(a)	100,449			
529	Middleby Corp.(a)	28,228			
537	Robbins & Myers, Inc.	24,085			
542	Titan Machinery, Inc.(a)	14,103			
1,660	Westinghouse Air Brake Technologies Corp.	98,056			
		818,612			
Media - 0.2%			Real Estate - 0.3%		
825	Dolan Media Co.(a)	12,581	3,252	Anworth Mortgage Asset Corp.	21,268
1,018	Global Sources Ltd.(a)	10,862	1,798	Capstead Mortgage Corp.	21,109
507	Scholastic Corp.	13,233			42,377
		36,676			
Metals & Mining - 2.1%			Semiconductor & Semiconductor Equipment - 1.9%		
368	Alliance Resource Partners, L.P.	17,160	699	ASM International NV (Netherlands)	17,377
198	Alpha Natural Resources, Inc.(a)	19,622	1,361	Advanced Energy Industries, Inc.(a)	21,953
951	AMCOL International Corp.	34,673	567	Cymer, Inc.(a)	16,976
1,178	Brush Engineered Materials, Inc.(a)	34,515	1,093	Formfactor, Inc.(a)	20,975
450	Compass Minerals International, Inc.	31,171	3,452	MKS Instruments, Inc.(a)	77,808
6,030	Horsehead Holding Corp.(a)	50,170	1,745	ON Semiconductor Corp.(a)	16,525
234	Olympic Steel, Inc.	11,141	710	Semtech Corp.(a)	10,501
1,128	Schnitzer Steel Industries, Inc. - Class A	77,166	2,779	Silicon Laboratories, Inc.(a)	93,680
7,985	ShengdaTech, Inc.(a)	75,858	723	Supertex, Inc.(a)	21,473
			2,385	Zoran Corp.(a)	21,226
					318,494
			Software - 5.3%		
			784	Commvault Systems, Inc.(a)	13,218
			1,208	Foundry Networks, Inc.(a)	22,215
			659	Informatica Corp.(a)	11,117
			4,471	Interactive Intelligence, Inc.(a)	44,844
			4,263	JDA Software Group, Inc.(a)	77,714
			9,591	Lawson Software, Inc.(a)	77,591
			3,183	Manhattan Associates, Inc.(a)	78,015
			1,191	MicroStrategy, Inc.(a)	76,415
			770	Netscout Systems, Inc.(a)	11,473

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

Evolution Small Cap Fund

Schedule of Investments

August 31, 2008

<u>Shares</u>		<u>Value</u>	<u>Shares</u>		<u>Value</u>
Software (continued)			INVESTMENT COMPANIES - 1.6%		
314	Open Text Corp. (Canada)(a)	\$ 11,012	3,928	iShares Russell 2000 Value Index Fund	\$ 273,899
741	Progress Software Corp.(a)	21,645		TOTAL INVESTMENT COMPANIES (Cost \$273,600)	\$ 273,899
8,912	Quality Systems, Inc.	381,612			
5,969	VASCO Data Security International, Inc.(a)	82,492	WARRANTS - 0.0%		
		<u>909,363</u>	3,847	Pegasus Wireless Warrants(b) Expiration: March, 2009, Exercise Price: \$8.000	<u>0</u>
Specialty Retail - 3.5%				TOTAL WARRANTS (Cost \$0)	\$ 0
3,987	99 Cents Only Stores(a)	34,129	Principal Amount		
941	Aeropostale, Inc.(a)	32,803	SHORT TERM INVESTMENTS - 4.3%		
907	AnnTaylor Stores Corp.(a)	22,022	U.S. GOVERNMENT AGENCY OBLIGATIONS - 1.8%		
1,763	Christopher & Banks Corp.	16,960	\$300,000	Federal Home Loan Bank Discount Note, 1.9667%, 9/2/2008	299,985
678	Citi Trends, Inc.(a)	13,980			
2,133	Conn's, Inc.(a)	40,783	Shares		
1,571	DSW, Inc. - Class A(a)	22,827	MONEY MARKET FUNDS - 2.5%		
1,249	Finish Line, Inc.(a)	15,101	440,230	Fidelity Institutional Money Market Portfolio	440,230
10,452	hgregg, Inc.(a)	104,938		TOTAL SHORT TERM INVESTMENTS (Cost \$740,215)	\$ 740,215
809	Jos. A Bank Clothiers, Inc.(a)	21,026		TOTAL INVESTMENTS (Cost \$15,970,884) - 100.1%	\$17,307,081
8,130	Lumber Liquidators, Inc.(a)	104,958		Liabilities in Excess of Other Assets - (0.1%)	(9,208)
829	Men's Wearhouse, Inc.	18,155		TOTAL NET ASSETS - 100.0%	<u>\$17,297,873</u>
1,330	New York & Co., Inc.(a)	15,694			
868	Shoe Carnival, Inc.(a)	14,166			
2,749	Stein Mart, Inc.	10,859			
6,955	Volcom, Inc.(a)	124,077			
		<u>612,478</u>			
Textiles, Apparel & Luxury Goods - 4.4%					
23,208	Cherokee, Inc.	511,272			
540	Columbia Sportswear Co.	21,811			
9,744	Fuji International, Inc.(a)	105,138			
869	G-III Apparel Group Ltd.(a)	16,085			
595	Lululemon Athletica, Inc.(a)	11,525			
535	Movado Group, Inc.	12,407			
756	Oxford Industries, Inc.	17,275			
355	Phillips-Van Heusen Corp.	13,511			
899	Under Armour, Inc. - Class A(a)	30,305			
307	UniFirst Corp.	13,210			
		<u>752,539</u>			
	TOTAL COMMON STOCKS (Cost \$14,957,069)	<u>\$16,292,967</u>			

Percentages are stated as a percent of net assets.

(a) Non-income producing security

(b) Security fair valued by Adviser.

Evolution Small Cap Fund

Short Futures Contracts

August 31, 2008

<u>Contracts</u>		<u>Unrealized Depreciation</u>
42	Russell 2000 Index Mini Futures Expiring September 2008 (Underlying Face Amount at Market Value \$3,100,860)	<u>\$(37,937)</u>

