



ANNUAL REPORT AUGUST 31, 2009

Evolution Managed Bond Fund
Evolution All-Cap Equity Fund
Evolution Market Leaders Fund
(formerly Evolution Small Cap Fund)
Evolution Alternative Investment Fund
(formerly Evolution Total Return Fund)

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Dear Shareholders,

This Annual Report for the Evolution Funds covers the fiscal year September 1, 2008 to August 31, 2009, (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 Market Leaders Fund ("Market Leaders Fund"), and the Evolution Alternative Investment Fund ("Alternative Investment 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 14.85%, the S&P 500 Index declining 18.25%, the NASDAQ-100 Index declining 12.57% and the Wilshire 5000 Total Market Index declining 18.45%. The first half of the Annual Period was impacted by extreme price volatility in the equity markets, falling energy and commodity prices, continued problems in the mortgage markets which led to a credit squeeze, collapsing corporate earnings and increased fears of a U.S. recession. The second half of the Annual Period fared far better due in part to the Federal Stimulus plan that injected much needed capital into the U.S. economy. Despite the market turn around in March, the overall economic environment is still struggling to make up for losses suffered in the previous months. International Markets followed a similar path, with the MSCI World Index declining 19.28% 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 3.04%, on a total return basis, during the Annual Period, compared to 7.94% for the Barclay's Capital Aggregate Bond Index.

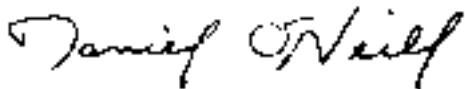
The All-Cap Equity Fund seeks the highest appreciation on an annual basis consistent with a high tolerance for risk. The All-Cap Equity Fund declined 20.05%, on a total return basis, during the Annual Period, compared to -18.25% for the S&P 500 Index.

The Market Leaders Fund seeks the highest appreciation on an annual basis consistent with a high tolerance for risk. The Market Leaders Fund declined 31.95% on a total return basis, during the Annual Period, compared to -18.45% for Wilshire 5000 Total Market Index.

The Alternative Investment Fund seeks the highest appreciation on an annual basis consistent with a high tolerance for risk. The Alternative Investment Fund declined 8.35% on a total return basis, during the Annual Period, compared to -6.39% for the Credit Suisse/Tremont Hedge Fund Index.

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, 800-851-0511 or visit www.direxionfunds.com.

The total annual fund operating expense ratio of the Managed Bond Fund, All-Cap Equity Fund, Market Leaders Fund and the Alternative Investment Fund is 2.24%, 1.95%, 1.95%, and 2.15%, respectively, net of any fee, waivers or expense reimbursements.

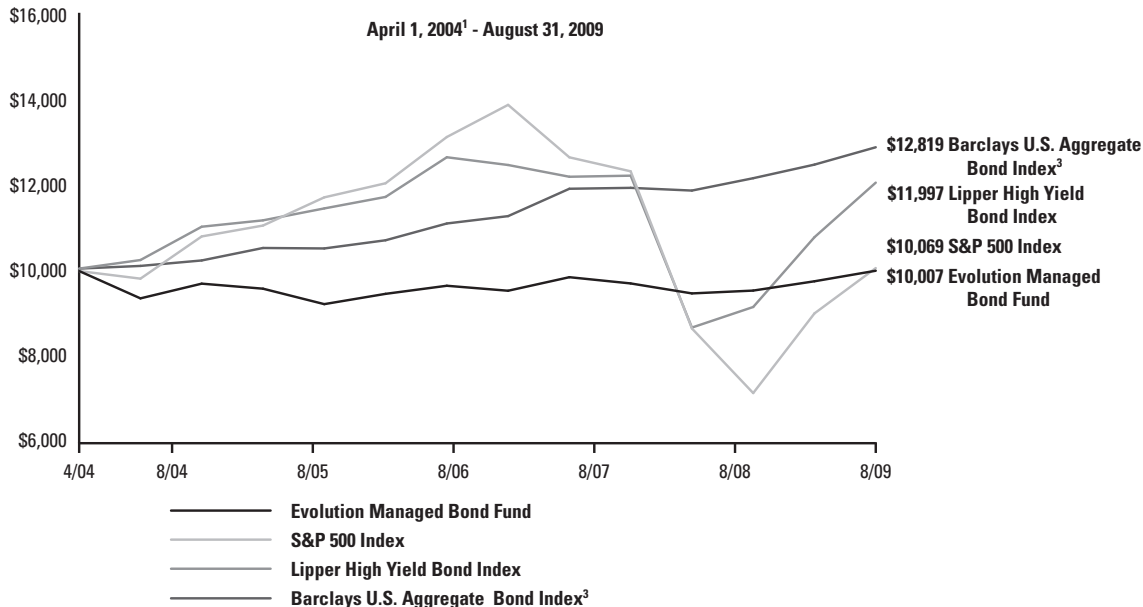
An investment in any of the Direxion Funds is subject to a number of risks that could affect the value of its shares. It is important that investors closely review and understand these risks before making an investment. An investor should consider the investment objectives, risks, charges and expenses 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, 2009**

Evolution Managed Bond Fund

April 1, 2004¹ - August 31, 2009 (Unaudited)

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



	Average Annual Total Return ²			
	1 Year	3 Years	5 Years	Since Inception
Evolution Managed Bond Fund	3.04%	1.86%	1.33%	0.01%
S&P 500 Index	(18.25)%	(5.78)%	0.50%	0.13%
Lipper High Yield Bond Index	(1.33)%	0.94%	3.30%	3.42%
Barclays U.S. Aggregate Bond Index ³	7.94%	6.35%	4.96%	4.69%

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 of the redemption of fund shares. The performance of the S&P 500 Index, Lipper High Yield Bond Index and Barclays 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 Exposure²

Investment Type	%
Investment Companies	95.2%
Total Exposure	95.2%

"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.

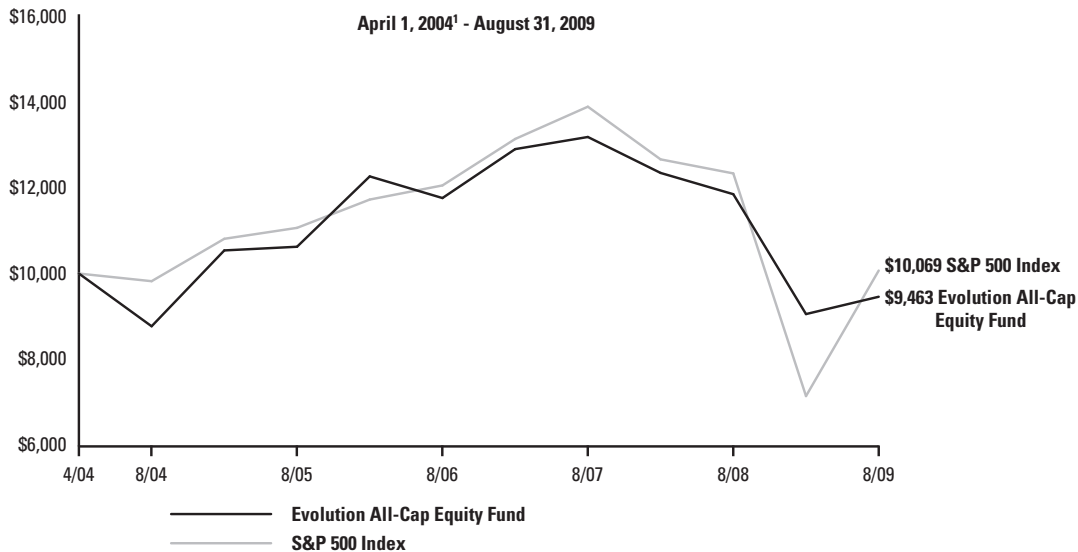
² As of August 31, 2009.

³ Formerly known as the Lehman U.S. Aggregate Bond Index.

Evolution All-Cap Equity Fund

April 1, 2004¹ - August 31, 2009 (Unaudited)

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



	Average Annual Total Return ²			
	1 Year	3 Years	5 Years	Since Inception
Evolution All-Cap Equity Fund	(20.05)%	(6.95)%	1.51%	(1.01)%
S&P 500 Index	(18.25)%	(5.78)%	0.50%	0.13%

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 of 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 Exposure²

<u>Investment Type</u>	<u>% Net Assets</u>
Common Stock	77.1%
Investment Companies	14.7%
Futures Contracts	(50.1)%
Total Exposure	41.7%

"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.

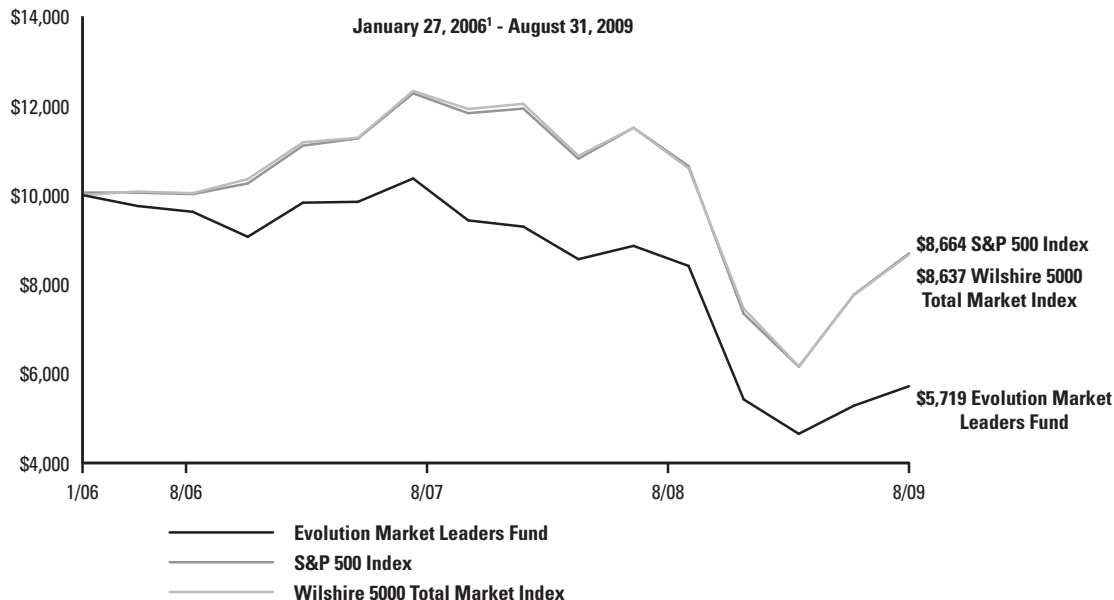
¹ Commencement of operations.

² As of August 31, 2009.