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

Evolution Total Return Fund

Schedule of Investments

August 31, 2008

Shares	Value	Shares	Value
COMMON STOCKS - 49.7%		Household Products - 3.8%	
Capital Markets - 0.7%		6,691	Fortune Brands, Inc. \$ 393,564
2,394	Allied Capital Corp. \$ 35,311	35,510	Mannatech, Inc. 157,309
1,335	American Capital Strategies Ltd. 29,023	5,623	The Procter & Gamble Co. 392,317
2,775	Apollo Investment Corp. 49,118		943,190
6,108	MCG Capital Corp. 21,256	Industrial Conglomerates - 1.6%	
2,999	Prospect Capital Corp. 41,986	5,492	3M Co. 393,227
	176,694	Industrial Products & Supplies - 0.4%	
Chemicals - 3.1%		1,240	Genuine Parts Co. 52,601
4,365	Praxair, Inc. 392,151	2,447	Temple-Inland, Inc. 40,889
5,234	Rohm & Haas Co. 392,812		93,490
	784,963	Insurance - 2.7%	
Commercial Services & Supplies - 5.0%		847	Hartford Financial Services Group, Inc. 53,429
31,985	ABM Industries, Inc. 840,566	1,038	Lincoln National Corp. 52,689
6,521	CDI Corp. 163,677	25,122	MBIA, Inc. 407,479
10,132	Healthcare Services Group, Inc. 197,371	3,855	Safety Insurance Group, Inc. 165,765
1,501	Waste Management, Inc. 52,805		679,362
	1,254,419	Internet Software & Services - 0.7%	
Diversified Financial Services - 2.2%		15,578	United Online, Inc. 164,036
3,976	Ares Capital Corp. 48,070	Machinery - 1.6%	
17,403	First Commonwealth Financial Corp. 198,916	7,977	Illinois Tool Works, Inc. 395,739
1,380	JPMorgan Chase & Co. 53,116	Oil, Gas & Consumable Fuels - 1.4%	
12,014	New York Community Bancorp, Inc. 198,111	959	Chevron Corp. 82,781
1,757	Wells Fargo & Co. 53,185	374	Exxon Mobil Corp. 29,923
	551,398	669	Marathon Oil Corp. 30,152
Electric Utilities - 6.3%		7,077	Vectren Corp. 196,316
4,665	Ameren Corp. 195,277		339,172
3,304	Centerpoint Energy, Inc. 52,468	Paper & Forest Products - 0.2%	
4,852	CH Energy Group, Inc. 193,110	1,954	International Paper Co. 52,856
4,770	Consolidated Edison, Inc. 195,093	Pharmaceuticals - 3.1%	
724	FirstEnergy Corp. 52,591	5,567	Johnson & Johnson 392,084
8,324	Great Plains Energy, Inc. 195,198	9,119	Wyeth 394,670
1,265	PG&E Corp. 52,282		786,754
5,557	Pinnacle West Capital Corp. 195,551	Real Estate Investment Trusts - 1.8%	
4,462	Progress Energy, Inc. 194,900	505	Boston Properties, Inc. 51,747
6,596	The Southern Co. 247,416	7,949	Cousins Properties, Inc. 198,646
	1,573,886	8,625	National Retail Properties, Inc. 195,701
Electrical Equipment - 1.4%			446,094
14,873	Methode Electronics, Inc. 163,455	Specialty Retail - 0.8%	
6,963	Park Electrochemical Corp. 195,103	9,602	The Cato Corp. 169,091
	358,558	510	The Sherwin-Williams Co. 29,861
Food & Beverages - 4.8%			198,952
11,535	Brown-Forman Corp. 830,635	Telecommunications - 0.2%	
5,918	General Mills, Inc. 391,653	4,209	Windstream Corp. 52,276
	1,222,288	Tobacco - 1.0%	
Gas Utilities - 3.6%		11,722	Altria Group, Inc. 246,514
658	Northwest Natural Gas Co. 32,064	TOTAL COMMON STOCKS	
28,929	Piedmont Natural Gas Co. 834,602	(Cost \$12,551,063)	
798	South Jersey Industries, Inc. 28,465		\$12,442,369
	895,131		
Hotels Restaurants & Leisure - 3.3%			
29,689	Bob Evans Farms, Inc. 833,370		

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

Evolution Total Return Fund

Schedule of Investments

August 31, 2008

Shares		Value	Principal Amount		Value
INVESTMENT COMPANIES - 49.6%			SHORT TERM INVESTMENTS - 1.5%		
2,790	CurrencyShares Euro Trust	\$ 410,688	MONEY MARKETS - 1.5%		
29,988	Enerplus Resources Fund	1,298,181	\$376,385	Fidelity Institutional Money Market Portfolio	\$ 376,385
3,354	iPath CBOE S&P 500 BuyWrite Index ETN(a)	165,352			
28,416	iShares Lehman 1-3 Year Treasury Bond Fund	2,362,790	TOTAL SHORT TERM INVESTMENTS (Cost \$376,385)		
41,657	iShares Lehman 7-10 Year Treasury Bond Fund	3,723,303	TOTAL INVESTMENTS (Cost \$24,904,679) - 100.8%		
5,809	iShares Lehman Aggregate Bond Fund	585,257	Liabilities in Excess of Other Assets - (0.8%)		
14,045	iShares Lehman Short Treasury Bond Fund	1,546,776	TOTAL NET ASSETS - 100.0%		
16,306	iShares Lehman Treasury Inflation Protected Securities Fund	1,734,306	<u>\$25,037,084</u>		
7,632	SPDR Lehman International Treasury Bond Fund	406,480			
2,459	Vanguard Total Bond Market Fund	<u>187,622</u>			
TOTAL INVESTMENT COMPANIES (Cost \$11,977,231)		<u>\$12,420,755</u>			

Footnotes

Percentages are stated as a percent of net assets.

(a) Non Income Producing

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

Statements of Assets and Liabilities

August 31, 2008

	<u>Evolution Managed Bond Fund</u>	<u>Evolution All-Cap Equity Fund</u>
Assets:		
Investments, at market value (Note 2)	\$26,329,372	\$ 34,335,775
Cash	—	175
Receivable for Fund shares sold	4,130	13,496
Receivable for investments sold	579,902	14,170,704
Deposit at broker for futures	—	337,675
Due from broker for futures	—	163,925
Variation margin receivable	—	131,100
Dividends and interest receivable	2,942	31,811
Other assets	4,571	4,863
Total Assets	<u>26,920,917</u>	<u>49,189,524</u>
Liabilities:		
Payable for investments purchased	580,622	13,938,350
Payable for Fund shares redeemed	12,604	1,724
Accrued advisory expense	18,494	25,156
Accrued distribution expense	8,485	11,776
Accrued expenses and other liabilities	58,488	75,311
Total Liabilities	<u>678,693</u>	<u>14,052,317</u>
Net Assets	<u>\$26,242,224</u>	<u>\$ 35,137,207</u>
Net Assets Consist Of:		
Capital stock	\$30,383,080	\$ 44,190,808
Accumulated undistributed net investment income (loss)	125,500	—
Accumulated undistributed net realized gain (loss)	(4,575,937)	(10,039,706)
Net unrealized appreciation (depreciation) on:		
Investments	309,581	858,806
Futures	—	127,299
Total Net Assets	<u>\$26,242,224</u>	<u>\$ 35,137,207</u>
Calculation of Net Asset Value Per Share - Investor Class:		
Net assets	\$26,242,224	\$ 35,137,207
Shares outstanding (unlimited shares of beneficial interest authorized, no par value)	1,599,041	1,894,027
Net asset value, redemption price and offering price per share	<u>\$ 16.41</u>	<u>\$ 18.55</u>
Cost of Investments	<u>\$26,019,791</u>	<u>\$ 33,476,969</u>