Evolution Market Leaders Fund

January 27, 2006¹ - August 31, 2009 (Unaudited)

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



	Average Annual Total Return ²		
	1 Year	3 Years	Since Inception
Evolution Market Leaders Fund	(31.95)%	(14.22)%	(14.40)%
S&P 500 Index	(18.25)%	(5.78)%	(3.91)%
Wilshire 5000 Total Market Index	(18.45)%	(5.41)%	(3.99)%

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 of the redemption of fund shares. The performance of the S&P 500 Index and the Wilshire 5000 Total Market 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	97.0%
Total Exposure	97.0%

"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.

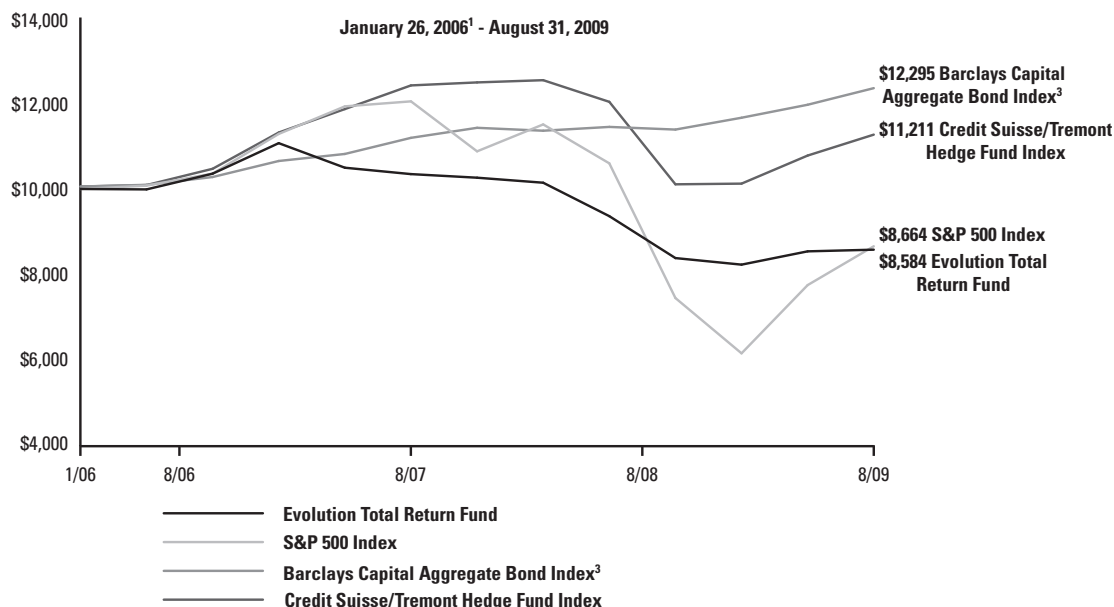
¹ Commencement of operations.

² As of August 31, 2009.

Evolution Alternative Investment Fund

January 26, 2006¹ - August 31, 2009 (Unaudited)

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



	Average Annual Total Return ²		
	1 Year	3 Years	Since Inception
Evolution Total Return Fund	(8.35)%	(6.07)%	(4.15)%
S&P 500 Index	(18.25)%	(5.78)%	(3.91)%
Barclays Capital Aggregate Bond Index	7.94%	6.35%	5.91%
Credit Suisse/Tremont Hedge Fund Index	(6.39)%	2.49%	3.23%

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 of the redemption of fund shares. The performance of the S&P 500 Index, the Barclays Capital Aggregate Bond Index and the Credit Suisse/Tremont Hedge Fund Index does not reflect the deduction of fees associated with a mutual fund, such as investment management fees. Investors cannot invest directly in an index, although they can invest in its underlying securities. During the period shown, Rafferty Asset Management, LLC 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
Investment Companies	68.6%
Total Exposure	68.6%

"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, 2009.

³ Formerly known as the Lehman U.S. Aggregate Bond Index.

Expense Example

August 31, 2009 (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, 2009 — August 31, 2009).

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, 2009 (Unaudited)

	<u>Expense Ratio¹</u>	<u>Beginning Account Value March 1, 2009</u>	<u>Ending Account Value August 31, 2009</u>	<u>Expenses Paid During Period²</u>
Evolution Managed Bond Fund				
Based on actual fund return	1.88%	\$1,000.00	\$1,048.30	\$ 9.71
Based on hypothetical 5% return	1.88%	1,000.00	1,015.73	9.55
Evolution All-Cap Equity Fund				
Based on actual fund return	1.88%	1,000.00	1,043.60	9.68
Based on hypothetical 5% return	1.88%	1,000.00	1,015.73	9.55
Evolution Market Leaders Fund				
Based on actual fund return	1.90%	1,000.00	1,229.70	10.68
Based on hypothetical 5% return	1.90%	1,000.00	1,015.63	9.65
Evolution Alternative Investment Fund				
Based on actual fund return	1.90%	1,000.00	1,042.30	9.78
Based on hypothetical 5% return	1.90%	1,000.00	1,015.63	9.65

¹ Annualized

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

Allocation of Portfolio Holdings
August 31, 2009 (Unaudited)

	<u>Cash*</u>	<u>Common Stock</u>	<u>Investment Companies</u>	<u>Futures</u>	<u>Total</u>
Evolution Managed Bond Fund	5%	—	95%	—	100%
Evolution All-Cap Equity Fund	8%	77%	15%	0%**	100%
Evolution Market Leaders Fund	3%	0%**	97%	—	100%
Evolution Alternative Investment Fund	31%	—	69%	—	100%

* Cash, cash equivalents and other assets less liabilities.

** Percentage is less than 0.5%.

Evolution Managed Bond Fund

Schedule of Investments

August 31, 2009

Shares		Value	Shares		Value	
INVESTMENT COMPANIES - 95.2%						
11,883	AllianceBernstein Global High Income Fund	\$ 139,863	71,564	SPDR Barclays Capital International Treasury Bond Fund	\$ 4,064,835	
16,041	BlackRock Corporate High Yield Fund VI	151,908	11,329	Templeton Emerging Markets Income Fund	148,523	
11,748	BlackRock Floating Rate Income Strategies Fund	144,030	140,062	Vanguard Total Bond Market ETF	11,060,696	
16,788	BlackRock Preferred Income Strategies Fund	144,713	9,054	Western Asset Emerging Markets Debt Fund	145,588	
11,076	Evergreen Multi-Sector Income Fund	148,972	17,515	Western Asset High Income Fund II	143,623	
19,084	iShares Barclays 1-3 Year Credit Bond Fund	1,991,034	11,790	Western Asset/Claymore - Linked Opportunities & Income Fund	137,354	
23,293	iShares Barclays 1-3 Year Treasury Bond Fund	1,954,749	TOTAL INVESTMENT COMPANIES		\$45,473,303	
33,702	iShares Barclays 20+ Year Treasury Bond Fund	3,255,613	SHORT TERM INVESTMENTS - 3.5%			
17,516	iShares Barclays 3-7 Year Treasury Bond Fund	1,960,041	MONEY MARKET FUNDS - 3.5%			
36,782	iShares Barclays 7-10 Year Treasury Bond Fund	3,369,231	335,461	Fidelity Institutional Government Portfolio, 0.19%	\$ 335,461	
63,916	iShares Barclays Aggregate Bond Fund	6,648,542	335,461	Fidelity Institutional Money Market Portfolio, 0.42%	335,461	
10,732	iShares Barclays MBS Bond Fund	1,139,846	335,461	Goldman Sachs Financial Square Federal Fund, 0.11%	335,461	
12,093	iShares Barclays TIPS Bond Fund	1,230,584	335,461	Goldman Sachs Financial Square Government Fund, 0.11%	335,461	
36,779	iShares iBoxx \$ High Yield Corporate Bond Fund	3,027,647	335,462	Morgan Stanley Institutional Liquidity Fund - Treasury Portfolio, 0.01%	335,462	
32,786	iShares iBoxx \$ Investment Grade Corporate Bond Fund	3,453,349	TOTAL SHORT TERM INVESTMENTS			
3,399	iShares S&P National Municipal Bond Fund	349,179	(Cost \$1,677,306)			\$ 1,677,306
21,644	MFS Charter Income Trust	186,571	TOTAL INVESTMENTS			
24,789	MFS Government Markets Income Trust	187,405	(Cost \$44,653,725) - 98.7%			\$47,150,609
20,724	MFS Intermediate Income Trust	137,193	Other Assets in Excess of Liabilities - 1.3%			614,159
27,575	Putnam Premier Income Trust	152,214	TOTAL NET ASSETS - 100.0%			\$47,764,768

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, 2009

Shares	Value	Shares	Value
COMMON STOCKS - 77.1%		Consumer Finance - 1.4%	
Aerospace & Defense - 2.0%		39,347	EZCORP, Inc.(a) \$ 526,069
11,622	AAR Corp.(a) \$ 197,690	3,728	World Acceptance Corp.(a) 97,040
1,884	The Boeing Co. 93,578		623,109
13,785	Ceradyne, Inc.(a) 258,055	Distributors - 1.6%	
1,373	L-3 Communications Holdings, Inc. 102,151	7,429	Genuine Parts Co. 275,170
2,099	Rockwell Collins, Inc. 96,638	16,940	WESCO International, Inc.(a) 407,068
2,328	Triumph Group, Inc. 101,268		682,238
	849,380	Diversified Consumer Services - 0.1%	
Beverages - 0.1%		5,806	Chinacast Edu Corp.(a) 34,430
1,711	Coca-Cola Enterprises, Inc. 34,579	Diversified Financial Services - 0.2%	
2,414	Cott Corp. (Canada)(a) 15,377	2,152	JPMorgan Chase & Co. 93,526
	49,956	Diversified Telecommunication Services - 1.7%	
Biotechnology - 1.3%		6,963	AT&T, Inc. 181,386
2,048	Biogen Idec, Inc.(a) 102,830	52,289	Telecommunication Systems, Inc.(a) 394,259
13,348	Cubist Pharmaceuticals, Inc.(a) 276,037	5,872	Verizon Communications, Inc. 182,267
6,226	OSI Pharmaceuticals, Inc.(a) 207,948		757,912
	586,815	Electrical Equipment - 1.5%	
Building Products - 0.9%		2,529	Emerson Electric Co. 93,244
30,681	Apogee Enterprises, Inc. 404,989	20,462	GrafTech International Ltd.(a) 291,174
Capital Markets - 0.2%		9,444	Harbin Electric, Inc.(a) 117,200
4,861	Knight Capital Group, Inc. - Class A(a) 97,803	2,701	Powell Industries, Inc.(a) 102,152
		4,302	Vishay Intertechnology, Inc.(a) 34,717
Chemicals - 5.4%			638,487
6,168	Agrium, Inc. (Canada) 294,275	Electronic Equipment, Instruments & Components - 0.4%	
2,714	CF Industries Holdings, Inc. 221,625	1,530	Rofin-Sinar Technologies, Inc.(a) 34,792
1,623	Cytec Industries, Inc. 46,889	3,614	ScanSource, Inc.(a) 101,156
8,598	E.I. du Pont de Nemours & Co. 274,534	2,240	Technitrol, Inc. 18,458
4,776	Hawkins, Inc. 101,490		154,406
9,046	Innophos Holdings, Inc.(a) 172,688	Energy Equipment & Services - 2.6%	
6,073	Mosaic Co. 294,358	4,100	Atwood Oceanics, Inc.(a) 116,768
3,329	Potash Corporation of Saskatchewan, Inc. (Canada) 294,650	2,768	Baker Hughes, Inc. 95,358
4,960	PPG Industries, Inc. 274,784	3,311	Diamond Offshore Drilling, Inc. 296,070
12,471	Terra Industries, Inc. 387,973	14,745	T-3 Energy Services, Inc.(a) 259,217
	2,363,266	4,978	Transocean Ltd. (Switzerland)(a) 377,532
Commercial Banks - 0.4%			1,144,945
6,513	BB&T Corp. 181,973	Food & Staples Retailing - 1.4%	
Commercial Services & Supplies - 2.9%		3,612	Casey's General Stores, Inc. 100,233
33,940	American Reprographics Co.(a) 310,212	13,619	Safeway, Inc. 259,442
3,600	Avis Budget Group(a) 35,028	2,331	Spartan Stores, Inc. 30,933
16,367	Herman Miller, Inc. 265,473	4,071	Sysco Corp.(a) 103,770
12,277	Pitney Bowes, Inc. 274,391	3,757	United Natural Foods, Inc.(a) 101,514
15,400	RR Donnelley & Sons Co. 274,736		595,892
3,137	Waste Management, Inc. 93,891	Food Products - 1.7%	
	1,253,731	4,543	ConAgra Foods, Inc. 93,268
Communications Equipment - 0.7%		7,139	H.J. Heinz Co. 274,852
19,603	Corning, Inc. 295,613	9,723	Kraft Foods, Inc. - Class A 275,647
Construction & Engineering - 2.0%		9,614	Sara Lee Corp. 93,160
8,530	Comfort Systems USA, Inc. 101,251		736,927
11,238	EMCOR Group, Inc.(a) 260,384	Health Care Equipment & Supplies - 1.8%	
1,928	Fluor Corp. 101,991	23,457	Align Technology, Inc.(a) 314,324
10,703	Foster Wheeler AG (Switzerland)(a) 309,852	3,265	Inverness Medical Innovations, Inc.(a) 116,234
6,184	Sterling Constuction Co.(a) 99,562		
	873,040		

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

Evolution All-Cap Equity Fund

Schedule of Investments

August 31, 2009

Shares		Value	Shares		Value
Health Care Equipment & Supplies (continued)					
19,893	Somanetics Corp.(a)	\$ 260,200	11,784	Dover Corp.	\$ 407,609
6,489	Symmetry Medical, Inc.(a)	71,509	1,734	Eaton Corp.	93,549
		762,267	6,781	Joy Global, Inc.	263,442
			7,068	Reliance Steel & Aluminum Co.	261,092
			5,601	SPX Corp.	311,864
			1,357	Tennant Co.	34,698
					1,567,208
Health Care Providers & Services - 6.2%					
2,591	Amedisys, Inc.(a)	115,403	Marine - 1.4%		
5,838	Centene Corp.(a)	101,056	9,831	International Shipholding Corp.	294,733
5,762	Eclipsys Corp.(a)	96,629	36,781	TBS International Limited(a)	300,501
39,557	Gentiva Health Services, Inc.(a)	872,232			595,234
1,917	Henry Schein, Inc.(a)	101,563	Media - 1.8%		
11,385	Humana, Inc.(a)	406,445	4,004	Gannett Co., Inc.	34,595
4,024	LifePoint Hospitals, Inc.(a)	101,123	47,984	TiVo, Inc.(a)	470,723
15,498	Lincare Holdings, Inc.(a)	408,992	15,513	USA Mobility, Inc.	197,480
7,900	Odyssey HealthCare, Inc.(a)	101,752	4,924	Valassis Communications, Inc.(a)	77,307
1,716	PSS World Medical, Inc.(a)	35,075			780,105
12,555	RehabCare Group, Inc.(a)	263,529	Metals & Mining - 2.6%		
13,002	Skilled Healthcare Group, Inc. - Class A(a)	98,295	18,655	Peabody Energy Corp.	609,645
		2,702,094	25,554	Silver Wheaton Corp. (Canada)(a)	264,739
			5,958	United States Steel Corp.	260,841
					1,135,225
Hotels, Restaurants & Leisure - 0.2%					
1,667	McDonald's Corp.	93,785	Multiline Retail - 0.2%		
			2,245	Macys, Inc.	34,843
Household Durables - 0.1%					
2,503	Newell Rubbermaid, Inc.	34,842	545	Sears Holdings Corp.(a)	34,580
					69,423
Household Products - 0.6%					
4,569	Kimberly-Clark Corp.	276,242	Multi-Utilities - 0.2%		
			3,683	NRG Energy, Inc.(a)	98,889
Independent Power Producers & Energy Traders - 1.1%					
27,601	Mirant Corp.(a)	465,077	Oil, Gas & Consumable Fuels - 4.1%		
			4,451	Chevron Corp.	311,303
Industrial Conglomerates - 1.1%					
35,503	General Electric Co.	493,492	4,500	Energy Transfer Partners, L.P.	182,430
			13,460	EV Energy Partners, L.P.	293,159
Insurance - 3.4%					
23,741	Amerisafe, Inc.(a)	405,496	21,933	Linn Energy LLC	466,954
3,642	Cincinnati Financial Corp.	93,672	1,781	Murphy Oil Corp.	101,517
14,523	Covanta Holding Corp.(a)	259,962	2,863	Overseas Shipholding Group, Inc.	101,264
6,204	Fidelity National Title Group, Inc. - Class A	93,184	35,617	Teekay Tankers Ltd.	303,813
17,178	Life Partners Holdings, Inc.	294,431	2,496	Tesoro Petroleum Corp.(a)	35,144
8,261	MetLife, Inc.	311,935			1,795,584
		1,458,680	Paper & Forest Products - 0.6%		
			12,518	MeadWestvaco Corp.	274,770
Internet & Catalog Retail - 1.3%					
10,592	Liberty Media Corp(a)	295,411	Personal Products - 1.2%		
18,481	Nutri/System, Inc.	262,985	13,345	Herbalife Ltd.	404,087
		558,396	5,353	Medifast, Inc.(a)	100,529
					504,616
Internet Software & Services - 1.3%					
66,745	Earthlink, Inc.(a)	555,318	Pharmaceuticals - 2.0%		
			22,810	American Oriental Bioengineering, Inc.(a)	116,103
IT Services - 0.7%					
4,133	Convergys Corp.(a)	44,802	12,553	Bristol-Myers Squibb Co.	277,798
17,210	CSG Systems International, Inc.(a)	259,355	8,434	Merck & Co., Inc.	273,515
		304,157	5,618	Pfizer, Inc.	93,821
			5,559	Sepracor, Inc.(a)	100,896
					862,133
Leisure Equipment & Products - 1.3%					
6,092	Marvel Entertainment, Inc.(a)	294,670	Real Estate Investment Trusts - 0.4%		
15,272	Mattel, Inc.	274,743	16,658	ProLogis	185,237
		569,413			
Machinery - 3.6%					
3,260	AGCO Corp.(a)	101,842			
2,055	Caterpillar, Inc.	93,112			

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

Evolution All-Cap Equity Fund

Schedule of Investments

August 31, 2009

Shares	Value	Shares	Value
Semiconductor & Semiconductor Equipment - 3.1%		INVESTMENT COMPANIES - 14.7%	
1,862	Maxim Integrated Products, Inc. \$ 34,968	20,058	Hugoton Royalty Trust \$ 293,850
33,686	Micrel, Inc. 261,740	23,083	iShares MSCI BRIC Index Fund 863,304
18,494	Microsemi Corp.(a) 260,950	47,225	iShares MSCI Pacific ex-Japan Index Fund 1,744,964
14,113	MKS Instruments, Inc.(a) 260,103	22,598	iShares S&P Latin America 40 Index Fund 867,085
17,290	National Semiconductor Corp. 262,289	13,832	SPDR S&P Emerging Latin America Index Fund 864,638
8,565	Varian Semiconductor Equipment Associates, Inc.(a) 261,832	47,399	WisdomTree Emerging Markets Small Cap Dividend Fund 1,764,191
	1,341,882		TOTAL INVESTMENT COMPANIES
			(Cost \$6,275,610) \$ 6,398,032
Software - 1.7%		SHORT TERM INVESTMENTS - 0.7%	
1,010	Blackboard, Inc.(a) 34,754	MONEY MARKET FUNDS - 0.7%	
13,669	I2 Technologies, Inc.(a) 205,035	57,055	Fidelity Institutional Government Portfolio, 0.19% 57,055
4,245	MicroStrategy, Inc.(a) 262,129	57,055	Fidelity Institutional Money Market Portfolio, 0.42% 57,055
29,658	VASCO Data Security International, Inc.(a) 256,838	57,055	Goldman Sachs Financial Square Federal Fund, 0.11% 57,055
	758,756	57,055	Goldman Sachs Financial Square Government Fund, 0.11% 57,055
		57,055	Morgan Stanley Institutional Liquidity Fund - Treasury Portfolio, 0.01% 57,055
Specialty Retail - 2.7%			TOTAL SHORT TERM INVESTMENTS
1,473	Barnes & Noble, Inc. 30,476		(Cost \$285,275) \$ 285,275
2,217	The Gap, Inc. 43,564		TOTAL INVESTMENTS
27,612	Genesco, Inc.(a) 604,703		(Cost \$37,972,293) - 92.5% \$40,207,655
18,520	Limited Brands, Inc. 276,318		Other Assets in Excess of Liabilities - 7.5%
2,263	Men's Wearhouse, Inc.(a) 58,838		3,264,633
2,506	RadioShack Corp. 37,916		TOTAL NET ASSETS - 100.0%
2,158	Tractor Supply Co.(a) 101,555		\$43,472,288
	1,153,370		
Textiles, Apparel & Luxury Goods - 1.1%			
1,695	Deckers Outdoor Corp.(a) 115,768		
6,932	Phillips-Van Heusen Corp. 261,891		
5,122	True Religion Apparel, Inc.(a) 115,911		
	493,570		
Tobacco - 2.8%			
15,070	Altria Group, Inc. 275,480		
10,419	Lorillard, Inc. 758,191		
3,992	Reynolds American, Inc. 182,474		
	1,216,145		
	TOTAL COMMON STOCKS		
	(Cost \$31,411,408) \$33,524,348		

Percentages are stated as a percent of net assets.