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

Statements of Assets and Liabilities

August 31, 2008

	<u>Evolution Large Cap Fund</u>	<u>Evolution Small Cap Fund</u>	<u>Evolution Total Return Fund</u>
Assets:			
Investments, at market value (Note 2)	\$32,571,791	\$17,307,081	\$25,239,509
Cash	50	24	—
Receivable for Fund shares sold	19,294	12,530	1,804
Receivable for investments sold	13,815,995	2,416,777	4,322,212
Deposits at broker for futures	444,373	139,191	—
Variation margin receivable	67,950	12,952	—
Dividends and interest receivable	57,283	17,122	17,803
Other assets	6,855	5,648	5,465
Total Assets	<u>46,983,591</u>	<u>19,911,325</u>	<u>29,586,793</u>
Liabilities:			
Payable for investments purchased	14,841,446	2,501,664	4,454,937
Payable for Fund shares redeemed	1,781	1,004	10,806
Due to broker for futures	120,373	50,991	—
Accrued distribution expenses	8,733	4,782	7,610
Accrued advisory expense	23,648	12,613	17,134
Accrued expenses and other liabilities	68,032	42,398	59,222
Total Liabilities	<u>15,064,013</u>	<u>2,613,452</u>	<u>4,549,709</u>
Net Assets	<u><u>\$31,919,578</u></u>	<u><u>\$17,297,873</u></u>	<u><u>\$25,037,084</u></u>
Net Assets Consist Of:			
Capital stock	\$39,855,207	\$23,112,336	\$29,986,095
Accumulated undistributed net investment income (loss)	—	784	800,713
Accumulated undistributed net realized gain (loss)	(8,160,346)	(7,113,507)	(6,084,554)
Net unrealized appreciation (depreciation) on:			
Investments	276,525	1,336,197	334,830
Futures	(51,808)	(37,937)	—
Total Net Assets	<u><u>\$31,919,578</u></u>	<u><u>\$17,297,873</u></u>	<u><u>\$25,037,084</u></u>
Calculation of Net Asset Value Per Share - Investor Class:			
Net assets	\$31,919,578	\$17,297,873	\$25,037,084
Shares outstanding (unlimited shares of beneficial interest authorized, no par value)	1,902,157	1,036,792	1,420,491
Net asset value, redemption price and offering price per share	<u>\$ 16.78</u>	<u>\$ 16.68</u>	<u>\$ 17.63</u>
Cost of Investments	<u><u>\$32,295,266</u></u>	<u><u>\$15,970,884</u></u>	<u><u>\$24,904,679</u></u>

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

Statements of Operations
Year Ended August 31, 2008

	<u>Evolution Managed Bond Fund</u>	<u>Evolution All-Cap Equity Fund</u>
Investment income:		
Dividend income (net of foreign withholding tax of \$— and \$9,816, respectively)	\$1,617,325	\$ 540,836
Interest income	<u>121,411</u>	<u>183,957</u>
Total investment income	<u>1,738,736</u>	<u>724,793</u>
Expenses:		
Investment advisory fees	330,926	488,581
Distribution expenses	82,732	122,145
Shareholder servicing fees	49,639	73,287
Administration fees	13,507	19,921
Fund accounting fees	26,436	45,801
Custody fees	7,410	10,633
Transfer agent fees	32,493	44,749
Federal and state registration	20,157	20,742
Professional fees	40,562	39,120
Reports to shareholders	13,041	16,128
Trustees' fees and expenses	2,629	2,973
Other	<u>7,905</u>	<u>12,489</u>
Total expenses before reimbursement	627,437	896,569
Less: Reimbursement of expenses from Adviser	<u>(48,316)</u>	<u>(41,552)</u>
Total expenses	<u>579,121</u>	<u>855,017</u>
Net investment income (loss)	<u>1,159,615</u>	<u>(130,224)</u>
Realized and unrealized gain (loss) on investments:		
Net realized gain (loss) on:		
Investments	(425,251)	(2,210,473)
Futures	—	(2,162,076)
Swaps	<u>6,741</u>	<u>—</u>
	<u>(418,510)</u>	<u>(4,372,549)</u>
Capital gain distributions from regulated investment companies	<u>5,575</u>	<u>—</u>
Change in unrealized appreciation (depreciation) on:		
Investments	(22,289)	(341,923)
Futures	—	127,299
	<u>(22,289)</u>	<u>(214,624)</u>
Net realized and unrealized gain (loss) on investments	<u>(435,224)</u>	<u>(4,587,173)</u>
Net increase (decrease) in net assets resulting from operations	<u>\$ 724,391</u>	<u>\$(4,717,397)</u>

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

Statements of Operations
Year Ended August 31, 2008

	<u>Evolution Large Cap Fund</u>	<u>Evolution Small Cap Fund</u>	<u>Evolution Total Return Fund</u>
Investment income:			
Dividend income (net of foreign withholding tax of \$18,746, \$461, and \$3,850, respectively)	\$ 614,714	\$ 327,981	\$ 1,382,990
Interest income	<u>186,458</u>	<u>183,348</u>	<u>20,531</u>
Total investment income	<u>801,172</u>	<u>511,328</u>	<u>1,403,521</u>
Expenses:			
Investment advisory fees	468,590	239,937	344,332
Distribution expenses	117,148	59,984	86,083
Shareholder servicing fees	70,289	35,991	51,650
Administration fees	21,688	11,421	14,960
Fund accounting fees	47,376	27,831	28,697
Custody fees	11,162	5,268	8,418
Transfer agent fees	43,904	22,579	30,912
Federal and state registration	16,497	15,840	17,783
Professional fees	47,790	34,557	43,810
Reports to shareholders	11,986	7,552	9,767
Trustees' fees and expenses	3,450	2,178	2,608
Other	<u>12,724</u>	<u>6,807</u>	<u>9,069</u>
Total expenses before reimbursement/recoupment	872,604	469,945	648,089
Less: Reimbursement of expenses from Adviser	<u>(53,471)</u>	<u>(50,055)</u>	<u>(45,509)</u>
Total expenses	<u>819,133</u>	<u>419,890</u>	<u>602,580</u>
Net investment income (loss)	<u>(17,961)</u>	<u>91,438</u>	<u>800,941</u>
Realized and unrealized gain (loss) on investments:			
Net realized gain (loss) on:			
Investments	(4,646,129)	(4,008,360)	(3,451,434)
Futures	<u>(216,127)</u>	<u>(153,169)</u>	<u>460,953</u>
	<u>(4,862,256)</u>	<u>(4,161,529)</u>	<u>(2,990,481)</u>
Change in unrealized appreciation (depreciation) on:			
Investments	(1,288,455)	1,248,919	(1,092,833)
Futures	<u>(51,808)</u>	<u>(37,937)</u>	<u>(206,193)</u>
	<u>(1,340,263)</u>	<u>1,210,982</u>	<u>(1,299,026)</u>
Net realized and unrealized gain (loss) on investments	<u>(6,202,519)</u>	<u>(2,950,547)</u>	<u>(4,289,507)</u>
Net increase (decrease) in net assets resulting from operations	<u><u>\$(6,220,480)</u></u>	<u><u>\$(2,859,109)</u></u>	<u><u>\$(3,488,566)</u></u>

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

Statements of Changes in Net Assets

August 31, 2008

	Evolution Managed Bond Fund		Evolution All-Cap Equity Fund	
	Year Ended August 31, 2008	Year Ended August 31, 2007	Year Ended August 31, 2008	Year Ended August 31, 2007
Operations:				
Net investment income (loss)	\$ 1,159,615	\$ 1,731,589	\$ (130,224)	\$ 110,535
Net realized gain (loss) on investments	(418,510)	(881,344)	(4,372,549)	17,238,500
Capital gain distributions from regulated investment companies	5,575	—	—	—
Change in net unrealized appreciation (depreciation) on investments	<u>(22,289)</u>	<u>(475,647)</u>	<u>(214,624)</u>	<u>(2,923,576)</u>
Net increase (decrease) in net assets resulting from operations	<u>724,391</u>	<u>374,598</u>	<u>(4,717,397)</u>	<u>14,425,459</u>
Distributions to shareholders - Investor Class:				
Net investment income	(1,479,225)	(2,021,087)	—	(905,687)
Net realized gains	<u>—</u>	<u>—</u>	<u>(8,731,487)</u>	<u>(4,468,840)</u>
Total distributions	<u>(1,479,225)</u>	<u>(2,021,087)</u>	<u>(8,731,487)</u>	<u>(5,374,527)</u>
Capital share transactions - Investor Class:				
Proceeds from shares sold	12,095,784	23,813,199	15,791,146	38,460,873
Proceeds from shares issued to holders in reinvestment of distributions	1,479,225	2,021,087	8,731,487	5,374,527
Cost of shares redeemed	<u>(26,313,490)</u>	<u>(31,384,447)</u>	<u>(40,183,923)</u>	<u>(101,360,166)</u>
Net increase (decrease) in net assets resulting from capital share transactions	<u>(12,738,481)</u>	<u>(5,550,161)</u>	<u>(15,661,290)</u>	<u>(57,524,766)</u>
Total increase (decrease) in net assets	<u>(13,493,315)</u>	<u>(7,196,650)</u>	<u>(29,110,174)</u>	<u>(48,473,834)</u>
Net assets:				
Beginning of year	<u>39,735,539</u>	<u>46,932,189</u>	<u>64,247,381</u>	<u>112,721,215</u>
End of year	<u>\$ 26,242,224</u>	<u>\$ 39,735,539</u>	<u>\$ 35,137,207</u>	<u>\$ 64,247,381</u>
Undistributed (Accumulated) net investment income (loss), end of year	<u>\$ 125,500</u>	<u>\$ 450,318</u>	<u>\$ —</u>	<u>\$ —</u>

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

Statements of Changes in Net Assets

August 31, 2008

	<u>Evolution Large Cap Fund</u>		<u>Evolution Small Cap Fund</u>		<u>Evolution Total Return Fund</u>	
	Year Ended August 31, 2008	Year Ended August 31, 2007	Year Ended August 31, 2008	Year Ended August 31, 2007	Year Ended August 31, 2008	Year Ended August 31, 2007
Operations:						
Net investment income (loss)	\$ (17,961)	\$ 185,402	\$ 91,438	\$ (64,128)	\$ 800,941	\$ 941,393
Net realized gain (loss) on investments	(4,862,256)	7,659,144	(4,161,529)	3,920,362	(2,990,481)	1,379,173
Net unrealized appreciation (depreciation) on investments	<u>(1,340,263)</u>	<u>(310,273)</u>	<u>1,210,982</u>	<u>(1,571,206)</u>	<u>(1,299,026)</u>	<u>(1,046,174)</u>
Net increase (decrease) in net assets resulting from operations	<u>(6,220,480)</u>	<u>7,534,273</u>	<u>(2,859,109)</u>	<u>2,285,028</u>	<u>(3,488,566)</u>	<u>1,274,392</u>
Distributions to shareholders - Investor Class:						
Net investment income	(57,776)	(388,086)	(83,227)	(112,647)	(121,868)	(986,684)
Net realized gains	(5,362,628)	—	—	—	(1,223,072)	(458,981)
Return of capital	—	—	(46,292)	—	—	—
Total distributions	<u>(5,420,404)</u>	<u>(388,086)</u>	<u>(129,519)</u>	<u>(112,647)</u>	<u>(1,344,940)</u>	<u>(1,445,665)</u>
Capital share transactions - Investor Class:						
Proceeds from shares sold	15,463,520	46,820,480	9,133,559	25,741,194	10,594,573	38,881,871
Proceeds from shares issued to holders in reinvestment of distributions	5,420,405	388,086	129,520	112,647	1,344,939	1,445,665
Cost of shares redeemed	<u>(43,893,307)</u>	<u>(41,983,088)</u>	<u>(20,613,485)</u>	<u>(50,184,260)</u>	<u>(28,183,896)</u>	<u>(52,560,270)</u>
Net increase (decrease) in net assets resulting from capital share transactions	<u>(23,009,382)</u>	<u>5,225,478</u>	<u>(11,350,406)</u>	<u>(24,330,419)</u>	<u>(16,244,384)</u>	<u>(12,232,734)</u>
Total increase (decrease) in net assets	<u>(34,650,266)</u>	<u>12,371,665</u>	<u>(14,339,034)</u>	<u>(22,158,038)</u>	<u>(21,077,890)</u>	<u>(12,404,007)</u>
Net assets:						
Beginning of year	<u>66,569,844</u>	<u>54,198,179</u>	<u>31,636,907</u>	<u>53,794,945</u>	<u>46,114,974</u>	<u>58,518,981</u>
End of year	<u>\$ 31,919,578</u>	<u>\$ 66,569,844</u>	<u>\$ 17,297,873</u>	<u>\$ 31,636,907</u>	<u>\$ 25,037,084</u>	<u>\$ 46,114,974</u>
Undistributed (Accumulated) net investment income (loss), end of year	<u>\$ —</u>	<u>\$ 57,821</u>	<u>\$ 784</u>	<u>\$ —</u>	<u>\$ 800,713</u>	<u>\$ 107,721</u>