(a) Non income producing

Evolution All-Cap Equity Fund

Short Futures Contracts

August 31, 2009

Contracts	Unrealized Appreciation/ (Depreciation)
191 E-Mini S&P 500 Futures Expiring September 2009 (Underlying Face Amount at Market Value \$9,748,163)	\$(61,999)
338 E-Mini NASDAQ 100 Futures Expiring September 2009 (Underlying Face Amount at Market Value \$10,993,450)	(97,037)
18 E-Mini Russell 2000 Future Expiring September 2009 (Underlying Face Amount at Market Value \$1,027,440)	16,494
	\$(142,542)

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

Evolution Market Leaders Fund

Schedule of Investments

August 31, 2009

Shares		Value	Shares		Value
COMMON STOCK - 0.0%			21,031	PowerShares FTSE RAFI Developed Markets ex-US Portfolio	\$ 794,762
Personal Products - 0.0%			83,925	PowerShares High Yield Equity Dividend Achievers Portfolio	607,617
1	Inter Parfums, Inc.	\$ 5	46,710	PowerShares International Dividend Achievers Portfolio	608,164
	TOTAL COMMON STOCK	\$ 5	54,791	Rydex S&P Smallcap 600 Pure Value EFT	1,735,231
	(Cost \$7)		35,236	SPDR DJ Wilshire Small Cap Value ETF	1,839,319
INVESTMENT COMPANIES - 97.0%			36,027	SPDR S&P Emerging Europe ETF	1,304,178
29,742	Claymore/AlphaShares China Small Cap Index ETF	657,298	46,617	SPDR S&P International Small Cap ETF	1,139,786
45,403	Claymore/Zacks Multi-Asset Income Index ETF	743,247	15,194	Vanguard Mid-Cap Value Index Fund	612,166
62,107	iPath MSCI India Index ETN (United Kingdom)(a)	3,284,839	15,088	Vanguard Small-Cap ETF	788,499
49,677	iShares Dow Jones EPAC Select Dividend Index Fund	1,442,620	64,719	Vanguard Small-Cap Value ETF	3,278,017
12,556	iShares Morningstar Mid Value Index Fund	744,948	69,052	WisdomTree India Earnings Fund	1,320,965
17,146	iShares Morningstar Small Core Index Fund	1,089,800	30,333	WisdomTree SmallCap Dividend Fund	1,075,607
31,916	iShares Morningstar Small Value Index Fund	1,934,748		TOTAL INVESTMENT COMPANIES	
77,699	iShares MSCI Australia Index Fund	1,574,959		(COST \$41,844,096)	<u>\$43,716,822</u>
96,811	iShares MSCI Austria Investable Market Index Fund	1,968,168	SHORT TERM INVESTMENTS - 1.3%		
41,805	iShares MSCI EAFE Small Cap Index Fund	1,446,035	MONEY MARKET FUNDS - 1.3%		
23,114	iShares MSCI EAFE Value Index Fund	1,145,068	115,046	Fidelity Institutional Government Portfolio, 0.19%	115,046
10,688	iShares MSCI Pacific ex-Japan Index Fund	394,921	115,046	Fidelity Institutional Money Market Portfolio, 0.42%	115,046
16,454	iShares MSCI Spain Index Fund	785,843	115,046	Goldman Sachs Financial Square Federal Fund, 0.11%	115,046
85,480	iShares MSCI Sweden Index Fund	1,960,056	115,046	Goldman Sachs Financial Square Government Fund, 0.11%	115,046
67,836	iShares MSCI Turkey Investable Market Index Fund	3,283,941	115,046	Morgan Stanley Institutional Liquidity Fund - Treasury Portfolio, 0.01%	115,046
8,121	iShares Russell Microcap Index Fund	302,588		TOTAL SHORT TERM INVESTMENTS	
7,795	iShares Russell Midcap Value Index Fund	262,302		(Cost \$575,230)	<u>\$ 575,230</u>
15,398	iShares S&P SmallCap 600 Value Index Fund	832,724		TOTAL INVESTMENTS	
139,516	Market Vectors Russia ETF	3,277,231		(Cost \$42,419,333) - 98.3%	\$44,292,057
26,237	PowerShares Dynamic Developed International Opportunities Portfolio	393,030		Other Assets in Excess of Liabilities - 1.7%	785,338
23,795	PowerShares FTSE RAFI 1500 Small-Mid Portfolio	1,088,145		TOTAL NET ASSETS - 100.0%	<u>\$45,077,395</u>

Percentages are stated as a percent of net assets.

(a) Non income producing

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

Evolution Alternative Investment Fund

Schedule of Investments

August 31, 2009

Shares		Value	Shares		Value
INVESTMENT COMPANIES - 68.6%					
68,593	Arbitrage Fund	\$ 883,482	744	iShares MSCI Israel Capped Investable Market Index Fund	\$ 34,827
444	Biotech HOLDERS	44,320	1,002	iShares MSCI Mexico Investable Market Index Fund	42,515
43,481	Caldwell & Orkin Market Opportunity Fund	901,802	7,621	iShares MSCI Pacific ex-Japan Index Fund	281,596
1,670	CurrencyShares Australian Dollar Trust	141,399	6,152	iShares MSCI Singapore Index Fund	62,935
1,069	CurrencyShares Canadian Dollar Trust	97,439	2,957	iShares S&P Global Utilities Sector Index Fund	135,017
870	CurrencyShares Japanese Yen Trust	92,933	1,227	iShares S&P Latin America 40 Index Fund	36,835
4,003	CurrencyShares Swedish Krona Trust	562,021	1,272	iShares S&P Latin America 40 Index Fund	48,807
1,318	CurrencyShares Swiss Franc Trust	124,090	4,009	iShares S&P North American Natural Resources Sector Index Fund	119,989
917	First Trust ISE-Revere Natural Gas Index Fund	13,232	299	iShares S&P North American Technology-Semiconductors Index Fund	12,989
410	First Trust NYSE Arca Biotechnology Index Fund	11,517	617	Market Vectors Agribusiness ETF	23,329
3,220	Franklin Gold and Precious Metals Fund	108,231	3,560	Market Vectors Russia ETF	83,624
83,072	Gabelli ABC Fund	802,471	2,784	Market Vectors Coal ETF	76,421
1,233	Industrial Select Sector SPDR Fund	30,850	27,016	Merger Fund	409,826
966	Internet Architecture HOLDERS Trust	43,518	10,578	Permanent Portfolio	382,391
2,586	iPath MSCI India Total Return (United Kingdom)	136,774	12,301	PowerShares 1-30 Laddered Treasury Portfolio	339,139
2,444	iShares Barclays 10-20 Year Treasury Bond Fund	270,429	1,361	PowerShares Aerospace & Defense Portfolio	20,987
1,462	iShares Barclays 1-3 Year Treasury Bond Fund	122,691	8,997	Powershares DB G10 Currency Harvest Fund	201,263
4,745	iShares Barclays 20+ Year Treasury Bond Fund	458,367	3,393	PowerShares DB US Dollar Index Bearish Fund	93,070
1,713	iShares Barclays 7-10 Year Treasury Bond Fund	156,911	5,351	PowerShares DB US Dollar Index Bullish Fund	124,464
1,447	iShares Barclays TIPS Bond Fund	147,247	2,002	PowerShares Dynamic Biotechnology & Genome Portfolio	33,694
494	iShares Cohen & Steers Realty Majors Index Fund	22,526	3,161	PowerShares Dynamic Healthcare Sector Portfolio	65,559
628	iShares Dow Jones Transportation Average Index Fund	41,429	2,130	PowerShares Dynamic Oil & Gas Services Portfolio	32,589
215	iShares Dow Jones U.S. Aerospace & Defense Index Fund	9,615	4,555	PowerShares Emerging Markets Sovereign Debt Portfolio	115,606
856	iShares Dow Jones U.S. Industrial Sector Index Fund	40,669	984	PowerShares Financial Preferred Portfolio	14,563
1,224	iShares Dow Jones U.S. Oil Equipment & Services Index Fund	44,933	2,136	PowerShares FTSE RAFI Emerging Markets Portfolio	41,588
801	iShares Dow Jones U.S. Pharmaceuticals Index Fund	39,858	2,066	PowerShares Global Clean Energy Portfolio	32,064
253	iShares Dow Jones U.S. Real Estate Index Fund	10,274	2,271	PowerShares Golden Dragon Halter USX China Portfolio	49,349
2,319	iShares Dow Jones U.S. Utilities Sector Index Fund	163,165	1,946	PowerShares Lux Nanotech Portfolio	19,869
671	iShares iBoxx \$High Yield Corporate Bond Fund	55,237	2,485	PowerShares Preferred Portfolio	31,709
202	iShares JPMorgan USD Emerging Markets Bond Fund	19,905	1,233	ProShares Ultra Real Estate	6,658
1,940	iShares MSCI Australia Index Fund	39,324	1,610	ProShares Ultra Semiconductors	45,531
2,005	iShares MSCI Brazil Index Fund	116,731	1,169	ProShares Ultra Technology	46,351
2,425	iShares MSCI BRIC Index Fund	90,695			

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

Statements of Assets and Liabilities

August 31, 2009

	Evolution Managed Bond Fund	Evolution All-Cap Equity Fund
Assets:		
Investments, at market value (Note 2)	\$47,150,609	\$ 40,207,655
Cash	—	14,616
Receivable for Fund shares sold	742,177	59,718
Receivable for investments sold	1,138,519	8,571,497
Deposit at broker for futures	—	2,917,198
Variation margin receivable	—	286,627
Dividends and interest receivable	2,683	45,741
Prepaid expenses and other assets	5,158	5,567
Total Assets	<u>49,039,146</u>	<u>52,108,619</u>
Liabilities:		
Payable for investments purchased	1,147,766	8,130,052
Payable for Fund shares redeemed	46,066	1,345
Due to broker for futures	—	424,998
Accrued advisory expense	39,169	37,299
Accrued distribution expense	13,949	15,162
Accrued operating services fees	19,148	18,655
Accrued expenses and other liabilities	8,280	8,820
Total Liabilities	<u>1,274,378</u>	<u>8,636,331</u>
Net Assets	<u><u>\$47,764,768</u></u>	<u><u>\$ 43,472,288</u></u>
Net Assets Consist Of:		
Capital stock	\$50,792,661	\$ 60,716,473
Accumulated undistributed net investment income (loss)	253,634	1,046
Accumulated undistributed net realized gain (loss)	(5,778,411)	(19,338,051)
Net unrealized appreciation (depreciation) on:		
Investments	2,496,884	2,235,362
Futures	—	(142,542)
Total Net Assets	<u><u>\$47,764,768</u></u>	<u><u>\$ 43,472,288</u></u>
Calculation of Net Asset Value Per Share:		
Net assets	\$47,764,768	\$ 43,472,288
Shares outstanding (unlimited shares of beneficial interest authorized, no par value)	2,882,717	2,931,633
Net asset value, redemption price and offering price per share	<u>\$ 16.57</u>	<u>\$ 14.83</u>
Cost of Investments	<u><u>\$44,653,725</u></u>	<u><u>\$ 37,972,293</u></u>