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

Financial Highlights August 31, 2008

RATIOS TO AVERAGE NET ASSETS

Year/Period	Net Asset Value, Beginning of Year/Period	Net Investment Income (Loss)	Net Realized and Unrealized Gain (Loss) on Investments ⁴	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 ¹	Net Assets, End of Year/Period (\$'000)	Including Short Dividends		Excluding Short Dividends		Net Investment Income (Loss) After Expense Reimbursement/Recoupment	Portfolio Turnover Rate ⁶	
												Total Expenses	Net Expenses	Total Expenses	Net Expenses			
Evolution Managed Bond Fund																		
Year ended August 31, 2008	\$16.83	\$0.59	\$(0.30)	\$0.29	\$(0.71)	\$ —	\$ —	—	\$16.41	1.78%	\$ 26,242	—	—	1.90%	1.75%	3.51%	439%	
Year ended August 31, 2007	17.45	0.64	(0.51)	0.13	(0.75)	—	—	(0.75)	16.83	0.76%	39,736	—	—	1.75%	1.75%	3.70%	914%	
Year ended August 31, 2006	18.20	0.46 ⁷	(0.70)	(0.24)	(0.51)	—	—	(0.51)	17.45	(1.26%)	46,932	1.86%	1.84%	1.81%	1.79% ⁹	2.70% ⁸	1,156%	
Year ended August 31, 2005	18.73	0.86 ⁷	(0.41)	0.45	(0.98)	—	—	(0.98)	18.20	2.41%	14,642	2.12%	2.03%	2.09%	2.00%	4.63% ⁸	941%	
April 1, 2004 ¹⁰ to August 31, 2004	20.00	0.21 ⁷	(1.48)	(1.27)	—	—	—	—	18.73	(6.35%) ²	15,965	2.46% ¹	2.27% ¹	2.19% ¹	2.00% ¹	2.88% ^{1,8}	536% ²	
Evolution All-Cap Equity Fund																		
Year ended August 31, 2008	24.31	(0.06)	(1.96)	(2.02)	(3.74)	(3.74)	—	(3.74)	18.55	(10.07%)	35,137	—	—	1.84%	1.75%	(0.27%)	1,374%	
Year ended August 31, 2007	22.75	0.03	2.67	2.70	(0.19)	(0.95)	—	(1.14)	24.31	12.03%	64,247	—	—	1.69%	1.69%	0.10%	885%	
Year ended August 31, 2006	21.24	0.20	2.03	2.23	(0.72)	(0.72)	—	(0.72)	22.75	10.61%	112,721	—	—	1.67%	1.69% ⁹	0.88%	1,119%	
Year ended August 31, 2005	17.55	(0.23)	3.92	3.69	—	—	—	—	21.24	21.03%	20,184	—	—	1.97%	2.00%	(1.14%)	1,374%	
April 1, 2004 ¹⁰ to August 31, 2004	20.00	(0.09)	(2.36)	(2.45)	—	—	—	—	17.55	(12.25%) ²	12,808	—	—	2.34% ¹	2.00% ¹	(1.21%) ¹	558% ²	
Evolution Large Cap Fund																		
Year ended August 31, 2008	22.16	(0.01)	(3.10)	(3.11)	(0.02)	(2.25)	—	(2.27)	16.78	(15.91%)	31,920	—	—	1.87%	1.75%	(0.04%)	1,191%	
Year ended August 31, 2007	19.48	0.07	2.75	2.82	(0.14)	—	—	(0.14)	22.16	14.47%	66,570	—	—	1.74%	1.75%	0.31%	857%	
January 31, 2006 ¹⁰ to August 31, 2006	20.00	0.14	(0.66)	(0.52)	—	—	—	—	19.48	(2.60%) ²	54,198	—	—	1.84% ¹	1.75% ¹	1.18% ¹	574% ²	
Evolution Small Cap Fund																		
Year ended August 31, 2008	18.80	0.07	(2.10)	(2.03)	(0.06)	—	(0.03)	(0.09)	16.68	(10.86%)	17,298	—	—	1.96%	1.75%	0.38%	1,191%	
Year ended August 31, 2007	18.12	(0.03)	0.78	0.75	(0.07)	—	—	(0.07)	18.80	4.05%	31,637	—	—	1.85%	1.75%	(0.17%)	886%	
January 27, 2006 ¹⁰ to August 31, 2006	20.00	0.06	(1.94)	(1.88)	—	—	—	—	18.12	(9.40%) ²	53,795	—	—	1.84% ¹	1.75% ¹	0.50% ¹	864% ²	
Evolution Total Return Fund																		
Year ended August 31, 2008	20.48	0.45	(2.60)	(2.15)	(0.06)	(0.64)	—	(0.70)	17.63	(10.77%)	25,037	—	—	1.89%	1.75%	2.32%	777%	
Year ended August 31, 2007	20.65	0.32	(0.03)	0.29	(0.32)	(0.14)	—	(0.46)	20.48	1.35%	46,115	—	—	1.72%	1.75%	1.46%	824%	
January 26, 2006 ¹⁰ to August 31, 2006	20.00	0.22	0.49	0.71	(0.06)	—	—	(0.06)	20.65	3.57% ²	58,519	—	—	1.82% ¹	1.75% ¹	1.88% ¹	642% ²	

¹ Annualized

² Not annualized

³ Net investment income (loss) per share represents net investment income (loss) divided by the daily average shares of beneficial interest outstanding throughout each period.

⁴ The amounts shown may not correlate with aggregate gains and losses of portfolio securities due to timing of subscriptions and redemptions of Fund shares.

⁵ All returns reflect reinvested dividends, if any, but do not reflect the impact of taxes.

⁶ Portfolio turnover is calculated without regard to short-term securities having a maturity of less than one year. Investments in options, swaps, and futures contracts and repurchase agreements are deemed short-term securities.

⁷ The Fund's aggressive investment strategy may result in significant portfolio turnover to take advantage of anticipated changes in market conditions.

⁸ Net investment income (loss) before dividends on short positions for the year ended August 31, 2006 and 2005 and the period ended August 31, 2004 was \$0.47, \$0.86 and \$0.23, respectively.

⁹ Net investment income (loss) ratio included dividends on short positions for the year ended August 31, 2006, 2005 and the period ended August 31, 2004 was 2.75%, 4.66% and 2.95%, respectively.

¹⁰ For the period September 1, 2005 to December 29, 2005 the annual cap on expenses excluding short dividends was 2.00%.

Commencement of operations.

Direxion Funds
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2008

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 40 series in operation of which 5 are included in this report, the Evolution Managed Bond Fund, the Evolution All-Cap Equity Fund, the Evolution Large Cap Fund, the Evolution Small Cap Fund and the Evolution Total Return Fund (each a "Fund" and collectively, the "Funds"). Each Fund is a "non-diversified" series of the Trust pursuant to the 1940 Act. The five funds included in this report offer only Investor Class of shares.