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

Statements of Assets and Liabilities

August 31, 2009

	Evolution Market Leaders Fund	Evolution Alternative Investment Fund
Assets:		
Investments, at market value (Note 2)	\$44,292,057	\$19,756,620
Cash	—	944
Receivable for Fund shares sold	522,065	180,012
Receivable for investments sold	8,070,675	1,229,792
Dividends and interest receivable	193	1,214
Prepaid expenses and other assets	6,793	5,322
Total Assets	52,891,783	21,173,904
Liabilities:		
Payable for investments purchased	7,645,612	1,033,338
Payable for Fund shares redeemed	95,181	701
Accrued advisory expense	37,770	17,676
Accrued distribution expenses	10,683	7,231
Accrued operating services fees	18,880	8,449
Accrued expenses and other liabilities	6,262	4,056
Total Liabilities	7,814,388	1,071,451
Net Assets	\$45,077,395	\$20,102,453
Net Assets Consist Of:		
Capital stock	\$51,894,354	\$27,947,370
Accumulated undistributed net investment income (loss)	—	30,374
Accumulated undistributed net realized gain (loss)	(8,689,683)	(8,460,139)
Net unrealized appreciation on:		
Investments	1,872,724	584,848
Total Net Assets	\$45,077,395	\$20,102,453
Calculation of Net Asset Value Per Share:		
Net assets	\$45,077,395	\$20,102,453
Shares outstanding (unlimited shares of beneficial interest authorized, no par value)	3,972,437	1,295,429
Net asset value, redemption price and offering price per share	\$ 11.35	\$ 15.52
Cost of Investments	\$42,419,333	\$19,171,772

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

Statements of Operations
Year Ended August 31, 2009

	<u>Evolution Managed Bond Fund</u>	<u>Evolution All-Cap Equity Fund</u>
Investment income:		
Dividend income (net of foreign withholding tax of \$- and \$3,770, respectively)	\$ 1,426,372	\$ 533,825
Interest income	6,186	89,245
Total investment income	<u>1,432,558</u>	<u>623,070</u>
Expenses:		
Investment advisory fees	341,391	455,211
Distribution expenses	85,348	113,803
Shareholder servicing fees	51,209	68,282
Administration fees	10,611	14,775
Fund accounting fees	22,027	34,192
Custody fees	7,015	9,792
Transfer agent fees	27,841	46,824
Federal and state registration	13,639	13,149
Professional fees	29,547	37,256
Reports to shareholders	3,799	4,546
Trustees' fees and expenses	2,177	2,985
Operating services fees	37,433	37,474
Other	8,243	11,319
Total expenses before reimbursement	640,280	849,608
Less: Expenses paid indirectly (Note 6)	(472)	(6,268)
Total expenses	<u>639,808</u>	<u>843,340</u>
Net investment income (loss)	<u>792,750</u>	<u>(220,270)</u>
Realized and unrealized gain (loss) on investments:		
Net realized loss on:		
Investments	(1,210,027)	(9,272,027)
Futures	—	(21,943)
	<u>(1,210,027)</u>	<u>(9,293,970)</u>
Capital gain distributions from regulated investment companies	<u>7,553</u>	<u>—</u>
Change in unrealized appreciation (depreciation) on:		
Investments	2,187,303	1,376,556
Futures	—	(269,841)
	<u>2,187,303</u>	<u>1,106,715</u>
Net realized and unrealized gain (loss) on investments	<u>984,829</u>	<u>(8,187,255)</u>
Net increase (decrease) in net assets resulting from operations	<u>\$ 1,777,579</u>	<u>\$(8,407,525)</u>

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

Statements of Operations
Year Ended August 31, 2009

	Evolution Market Leaders Fund	Evolution Alternative Investment Fund
Investment income:		
Dividend income (net of foreign withholding tax of \$- and \$2,799, respectively)	\$ 408,326	\$ 271,094
Interest income	20,371	92,937
Total investment income	428,697	364,031
Expenses:		
Investment advisory fees	246,285	201,909
Distribution expenses	61,571	50,477
Shareholder servicing fees	36,943	30,287
Administration fees	7,259	6,638
Fund accounting fees	16,453	15,055
Custody fees	5,204	6,886
Transfer agent fees	17,219	25,211
Federal and state registration	14,248	13,874
Professional fees	31,572	27,280
Reports to shareholders	2,450	370
Trustees' fees and expenses	1,402	1,765
Operating services fees	36,453	16,745
Other	4,332	5,943
Total expenses before reimbursement/recoupment	481,391	402,440
Less: Reimbursement of expenses from Adviser	(12,223)	(13,322)
Less: Expenses paid indirectly (Note 6)	(1,226)	(5,491)
Total expenses	467,942	383,627
Net investment loss	(39,245)	(19,596)
Realized and unrealized gain (loss) on investments:		
Net realized loss on:		
Investments	(5,791,249)	(2,380,224)
Futures	4,217,978	—
	(1,573,271)	(2,380,224)
Capital gain distributions from regulated investment companies	562	57,971
Change in unrealized appreciation on:		
Investments	536,527	250,018
Futures	37,937	—
	574,464	250,018
Net realized and unrealized loss on investments	(998,245)	(2,072,235)
Net decrease in net assets resulting from operations	\$(1,037,490)	\$(2,091,831)

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

Statements of Changes in Net Assets
August 31, 2009

	Evolution Managed Bond Fund		Evolution All-Cap Equity Fund	
	<u>Year Ended August 31, 2009</u>	<u>Year Ended August 31, 2008</u>	<u>Year Ended August 31, 2009</u>	<u>Year Ended August 31, 2008</u>
Operations:				
Net investment income (loss)	\$ 792,750	\$ 1,159,615	\$ (220,270)	\$ (130,224)
Net realized loss on investments	(1,210,027)	(418,510)	(9,293,970)	(4,372,549)
Capital gain distributions from regulated investment companies	7,553	5,575	—	—
Change in net unrealized appreciation (depreciation) on investments	<u>2,187,303</u>	<u>(22,289)</u>	<u>1,106,715</u>	<u>(214,624)</u>
Net increase (decrease) in net assets resulting from operations	<u>1,777,579</u>	<u>724,391</u>	<u>(8,407,525)</u>	<u>(4,717,397)</u>
Distributions to shareholders:				
Net investment income	(665,397)	(1,479,225)	—	—
Net realized gains	—	—	—	(8,731,487)
Total distributions	<u>(665,397)</u>	<u>(1,479,225)</u>	<u>—</u>	<u>(8,731,487)</u>
Capital share transactions:				
Proceeds from shares sold	45,622,040	12,095,784	39,304,950	15,791,146
Proceeds from shares issued to holders in reinvestment of distributions	665,395	1,479,225	—	8,731,487
Cost of shares redeemed	<u>(25,877,073)</u>	<u>(26,313,490)</u>	<u>(22,562,344)</u>	<u>(40,183,923)</u>
Net increase (decrease) in net assets resulting from capital share transactions	<u>20,410,362</u>	<u>(12,738,481)</u>	<u>16,742,606</u>	<u>(15,661,290)</u>
Total increase (decrease) in net assets	<u>21,522,544</u>	<u>(13,493,315)</u>	<u>8,335,081</u>	<u>(29,110,174)</u>
Net assets:				
Beginning of year	<u>26,242,224</u>	<u>39,735,539</u>	<u>35,137,207</u>	<u>64,247,381</u>
End of year	<u>\$ 47,764,768</u>	<u>\$ 26,242,224</u>	<u>\$ 43,472,288</u>	<u>\$ 35,137,207</u>
Undistributed (Accumulated) net investment income (loss), end of year	<u>\$ 253,634</u>	<u>\$ 125,500</u>	<u>\$ 1,046</u>	<u>\$ —</u>

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

Statements of Changes in Net Assets
August 31, 2009

	Evolution Market Leaders Fund		Evolution Alternative Investment Fund	
	<u>Year Ended August 31, 2009</u>	<u>Year Ended August 31, 2008</u>	<u>Year Ended August 31, 2009</u>	<u>Year Ended August 31, 2008</u>
Operations:				
Net investment income (loss)	\$ (39,245)	\$ 91,438	\$ (19,596)	\$ 800,941
Net realized loss on investments	(1,573,271)	(4,161,529)	(2,380,224)	(2,990,481)
Capital gain distributions from regulated investment companies	562	—	57,971	—
Net unrealized appreciation (depreciation) on investments	<u>574,464</u>	<u>1,210,982</u>	<u>250,018</u>	<u>(1,299,026)</u>
Net increase (decrease) in net assets resulting from operations	<u>(1,037,490)</u>	<u>(2,859,109)</u>	<u>(2,091,831)</u>	<u>(3,488,566)</u>
Distributions to shareholders:				
Net investment income	—	(83,227)	(800,714)	(121,868)
Net realized gains	—	—	—	(1,223,072)
Return of capital	—	(46,292)	—	—
Total distributions	<u>—</u>	<u>(129,519)</u>	<u>(800,714)</u>	<u>(1,344,940)</u>
Capital share transactions:				
Proceeds from shares sold	64,703,494	9,133,559	11,075,462	10,594,573
Proceeds from shares issued to holders in reinvestment of distributions	—	129,520	800,714	1,344,939
Cost of shares redeemed	<u>(35,886,482)</u>	<u>(20,613,485)</u>	<u>(13,918,262)</u>	<u>(28,183,896)</u>
Net increase (decrease) in net assets resulting from capital share transactions	<u>28,817,012</u>	<u>(11,350,406)</u>	<u>(2,042,086)</u>	<u>(16,244,384)</u>
Total increase (decrease) in net assets	<u>27,779,522</u>	<u>(14,339,034)</u>	<u>(4,934,631)</u>	<u>(21,077,890)</u>
Net assets:				
Beginning of year	17,297,873	31,636,907	25,037,084	46,114,974
End of year	<u>\$ 45,077,395</u>	<u>\$ 17,297,873</u>	<u>\$ 20,102,453</u>	<u>\$ 25,037,084</u>
Undistributed (Accumulated) net investment income (loss), end of year	<u>\$ —</u>	<u>\$ 784</u>	<u>\$ 30,374</u>	<u>\$ 800,713</u>

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

Financial Highlights August 31, 2009

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 ⁵ Year/Period	Net Assets, End of Year/Period, (\$'000)	Including Short Dividends		Excluding Short Dividends		Net Investment Income (Loss) After Expense Reimbursement/Recoupment ¹	Portfolio Turnover Rate ⁶
												Total Expenses ¹	Net Expenses ¹	Total Expenses ¹	Net Expenses ¹		
Evolution Managed Bond Fund																	
Year Ended August 31, 2009	\$16.41	\$0.37	\$0.12	0.49	\$(0.33)	\$ —	\$ —	(0.33)	\$16.57	3.04%	\$ 47,765	—	—	1.88%	1.87%	2.32%	425%
Year ended August 31, 2008	16.83	0.59	(0.30)	0.29	(0.71)	—	—	(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	1.85%	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%
Evolution All-Cap Equity Fund																	
Year Ended August 31, 2009	18.55	(0.07)	(3.65)	(3.72)	—	—	—	—	14.83	(20.05%)	43,472	—	—	1.87%	1.85%	(0.48%)	1,977%
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)	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%
Evolution Market Leaders Fund																	
Year Ended August 31, 2009	16.68	(0.02)	(5.31)	(5.33)	—	—	—	—	11.35	(31.95%)	45,077	—	—	1.95%	1.90%	(0.16%)	1,697%
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	4.06%	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%	1.75%	0.50%	864% ²
Evolution Alternative Investment Fund																	
Year Ended August 31, 2009	17.63	(0.02)	(1.47)	(1.49)	(0.62)	—	—	(0.62)	15.52	(8.35%)	20,102	—	—	1.99%	1.90%	(0.10%)	785%
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%	1.75%	1.88%	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. The Fund's aggressive investment strategy may result in significant portfolio turnover to take advantage of anticipated changes in market conditions.