The objective of the Evolution 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 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 net 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. The objective of the Evolution Large Cap 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 net assets (plus any borrowing for investment purposes) in large cap equity securities either directly through individual stocks and ADRs or indirectly through securities that invest in or are a derivative of equity securities. The objective of the Evolution Small Cap 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 net assets (plus any borrowing for investment purposes) in small cap equity securities either directly through individual stocks and ADRs or indirectly through securities that invest in or are a derivative of equity securities. The objective of the Evolution Total Return Fund is to seek high total return on an annual basis consistent with a high tolerance for risk by investing at least 80% of its net assets (plus any borrowing for investment purposes) directly in dividend paying equities or interest bearing fixed income securities (collectively, "income generating securities") or indirectly through securities that invest in or are a derivative of income generating 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, exchange-traded funds, closed-end investment companies, options, futures and options on futures are valued at their last sales prices, or if not available, the average of the last bid and ask prices. Over-the-counter ("OTC") securities and swap agreements 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 the 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 prices 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 a valuation that in the judgment of Rafferty Asset Management, LLC (the "Adviser") does not represent fair value, or the Fund or the 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.

c) Swap Contracts – Each 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 returns) 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 Fund the amount, if any, by which the notional amount of the 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 of the swap contract would have decreased in value if it 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 Fund 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 the 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 Statement 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 loss 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 or investment grade or better. The Funds were not invested in swap contracts at August 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 August 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 for short sales. The Funds designate 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 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.

h) 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 taxes and excise taxes.

i) 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.

j) 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.

The tax character of distributions for the Trust paid during the year ended August 31, 2008 and year ended August 31, 2007, were as follows:

	<u>Evolution Managed Bond Fund</u>		<u>Evolution All-Cap Equity Fund</u>	
	<u>Year Ended August 31, 2008</u>	<u>Year Ended August 31, 2007</u>	<u>Year Ended August 31, 2008</u>	<u>Year Ended August 31, 2007</u>
Distributions paid from:				
Ordinary Income	\$1,479,225	\$2,021,087	\$8,730,319	\$5,049,793
Long-Term Capital Gains	—	—	1,168	324,734
Return of Capital	—	—	—	—
Total Distributions paid	<u>\$1,479,225</u>	<u>\$2,021,087</u>	<u>\$8,731,487</u>	<u>\$5,374,527</u>

	<u>Evolution Large Cap Fund</u>		<u>Evolution Small Cap Fund</u>		<u>Evolution Total Return Fund</u>	
	Year Ended August 31, 2008	Year Ended August 31, 2007	Year Ended August 31, 2008	Year Ended August 31, 2007	Year Ended August 31, 2008	Year Ended August 31, 2007
Distributions paid from:						
Ordinary Income	\$4,913,498	\$388,086	\$ 83,227	\$112,647	\$1,337,597	\$1,430,069
Long-Term Capital Gains	506,906	—	—	—	7,342	15,596
Return of Capital	—	—	46,292	—	—	—
Total Distributions paid	<u>\$5,420,404</u>	<u>\$388,086</u>	<u>\$129,519</u>	<u>\$112,647</u>	<u>\$1,344,939</u>	<u>\$1,445,665</u>

The fund designated 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 Fund related to net capital gain to zero for the tax year ended August 31, 2008. The Fund may utilize earnings and profits distributed to shareholders on redemption of shares as part of the dividend paid deduction.

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

	<u>Evolution Managed Bond Fund</u>	<u>Evolution All-Cap Equity Fund</u>	<u>Evolution Large Cap Fund</u>	<u>Evolution Small Cap Fund</u>	<u>Evolution Total Return Fund</u>
Tax cost of investments	\$26,408,391	\$35,633,061	\$34,114,596	\$17,516,415	\$25,497,199
Gross unrealized appreciation	428,169	2,006,789	923,243	1,608,115	612,553
Gross unrealized depreciation	(507,188)	(3,304,076)	(2,466,049)	(1,817,449)	(870,243)
Net unrealized appreciation/depreciation	<u>(79,019)</u>	<u>(1,297,287)</u>	<u>(1,542,806)</u>	<u>(209,334)</u>	<u>(257,690)</u>
Undistributed ordinary income	125,500	—	—	—	800,713
Undistributed long-term capital gain	—	—	—	—	—
Total distributable earnings	<u>125,500</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>800,713</u>
Other accumulated losses	<u>(4,187,337)</u>	<u>(7,756,314)</u>	<u>(6,392,823)</u>	<u>(5,605,129)</u>	<u>(5,492,034)</u>
Total accumulated earnings/(losses)	<u>\$ (4,140,856)</u>	<u>\$ (9,053,601)</u>	<u>\$ (7,935,629)</u>	<u>\$ (5,814,463)</u>	<u>\$ (4,949,011)</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 Statement 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:

	<u>Net Investment Income or (Loss)</u>	<u>Realized Gain or (Loss)</u>	<u>Capital Stock</u>
Evolution Managed Bond Fund	\$ (5,208)	\$ 5,208	\$ —
Evolution All-Cap Equity Fund	130,224	31,029	(161,253)
Evolution Large Cap Fund	17,916	272	(18,188)
Evolution Small Cap Fund	(7,427)	9,595	(2,168)
Evolution Total Return Fund	13,919	403,508	(417,427)

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 swap contracts, excise tax, 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, August 31, 2008.

At August 31, 2008, the following funds deferred, on a tax basis, post-October losses of:

Evolution Managed Bond Fund	\$ 510,421
Evolution All-Cap Equity Fund	4,306,728
Evolution Large Cap Fund	5,628,518
Evolution Small Cap Fund	3,824,064
Evolution Total Return Fund	4,134,461

At August 31, 2008, the following Funds had capital loss carryovers on a tax basis of:

	Capital Loss Expiring				
	<u>8/31/2013</u>	<u>8/31/2014</u>	<u>8/31/2015</u>	<u>8/31/2016</u>	<u>Total</u>
Evolution Managed Bond Fund	\$1,238,379	\$596,309	\$ 586,831	\$1,226,623	\$3,648,142
Evolution All-Cap Equity Fund	—	—	—	3,893,085	3,893,085
Evolution Large Cap Fund	—	—	—	577,315	577,315
Evolution Small Cap Fund	—	—	1,584,209	94,888	1,679,097
Evolution Total Return Fund	—	—	—	1,400,927	1,400,927

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

In July 2006, the Financial Accounting Standards Board (“FASB”) released FASB Interpretation No. 48 (“FIN 48”), “Accounting for Uncertainty in Income Taxes”. FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken or expected to be taken in the course of preparing the Fund’s tax returns to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Tax positions not deemed to meet a more-likely-than-not threshold would be recorded as a tax expense in the current year.

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 August 31, 2008, open Federal and state income tax years include the tax years ended August 31, 2005, August 31, 2006, August 31, 2007 and August 31, 2008. The Funds have no examination in progress.

The Funds have reviewed all open tax years and concluded that the adoption of FIN 48 resulted in no effect to the Fund’s financial positions or results of operations. There is no tax liability resulting from uncertain income tax positions taken or expected to be taken on the tax returns for the fiscal year-end August 31, 2005, August 31, 2006, August 31, 2007 and August 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 expense will significantly change in twelve months. If applicable, the Funds recognize interest accrued related to unrecognized tax expense in “interest expense” and penalties in “other expenses” on the statement of operations.

k) Guarantees and Indemnifications – In the ordinary course of business, the Funds enter into contracts that contain a variety of indemnification provisions pursuant to which the Funds agree to indemnify third parties upon occurrence of specified events. The Fund’s maximum exposure relating to these indemnification agreements is unknown. However, the Funds have 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 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

The capital share transactions for the Investor Class during the years ended August 31, 2008 and August 31, 2007 were as follows:

	Evolution Managed Bond Fund		Evolution All-Cap Equity Fund	
	Year Ended August 31, 2008	Year Ended August 31, 2007	Year Ended August 31, 2008	Year Ended August 31, 2007
Shares sold	722,420	1,382,462	736,314	1,592,769
Shares issued in reinvestment of distributions	89,486	118,786	417,176	225,064
Shares redeemed	<u>(1,573,682)</u>	<u>(1,829,787)</u>	<u>(1,901,770)</u>	<u>(4,129,855)</u>
Net increase (decrease) from capital share transactions	<u>(761,776)</u>	<u>(328,539)</u>	<u>(748,280)</u>	<u>(2,312,022)</u>

	Evolution Large Cap Fund		Evolution Small Cap Fund	
	Year Ended August 31, 2008	Year Ended August 31, 2007	Year Ended August 31, 2008	Year Ended August 31, 2007
Shares sold	786,698	2,139,229	514,267	1,302,592
Shares issued in reinvestment of distributions	262,999	18,631	7,085	5,675
Shares redeemed	<u>(2,151,343)</u>	<u>(1,935,706)</u>	<u>(1,167,267)</u>	<u>(2,593,764)</u>
Net increase (decrease) from capital share transactions	<u>(1,101,646)</u>	<u>222,154</u>	<u>(645,915)</u>	<u>(1,285,497)</u>

	Evolution Total Return Fund	
	Year Ended August 31, 2008	Year Ended August 31, 2007
Shares sold	546,642	1,813,285
Shares issued in reinvestment of distributions	69,541	67,180
Shares redeemed	<u>(1,447,150)</u>	<u>(2,463,200)</u>
Net increase (decrease) from capital share transactions	<u>(830,967)</u>	<u>(582,735)</u>

4. INVESTMENT TRANSACTIONS

During the year ended August 31, 2008, the aggregate purchases and sales of investments (excluding short-term investments) were:

	Purchases	Sales
Evolution Managed Bond Fund	\$142,724,940	\$125,631,674
Evolution All-Cap Equity Fund	606,968,285	613,378,482
Evolution Large Cap Fund	502,720,131	519,229,909
Evolution Small Cap Fund	247,661,511	239,811,395
Evolution Total Return Fund	266,537,003	282,468,775

There were no purchases or sales of long-term U.S. Government securities during the year ended August 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 sub-advisory agreements relating to the Funds whereby the sub-advisor, 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 fees. For the year ended August 31, 2008, the Adviser has voluntarily agreed to pay all operating expenses (excluding dividends on short positions), in excess of the annual cap of expenses presented below as applied to each Fund's average daily net assets. The Adviser may change, or end, this

voluntary waiver at any time. Effective September 1, 2008 and extending through December 31, 2008, the Adviser agreed to contractually waive expenses to a raised amount of 1.90% for each of the Funds. 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 August 31, 2008, the Adviser paid or recouped the following expenses:

	<u>Evolution Managed Bond Fund</u>	<u>Evolution All-Cap Equity Fund</u>	<u>Evolution Large Cap Fund</u>	<u>Evolution Small Cap Fund</u>	<u>Evolution Total Return Fund</u>
Investor Class:					
Annual Advisory rate	1.00%	1.00%	1.00%	1.00%	1.00%
Annual cap on expenses	1.75%	1.75%	1.75%	1.75%	1.75%
Expenses paid in excess of annual cap on expenses - 2008	\$ —	\$ —	\$ —	\$ —	\$ —
Voluntary waiver - 2008	\$48,316	\$41,552	\$53,471	\$50,055	\$45,509
Advisory expense waiver recovery - 2008	\$ —	\$ —	\$ —	\$ —	\$ —

Expenses subject to potential recovery expiring in:

	<u>Evolution Managed Bond Fund</u>	<u>Evolution All-Cap Equity Fund</u>	<u>Evolution Large Cap Fund</u>	<u>Evolution Small Cap Fund</u>	<u>Evolution Total Return Fund</u>
2009	\$ 7,084	\$ —	\$14,625	\$ 21,360	\$ 31
2010	\$ 1,093	\$ —	\$ —	\$ 36,463	\$ —
2011	<u>\$48,316</u>	<u>\$41,552</u>	<u>\$53,471</u>	<u>\$ 50,055</u>	<u>\$45,509</u>
Total	<u>\$56,493</u>	<u>\$41,552</u>	<u>\$68,096</u>	<u>\$107,878</u>	<u>\$45,540</u>

Distribution Expenses: Investor Class shares are subject to an annual Rule 12b-1 fee of up to 0.25% of Investor Class' average daily net assets.

Shareholder Servicing Fees: The Board has also authorized each Fund's Investor Class shares to pay a shareholder servicing fee of 0.15% of each Fund's Investor Class average daily net assets. The Trust, on behalf of each Fund, pays the fee to financial institutions and other persons who provide services for and maintain shareholder accounts.

Rafferty Capital Markets, LLC (the "Distributor") serves as principal underwriter of the Fund and acts as the Funds' distributor in a continuous public offering of the Funds' shares. There were no Rule 12b-1 fees retained by the Distributor for the year ended August 31, 2008. The Distributor is an affiliate of the Adviser.

6. NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, FASB issued its Statement on Financial Accounting Standards No. 157, *Fair Value Measurements* ("FAS 157"). FAS 157 is designed to unify guidance for the measurement of fair value of all types of assets, including financial instruments, and certain liabilities, throughout a number of accounting standards. FAS 157 also establishes a hierarchy for measuring fair value in generally accepted accounting principles and expands financial statement disclosures about fair value measurements that are relevant to mutual funds. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and earlier adoption is permitted. At this time, management is evaluating the implications of FAS 157 and its impact on the financial statements has not yet been determined.

In March 2008, FASB issued its Statement on Financial Accounting Standards No. 161, "Disclosures about Derivatives Instruments and Hedging Activities" ("SFAS 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 statements issued for fiscal years and interim periods beginning after November 15, 2008. As of August 31, 2008,

management does not believe the adoption of SFAS No. 161 will impact the financial statement amounts; however, additional footnote disclosures will be required about the use of derivative instruments and hedge items.