⁷ 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, \$0.06 and \$0.23, respectively.

⁸ Net investment income (loss) ratio included dividends on short positions. The ratio excluding 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.

⁹ For the period September 1, 2005 to December 29, 2005 the annual cap on expenses excluding short dividends was 2.00%.

¹⁰ Commencement of operations.

Direxion Funds
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2009

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 34 series in operation of which 4 are included in this report, the Evolution Managed Bond Fund, the Evolution All-Cap Equity Fund, the Evolution Market Leaders Fund (formerly known as the Evolution Small Cap Fund) and the Evolution Alternative Investment Fund (formerly known as 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 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 Market Leaders Fund is to seek the highest appreciation on an annual basis consistent with a high tolerance for risk by investing primarily in equity securities either directly or indirectly through individual stocks and ADRs or indirectly through securities that invest in or are a derivative of equity securities. The objective of the Evolution Alternative Investment Fund is to seek high total return on an annual basis consistent with a high tolerance for risk by investing primarily in securities, including dividend-paying equities or interest bearing fixed income securities, having a low or negative correlation with the S&P 500® Index (collectively, "alternative securities") or indirectly through securities that invest in or are a derivative of alternative 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 – The Net Asset Value ("NAV") of each Fund is determined daily, Monday through Friday, as of the close of regular trading on the New York Stock Exchange ("NYSE"), each day the NYSE is open for business. The value of all portfolio securities and other assets held by a Fund will be determined as of the time a Fund calculates its NAV, 4:00 p.m. Eastern Time ("Valuation Time"). Equity securities and exchange-traded funds are valued at their last sales price, or if not available, at the average of the last bid and ask prices. Investments in open-end mutual funds are valued at their respective quoted net asset values on the valuation dates. Futures are valued at the settlement price established on the exchange on which they are traded, if that settlement price reflects trading prior to the Valuation Time. If the settlement price established by the exchange reflects trading after the Valuation Time, then the last sales price prior to Valuation Time will be used. Options are valued at the composite price, using the National Best Bid and Offer quotes ("NBBO"). NBBO consists of the highest bid price and lowest ask price across any of the exchanges on which an option is quoted. Specifically, composite pricing looks at the last trades on the exchanges where the options are traded. If there are no trades for the option on a given business day, the composite pricing calculates the mean of the highest bid and lowest ask price across the exchanges where the option is traded. Over-the-counter securities are valued at the average of the last bid and ask prices. Securities primarily traded on the NASDAQ National Market are valued using the NASDAQ Official Closing Price. Swaps are valued based upon prices from third party vendor models or quotations from market makers to the extent available. Short-term debt securities with a maturity of 60 days or less and money market securities are valued using the amortized cost method. Other debt securities are valued by using the mean prices provided by the Fund's pricing service or, if such services are unavailable, by a pricing matrix method. Securities for which reliable market quotations are not readily available, the Funds' pricing service does not provide a valuation for such securities, the Fund's pricing service provides valuation that in the

judgment of Rafferty Asset Management, LLC (the "Adviser") does not represent fair value, or the Fund or Adviser believes the market price is stale will be fair valued as determined by the Adviser under the supervision of the Board of Trustees.

b) Repurchase Agreements – Each Fund may enter into repurchase agreements with institutions that are members of the Federal Reserve System or securities dealers who are members of a national securities exchange or are primary dealers in U.S. government securities. In connection with transactions in repurchase agreements, it is the Trust's policy that the Fund receives, as collateral, cash and/or securities (primarily U.S. Government securities) whose market value, including accrued interest, at all times will be at least equal to 100% of the amount invested by the Fund in each repurchase agreement. If the seller defaults, and the value of the collateral declines, realization of the collateral by the Fund may be delayed or limited.

The Funds were not invested in repurchase agreements at August 31, 2009.

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 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 would have decreased in value had it been invested in such securities plus, in certain instances, commissions or trading spreads on the notional amount. 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. The net amount of the excess, if any, of the Fund's obligations over its entitlement with respect to each swap is accrued on a daily basis and an amount of cash or liquid assets, having an aggregate net asset value at least equal to such accrued excess is maintained in a segregated account. Until a swap contract is settled in cash, the gain or loss on the notional amount plus dividends on the securities less the interest paid by the Fund on the notional amount would be recorded as "unrealized appreciation (depreciation) on swaps" and when cash is exchanged, the gain or loss would be recorded as "realized gains or losses on swaps". Swap contracts are collateralized by the securities and cash of each particular Fund.

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 return of the swap. These amounts are netted with any unrealized appreciation or depreciation to determine the value of the swap.

The Funds were not invested in swap contracts at August 31, 2009.

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, 2009.

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. A Fund may use futures contracts to gain exposure to, or hedge against changes in the value of equities, interest rates or foreign currencies. Upon entering into a contract, the Fund deposits and maintains as

collateral such initial margin as required by the exchange on which the transaction is effected. Pursuant to the contract, the Fund agrees to receive from or pay to the broker an amount of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as "variation margin" and are recorded by the Fund as unrealized gains and losses. When the contract is closed, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. As collateral for futures contracts, the Fund is required under the 1940 Act to maintain assets consisting of cash, cash equivalents or liquid securities. This collateral is required to be adjusted daily to reflect the market value of the purchase obligation for long futures contracts or the market value of the instrument underlying the contract, but not less than the market price at which the futures contract was established, for short futures contracts. The Funds were not invested in options on futures contracts at August 31, 2009.

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

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

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

i) Federal Income Taxes – Each Fund intends to comply with the requirements of Subchapter M of the Internal Revenue Code necessary to qualify as a regulated investment company and to make the requisite distributions of income and capital gains to its shareholders sufficient to relieve it from all or substantially all federal income taxes and excise taxes.

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

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

The tax character of distributions for the Funds during the years ended August 31, 2009 and August 31, 2008 were as follows:

	Evolution Managed Bond Fund		Evolution All-Cap Equity Fund	
	Year Ended August 31, 2009	Year Ended August 31, 2008	Year Ended August 31, 2009	Year Ended August 31, 2008
Distributions paid from:				
Ordinary Income	\$665,397	\$1,479,225	\$ —	\$8,730,319
Long-Term Capital Gains	—	—	—	1,168
Return of Capital	—	—	—	—
Total Distributions paid	\$665,397	\$1,479,225	\$ —	\$8,731,487

	Evolution Market Leaders Fund		Evolution Alternative Investment Fund	
	Year Ended August 31, 2009	Year Ended August 31, 2008	Year Ended August 31, 2009	Year Ended August 31, 2008
Distributions paid from:				
Ordinary Income	\$ —	\$ 83,227	\$800,714	\$1,337,598
Long-Term Capital Gains	—	—	—	7,342
Return of Capital	—	46,292	—	—
Total Distributions paid	\$ —	\$129,519	\$800,714	\$1,344,940

The Funds 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 Funds related to net capital gain to zero for the tax year ended August 31, 2009.

As of August 31, 2009, the components of distributable earnings of the Funds on a tax basis were as follows:

	Evolution Managed Bond Fund	Evolution All-Cap Equity Fund	Evolution Market Leaders Fund	Evolution Alternative Investment Fund
Tax cost of investments	\$46,020,544	\$ 40,028,295	\$43,105,839	\$19,380,885
Gross unrealized appreciation	2,497,603	2,829,598	2,073,467	636,457
Gross unrealized depreciation	(1,367,538)	(2,650,238)	(887,249)	(260,722)
Net unrealized appreciation/(depreciation)	<u>1,130,065</u>	<u>179,360</u>	<u>1,186,218</u>	<u>375,735</u>
Undistributed ordinary income	253,634	—	—	30,374
Undistributed long-term capital gain	—	—	—	—
Total distributable earnings	253,634	—	—	30,374
Other accumulated gain/(loss)	(4,411,592)	(17,423,545)	(8,003,177)	(8,251,026)
Total accumulated earnings/(loss)	<u>\$(3,027,893)</u>	<u>\$(17,244,185)</u>	<u>\$(6,816,959)</u>	<u>\$(7,844,917)</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. Other accumulated gain/(loss) is generally comprised of capital loss carryforwards, post-October capital loss deferrals and/or unrealized gain/(loss) on derivative positions.

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

	<u>Net Investment Income (Loss)</u>	<u>Realized Gain (Loss)</u>	<u>Capital Stock</u>
Evolution Managed Bond Fund	781	—	(781)
Evolution All-Cap Equity Fund	221,316	(4,375)	(216,941)
Evolution Market Leaders Fund	38,461	(3,467)	(34,994)
Evolution Alternative Investment Fund	49,971	(53,332)	3,361

Net investment income and realized gains and losses for federal income tax purposes may differ from that reported on the financial statements because of permanent book-to-tax differences. GAAP requires that permanent differences in net investment income and realized gains and losses due to differences between financial reporting and tax reporting be reclassified between various components of net assets. The permanent differences primarily relate to net operating losses, investments in partnerships and royalty trusts, dividend reclasses, 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, 2009.

At August 31, 2009, the following funds deferred, on a tax basis, post-October losses of:

	<u>Post October Capital Loss Deferred</u>
Evolution Managed Bond Fund	\$ —
Evolution All-Cap Equity Fund	4,778,133
Evolution Market Leaders Fund	—
Evolution Alternative Investment Fund	2,406

At August 31, 2009 the following funds had capital loss carryforwards on a tax basis of:

	<u>Expires</u>					<u>Total</u>
	<u>8/31/2013</u>	<u>8/31/2014</u>	<u>8/31/2015</u>	<u>8/31/2016</u>	<u>8/31/2017</u>	
Evolution Managed Bond Fund	\$1,238,379	\$596,309	\$ 586,831	\$1,226,623	\$ 743,352	\$ 4,391,494
Evolution All-Cap Equity Fund	—	—	—	3,893,085	8,377,957	12,271,042
Evolution Market Leaders Fund	—	—	1,584,209	94,888	6,295,982	7,975,079
Evolution Alternative Investment Fund	—	—	—	1,400,927	6,768,541	8,169,468

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

FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("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, 2009, open Federal and state income tax years include the tax years ended August 31, 2006, August 31, 2007, August 31, 2008 and August 31, 2009. 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, 2006, August 31, 2007, August 31, 2008 and August 31, 2009. 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.

l) Credit Facility – U.S. Bank, N.A. (“U.S. Bank”) had made available to Funds a credit facility pursuant to a Line of Credit Agreement (“Line of Credit”) for meeting redemption requests. The Funds did not utilize the Line of Credit during the year ended August 31, 2009:

	<u>Available Borrowing (Lesser of 33 1/3% of Fund's Net Assets or)</u>	<u>Outstanding Balance as of August 31, 2009</u>	<u>Maximum Amount Outstanding during the Year Ended August 31, 2009</u>	<u>Average Daily Balance</u>	<u>Interest Expense</u>	<u>Borrowings Charged At</u>
Evolution Managed Bond Fund	\$4,675,000	\$ —	\$ —	\$ —	\$ —	Prime Rate less 1/2%
Evolution All-Cap Equity Fund	9,000,000	—	—	—	—	Prime Rate less 1/2%
Evolution Market Leaders Fund	5,500,000	—	—	—	—	Prime Rate less 1/2%
Evolution Alternative Investment Fund	2,650,000	—	—	—	—	Prime Rate less 1/2%

m) 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.

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

3. CAPITAL SHARE TRANSACTIONS

The capital share transactions for the Funds during the years ended August 31, 2009 and August 31, 2008 were as follows:

	<u>Evolution Managed Bond Fund</u>		<u>Evolution All-Cap Equity Fund</u>	
	<u>Year Ended August 31, 2009</u>	<u>Year Ended August 31, 2008</u>	<u>Year Ended August 31, 2009</u>	<u>Year Ended August 31, 2008</u>
Shares sold	2,851,237	722,420	2,525,299	736,314
Shares issued in reinvestment of distributions	40,574	89,486	—	417,176
Shares redeemed	(1,608,135)	(1,573,682)	(1,487,693)	(1,901,770)
Total net increase (decrease) from capital share transactions	<u>1,283,676</u>	<u>(761,776)</u>	<u>1,037,606</u>	<u>(748,280)</u>

	<u>Evolution Market Leaders Fund</u>		<u>Evolution Alternative Investment Fund</u>	
	<u>Year Ended August 31, 2009</u>	<u>Year Ended August 31, 2008</u>	<u>Year Ended August 31, 2009</u>	<u>Year Ended August 31, 2008</u>
Shares sold	5,995,220	514,267	705,646	546,642
Shares issued in reinvestment of distributions	—	7,085	52,783	69,541
Shares redeemed	(3,059,575)	(1,167,267)	(883,491)	(1,447,150)
Total net increase (decrease) from capital share transactions	<u>2,935,645</u>	<u>(645,915)</u>	<u>(125,062)</u>	<u>(830,967)</u>

4. INVESTMENT TRANSACTIONS

During the year ended August 31, 2009, the aggregate purchases and sales of investments (excluding short-term investments, options, swaps and futures contracts) were:

	<u>Purchases</u>	<u>Sales</u>
Evolution Managed Bond Fund	\$161,073,682	\$142,723,032
Evolution All-Cap Equity Fund	694,226,458	679,439,435
Evolution Market Leaders Fund	383,941,747	351,538,141
Evolution Alternative Investment Fund	91,745,508	100,684,541

There were no purchases or sales of long-term U.S. Government securities during the year ended August 31, 2009.

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 services. For the period September 1, 2008 through June 30, 2009, the Adviser has contractually agreed to pay all operating expenses (excluding dividends on short positions), in excess of the annual cap on expenses presented below as applied to each Fund's average daily net assets. Under this contract, the Adviser could recover from the Funds the expenses paid in excess of the annual cap on expenses for the three previous years, as long as the recovery did not cause the Fund to exceed the annual cap on expenses from the period in which those expenses were originally waived. For the year ended August 31, 2009, the Adviser paid or recouped the following expenses:

	<u>Evolution Managed Bond Fund</u>	<u>Evolution All-Cap Equity Fund</u>	<u>Evolution Market Leaders Fund</u>	<u>Evolution Alternative Investment Fund</u>
Annual Advisory Rate	1.00%	1.00%	1.00%	1.00%
Annual cap on expenses - September 1, 2008 - June 30, 2009	1.90%	1.90%	1.90%	1.90%
Expenses paid in excess of annual cap on expenses - 2009	\$ —	\$ —	\$12,223	\$13,322
Adviser expense waiver recovery - 2009	\$ —	\$ —	\$ —	\$ —

On May 20, 2009, the Board of Trustees, based upon on management's recommendation, approved a new Operating Services Agreement (the "Agreement"). Under the Agreement, the Adviser will be responsible for all expenses of the Trust except the following: management fees, distribution and/or service fees, acquired fund fees, taxes, leverage interest, dividends or interest on short positions, other interest expenses, brokerage commission and other extraordinary expenses outside the typical day-to-day operations of the Funds. Effective July 1, 2009, the annual expense caps are no longer applicable. The Adviser relinquished all recovery of expenses waived by the Funds for the previous three years through June 30, 2009.

In consideration for the services rendered pursuant to the Agreement, the Funds will pay to the Adviser, as compensation for the services provided by the Adviser under the Agreement, a monthly fee. The monthly fee is calculated on an annualized basis on the average net assets of each Fund and the below amount:

Evolution Managed Bond Fund	0.50%
Evolution All-Cap Equity Fund	0.50%
Evolution Market Leaders Fund	0.50%
Evolution Alternative Investment Fund	0.50%

Expenses subject to potential recovery relinquished by Adviser:

Evolution Managed Bond Fund	\$ 56,493
Evolution All-Cap Equity Fund	\$ 41,552
Evolution Market Leaders Fund	\$120,101
Evolution Alternative Investment Fund	\$ 58,862

Distribution Expenses: Shares of the Funds are subject to an annual Rule 12b-1 fee equal to 0.25% of the average daily net assets.

Shareholder Servicing Fees: The Board has also authorized each Fund's shares to pay a shareholder servicing fee of 0.15% of each Fund's 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 Funds, 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, 2009. The Distributor is an affiliate of the Adviser.

U.S. Bank N.A. and/or its affiliates receive revenue from certain broker-dealers that may receive Rule 12b-1 fees or other payments from mutual funds in which certain Direxion Funds may invest. The Board of Trustees agreed to have 70% of the fees received by U.S. Bank N.A. applied against custody and transfer agent invoices. These expense reductions are reflected on the Statement of Operations as "expenses paid indirectly". For the fiscal year ended August 31, 2009, the amount of custody expenses reduced by this revenue was as follows:

	<u>Custody</u>	<u>Transfer Agent</u>	<u>Total</u>
Evolution Managed Bond Fund	\$273	\$ 199	\$ 472
Evolution All-Cap Equity Fund	652	5,616	6,268
Evolution Market Leaders Fund	393	833	1,226
Evolution Alternative Investment Fund	193	5,298	5,491

6. VALUATION MEASUREMENTS

The Funds have adopted Statement on Financial Accounting Standards No. 157, *Fair Value Measurements* ("FAS 157") and FASB Staff Position No. 157-4 ("FSP 157-4"). FSP 157-4 clarifies FAS 157 and requires an entity to evaluate certain factors to determine whether there has been a significant decrease in volume and level of activity for the asset or liability such that recent transactions and quoted prices may not be determinative of fair value and further analysis and adjustment may be necessary to estimate fair value. FSP 157-4 also requires enhanced disclosure regarding the inputs and valuation techniques used to measure fair value in those instances as well as expanded disclosures of valuation for major security types. FAS 157 requires each fund to classify its securities based on valuation method, using the three levels listed below:

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

Level 2 - Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)

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

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

The follow is a summary of the inputs used to value the Fund's net assets as of August 31, 2009:

	Evolution Managed Bond Fund			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment Companies	\$45,473,303	\$ —	\$ —	\$45,473,303
Short-Term Investments	\$ 1,677,306	\$ —	\$ —	\$ 1,677,306

Evolution All-Cap Equity Fund

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity Securities	\$33,524,348	\$ —	\$ —	\$33,524,348
Investment Companies	\$ 6,398,032	\$ —	\$ —	\$ 6,398,032
Short-Term Investments	\$ 285,275	\$ —	\$ —	\$ 285,275
Other Financial Instruments*	\$ (142,542)	\$ —	\$ —	\$ (142,542)

Evolution Market Leaders Fund

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity Securities	\$ 5	\$ —	\$ —	\$ 5
Investment Companies	\$43,716,822	\$ —	\$ —	\$43,716,822
Short-Term Investments	\$ 575,230	\$ —	\$ —	\$ 575,230

Evolution Alternative Investment Fund

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment Companies	\$13,791,954	\$ —	\$ —	\$13,791,954
Short-Term Investments	\$ 5,964,666	\$ —	\$ —	\$ 5,964,666

For further information regarding industry classification, see the Schedule of Investments.

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

7. ADDITIONAL DISCLOSURES ABOUT DERIVATIVE INSTRUMENTS

In March 2008, FASB issued its Statement on Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("FAS 161") effective for fiscal years beginning after November 15, 2008. FASB further clarified that the disclosures required by FAS 161 be provided for any reporting period beginning after November 15, 2008. FAS 161 is intended to improve financial reporting for derivative instruments by requiring enhanced disclosures that enables investors to understand how and why a fund uses derivatives instruments, how derivatives instruments are accounted for and how derivative instruments affect a fund's financial position and results of operations.

The Funds uses derivative instruments as part of its principal investment strategy to achieve its investment objective. As of August 31, 2009, the Funds were invested in futures contracts.

At August 31, 2009, the fair value of derivatives instruments were as follows:

		Liability derivatives¹				
		Interest rate risk	Foreign exchange risk	Credit risk	Equity risk	Total
Evolution All-Cap	Futures contracts*	\$ —	\$ —	\$ —	\$142,542	\$142,542
Equity Fund	Total	\$ —	\$ —	\$ —	\$142,542	\$142,542

¹ Statement of Assets and Liabilities location: Variation margin payable.

* Cumulative appreciation (depreciation) of futures contracts as reported in the Schedule of Investments. Only current day's variation margin, if any, is reported within the Statement of Assets and Liabilities.