7. SUBSEQUENT EVENT

On May 7, 2008 the Board of Trustees of the Funds approved changes to the names of the Evolution Small Cap Fund and Evolution Total Return Fund and principal investment policies of the Evolution Total Return Fund effective September 8, 2008.

The Evolution Small Cap Fund will be renamed the Evolution Market Leaders Fund.

The Evolution Total Return Fund will be renamed the Evolution Alternative Investment Fund. This Fund will invest primarily in securities, including equities and interest bearing fixed income securities, having a low or negative correlation with the S&P 500® Index (collectively, "alternative securities") or indirect through securities that invest in or are a derivative of alternative securities. The principal investment policy of the Evolution Total Return Fund was to invest directly in dividend and interest bearing fixed income securities or indirectly through securities that invest or are a derivative of income generating securities.

The Board of Trustees of the Funds, based upon the recommendation of management, determined to close the Evolution Large Cap Fund. The Evolution Large Cap Fund will be closed to new investments after October 16, 2008 and will be liquidated on October 31, 2008.

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

We have audited the accompanying statement of assets and liabilities of the Evolution Managed Bond Fund, Evolution All-Cap Equity Fund, Evolution Large Cap Fund, Evolution Small Cap Fund, Evolution Total Return Fund (five of the series constituting Direxion Funds) (the "Funds"), including the schedules of investments, as of August 31, 2008, and the related statements of operations, the statements of changes in net assets, and the financial highlights for each of the periods indicated therein. 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 August 31, 2008, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received. 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 the above mentioned five series of Direxion Funds at August 31, 2008, the results of their operations, the changes in their net assets, and the financial highlights for each of the periods indicated therein in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

October 24, 2008
Milwaukee, Wisconsin

ADDITIONAL INFORMATION**(UNAUDITED)****QUALIFIED DIVIDEND INCOME/DIVIDENDS RECEIVED DEDUCTION**

For the period ended August 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 Managed Bond Fund	85.8%
Evolution All-Cap Equity Fund	5.0%
Evolution Large Cap Fund	10.0%
Evolution Small Cap Fund	83.9%
Evolution Total Return Fund	28.0%

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

Evolution Managed Bond Fund	86.3%
Evolution All-Cap Equity Fund	4.6%
Evolution Large Cap Fund	9.9%
Evolution Small Cap Fund	95.2%
Evolution Total Return Fund	31.2%

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: 64	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.	113	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: 62	Trustee	Lifetime of Trust until removal or resignation; Since 1997	President and Chief Executive Officer of Byrne Securities Inc., 1992-present.	113	Trustee, The Opening Word Program, Wyandanch, New York
Gerald E. Shanley III Age: 63	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.	113	None
John Weisser Age: 65	Trustee	Lifetime of Trust until removal or resignation; Since 2007	Retired, Since 1995; Salomon Brothers, Inc, 1971-1995, most recently as Managing Director.	113	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: 39	President; Chief Operating Officer and Chief Investment Officer	One Year; Since 1999 One Year; Since 2006	Managing Director of Rafferty, 1999-present.	N/A	None
William Franca Age: 50	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	None
Todd Warren Age: 40	Chief Compliance Officer	One Year; Since 2007	Chief Legal Officer, Alaric Compliance, 2006 – present; CCO and General Counsel, Oracle Evolution LLC, 2004-2006.	N/A	None
Todd Kellerman Age: 34	Chief Financial Officer	Once Year; Since 2007	Senior Vice President, Rafferty since 2006; Vice President of Corporate Development, Raven Holdings, Inc., 2003-2005; Consultant, 2002-2003; Senior Consultant – Business Consulting, Arthur Andersen, 1999-2000.	N/A	None
Stephen P. Sprague Age: 57	Treasurer and Controller	One Year; Since 1999	Chief Financial Officer of Rafferty for the past 5 years.	N/A	None
Eric W. Falkeis 615 East Michigan Street Milwaukee, WI 53202 Age: 34	Secretary	One Year; Since 2004	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	None

⁽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 40 portfolios of the 68 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.
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: (1) the Advisory Agreement between Rafferty Asset Management (“Rafferty”) and the Direxion Funds (the “Trust”), on behalf of the Evolution All-Cap Equity Fund, Evolution Managed Bond Fund, Evolution Large Cap Fund, Evolution Small Cap Fund and Evolution Total Return Fund, each a series of Trust (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 each Advisory Agreement or Subadvisory Agreement (each, an “Agreement and collectively, the “Agreements”) and each Trustee may have afforded different weight to the various factors. The Board noted that certain Funds as indicated in the Exhibits were not operational. In these instances, the Board considered primarily the services to be provided by Rafferty, management fee rates to be paid to Rafferty and each Fund’s estimated expenses. Because these Funds have not commenced operations, they do not have any prior performance history and Rafferty does not have any profit data.

In determining whether to approve the continuance of each Agreement, 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 all of the 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 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 Agreements by Rafferty. The Board noted that Rafferty has provided services to the Trusts since their inception and has developed an expertise in managing the Funds, particularly those using a leveraged strategy. 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 are 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 the Funds 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 Agreements and Flexible under the Subadvisory Agreement were fair and reasonable.

Performance of the Funds. 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 (if available and unless otherwise noted). 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 Total Return 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 all relevant periods.

With respect to the Evolution Small Cap Fund, the Board considered that: (1) the Fund underperformed its benchmark index for the year-to-date period; and (2) the Fund underperformed the average of the relevant Lipper fund universe for all relevant periods, except the three-month period.

With respect to the Evolution 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 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.

With respect to the Evolution Large Cap Fund, the Board considered that: (1) the Fund underperformed its benchmark index for the year-to-date period; and (2) the Fund underperformed the average of the relevant Lipper fund universe for all relevant periods, except the three-month period.

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 leveraged-index Funds and non-leveraged 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 these 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 leveraged-index Fund and non-leveraged Fund is generally higher than comparable funds. However, Rafferty indicated that the comparable fund groups have higher asset levels, which account for the 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 these Funds. The Board also considered that Rafferty contractually agreed to limit the total expenses for the most recent and upcoming fiscal years for each leveraged-index Fund and non-leveraged 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 Agreements 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 lower the overall fees paid by Flexible's clients. In particular, the Board noted that the Evolution Funds are offered to Flexible's clients in wrap programs. The Board also noted that, in some cases, Flexible uses the fee it receives from the Funds to reduce the asset based fees it charges clients for providing investment advisory services. With respect to the HCM Freedom Fund and Spectrum Funds, the Board considered that the that the current expense ratio of each such Fund is lower compared to the total cost of investing when the Funds were part of the wrap programs. 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.

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 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 Evolution 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.



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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, or by accessing the SEC's website, at www.sec.gov.

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