Transactions in derivative instruments during the year ended August 31, 2009, were as follows:

		Interest rate risk	Foreign exchange risk	Credit risk	Equity risk	Total
Evolution All-Cap Equity Fund	Realized gain (loss)¹					
	Futures contracts	\$ —	\$ —	\$ —	\$ (21,943)	\$ (21,943)
	Total realized gain (loss)	\$ —	\$ —	\$ —	\$ (21,943)	\$ (21,943)
	Change in unrealized appreciation (depreciation)²					
	Futures contracts	\$ —	\$ —	\$ —	\$ (269,841)	\$ (269,841)
	Total change in unrealized appreciation (depreciation)	\$ —	\$ —	\$ —	\$ (269,841)	\$ (269,841)
Evolution Market Leaders Fund	Realized gain (loss)¹					
	Futures contracts	\$ —	\$ —	\$ —	\$ 4,217,978	\$ 4,217,978
	Total realized gain (loss)	\$ —	\$ —	\$ —	\$ 4,217,978	\$ 4,217,978
	Change in unrealized appreciation (depreciation)²					
	Futures contracts	\$ —	\$ —	\$ —	\$ 37,937	\$ 37,937
	Total change in unrealized appreciation (depreciation)	\$ —	\$ —	\$ —	\$ 37,937	\$ 37,937

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

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

For the fiscal year ended August 31, 2009, the quarterly average gross notional amounts of the derivatives held by the Fund was as follows:

	Short Futures Contracts
Evolution Managed Bond Fund	\$ —
Evolution All-Cap Equity Fund	18,339,751
Evolution Market Leaders Fund	4,122,290
Evolution Alternative Investment Fund	—

8. NEW ACCOUNTING PRONOUNCEMENTS

In May 2009, FASB issued Statement of Financial Accounting Standards No. 165, *Subsequent Events* ("FAS 165"). Funds adopted FAS 165 which requires an entity to recognize in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet. For non-recognized subsequent events that must be disclosed to keep the financial statements from being misleading, an entity will be required to disclose the nature of the event as well as an estimate of its financial effect, or a statement that such an estimate cannot be made. In addition, FAS 165 requires an entity to disclose the date through which subsequent events have been evaluated. The Funds have evaluated subsequent events through the issuance of their financial statements on October 29, 2009.

In June 2009, FASB issued Statement of Financial Accounting Standards No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162* ("FAS 168"). FAS 168 replaces FASB Statement No. 162, *Hierarchy of Generally Accepted Accounting Principles* and establishes the "FASB Accounting Standards Codification™" ("Codification") as the source of authoritative accounting principles recognized by FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. GAAP. All guidance contained in the Codification carries an equal level of authority. On the effective date of FAS 168, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. FAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Funds evaluated this new statement, and have determined that it will not have a significant impact on the determination or reporting of the Funds' financial statements.

To the Board of Trustees and Shareholders
of Direxion Funds:

We have audited the accompanying statements of assets and liabilities of the Evolution Managed Bond Fund, Evolution All-Cap Equity Fund, Evolution Market Leaders Fund (formerly Evolution Small Cap Fund), and Evolution Alternative Investment Fund (formerly Evolution Total Return Fund) (four of the series of the Direxion Funds) (the "Funds"), including the schedules of investments, as of August 31, 2009, 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, 2009 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 four of the series of Direxion Funds at August 31, 2009, 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

New York, New York
October 29, 2009

ADDITIONAL INFORMATION
(UNAUDITED)

QUALIFIED DIVIDEND INCOME/DIVIDENDS RECEIVED DEDUCTION

For the period ended August 31, 2009, certain dividends paid by the Funds may be subject to a maximum tax rate of 15%, as provided 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	100.0%
Evolution All-Cap Equity Fund	0.0%
Evolution Market Leaders Fund	0.0%
Evolution Alternative Investment Fund	88.7%

For corporate shareholders, the percent of ordinary income distributions qualifying for the corporate dividends received deduction for the period ended August 31, 2009, was as follows:

Evolution Managed Bond Fund	100.0%
Evolution All-Cap Equity Fund	0.0%
Evolution Market Leaders Fund	0.0%
Evolution Alternative Investment Fund	99.6%

Direxion Funds
TRUSTEES AND OFFICERS

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

Interested Trustees

<u>Name, Address and Age</u>	<u>Position(s) Held with Fund</u>	<u>Term of Office and Length of Time Served</u>	<u>Principal Occupation(s) During Past Five Years</u>	<u># of Portfolios in Direxion Complex Overseen by Trustee⁽²⁾</u>	<u>Other Trusteeships/ Directorships Held by Trustee</u>
Lawrence C. Rafferty ⁽¹⁾ Age: 66	Chairman of the Board of Trustees	Lifetime of Trust until removal or resignation; Since 1997	Chairman and Chief Executive Officer of Rafferty, 1997-present; Chief Executive Officer of Rafferty Companies, LLC, 1996-present; Chief Executive Officer of Rafferty Capital Markets, Inc., 1995-present.	77	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: 65	Trustee	Lifetime of Trust until removal or resignation; Since 1997	President and Chief Executive Officer of Byrne Securities Inc., 1992-present.	77	Trustee, The Opening Word Program, Wyandanch, New York
Gerald E. Shanley III Age: 66	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.	77	None
John Weisser Age: 68	Trustee	Lifetime of Trust until removal or resignation; Since 2007	Retired, Since 1995; Salomon Brothers, Inc, 1971-1995, most recently as Managing Director.	77	Director, MainStay VP Fund Series; Director ICAP Funds, Inc; Director, The MainStay Funds; Director, Eclipse Funds, 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: 41	President; Chief Operating Officer and Chief Investment Officer	One Year; Since 1999 One Year; Since 2006	Managing Director of Rafferty, 1999-present.	N/A	N/A
William Franca Age: 52	Executive Vice President – Head of Distribution	One Year; Since 2006	Senior Vice President – National Sales, Massachusetts Financial Services/SunLife Financial Distributors, 2002-2004; Executive Vice President, Distribution, SunLife, 2001-2002.	N/A	N/A
Christopher Lewis Age: 38	Chief Compliance Officer	One Year; Since 2009	Director, Alaric Compliance Services, LLC, 2009 – present; Partner, Thacher Proffitt & Wood LLP, 2004-2008; Partner, Simmons & Simmons, 2002-2004.	N/A	N/A
Guy F. Talarico Age: 53	Principal Financial Officer and Treasurer	Once Year; Since 2008	CEO, Alaric Compliance Services LLC, 2006-present; Co-CEO EOS Compliance Services, LLC, 2004-2006; Senior Director, Investors Bank and Trust Co, 2001-2004; Division Executive, JP Morgan-Chase Bank, 1986-2001; Group Product Manager, Lever Brothers Company, 1977-1986.	N/A	N/A
Eric W. Falkeis 615 East Michigan Street Milwaukee, WI 53202 Age: 36	Secretary	One Year; Since 2004	Senior Vice President USBFS since September 2007; Chief Financial Officer, U.S. Bancorp Fund Services, LLC, since April 2006; Vice President, U.S. Bancorp Fund Services LLC, 1997-present; formerly, Chief Financial Officer, Quasar Distributors, LLC, 2000-2003.	N/A	N/A

⁽¹⁾ Mr. Rafferty is affiliated with Rafferty. Mr. Rafferty is the Chairman and Chief Executive Officer of Rafferty and owns a beneficial interest in Rafferty.
⁽²⁾ The Direxion Complex consists of the Direxion Funds which currently offers for sale to the public 34 portfolios, the Direxion Insurance Trust which currently offers for sale 3 portfolios and the Direxion ETF Trust which currently offers for sale to the public 20 of the 40 funds currently registered with the SEC.
The address for all trustees and officers except Eric W. Falkeis is 33 Whitehall St., New York, NY 10004.

Provided below is a summary of certain of the factors the Board considered at its August 26, 2009 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 Alternative Investment Fund, Evolution Managed Bond Fund and Evolution Market Leaders Fund, each a series of the Trust (the "Funds"); and (2) the Subadvisory Agreement between Rafferty and Flexible Plan Investments, Inc. ("Flexible") on behalf of the Funds. The Board did not identify any particular information that was most relevant to its consideration to approve the Advisory and Subadvisory Agreement (each an "Agreement" and collectively, the "Agreements") and each Trustee may have afforded different weight to the various factors.

In determining whether to approve the continuance of Agreements, the Board considered the best interests of each Fund separately. In addition, the Board noted that the Trustees have considered various reports and information provided throughout the year at their regular Board meetings and otherwise. While the Agreements for all of the Funds were considered at the same Board meeting, the Board considered each Fund's investment advisory and subadvisory relationship 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 costs to Rafferty and Flexible for providing services and the profitability of the advisory business to Rafferty and 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 (such as pension funds and other institutional investors), if any; and (7) other benefits derived or anticipated to be derived by Rafferty and Flexible from their relationships 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 Trust since its inception and has developed an expertise in managing the Funds. The Board also noted that Rafferty trades efficiently with low commission schedules, which helps improve performance results. The Board considered Rafferty's representation that it has the financial resources and appropriate staffing to manage the Funds and meet its expense reimbursement obligations, if any. The Board also considered that Rafferty utilizes the services of an independent compliance consulting firm and that reports from the chief compliance officer are provided to the Board at its regularly scheduled quarterly Board meetings. The Board considered that Rafferty oversees all aspects of the operation of the Funds, including oversight of Flexible and the Funds' service providers. Regarding the Subadvisory Agreement with Flexible, the Board noted that Flexible utilizes the Funds as the primary investments for its separate account clients. Based on these and other considerations, the Board determined that, in the exercise of its business judgment, the nature, extent and quality of the services provided by Rafferty and Flexible to the Funds under the Agreements were fair and reasonable.

Performance of the Funds. The Board evaluated the performance of each Fund relative to: (1) its benchmark index for monthly and annual periods ended July 31, 2009; and (2) the average performance of the relevant Lipper fund universe for monthly and annual periods ended June 30, 2009 (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. In this regard, the Board for all Funds noted the challenging nature of the markets for the calendar year 2008.

With respect to the Evolution All-Cap Equity Fund, the Board considered management's description of the performance of the Lipper universe of specialty diversified equity funds. The Board also considered that: (1) as of July 31, 2009, the Fund outperformed its benchmark index for the one-, three- and five-year periods, but underperformed for the one-, three-, six- and nine-month, and year-to-date periods; and (2) as of June 30, 2009, the Fund underperformed the average of the relevant Lipper fund universe for all periods presented.

With respect to the Evolution Alternative Investment Fund, the Board considered management's description of the performance of the Lipper universe of mixed asset target allocation conservative funds. The Board also considered that: (1) as of July 31, 2009, the Fund outperformed its benchmark index for the one- and three-year periods, but underperformed

for the one-, three-, six- and nine-month, and year-to-date periods; and (2) as of June 30, 2009, the Fund underperformed the average of the relevant Lipper fund universe for all periods presented.

With respect to the Evolution Managed Bond Fund, the Board considered management's description of the performance of the Lipper universe of general bond funds. The Board also considered that: (1) as of July 31, 2009, the Fund outperformed its benchmark index for the one- and three-month periods, but underperformed for the six- and nine-month, year-to-date, and one-, three- and five-year periods; and (2) as of June 30, 2009, the Fund outperformed the average of the relevant Lipper fund universe for the one-year period, but underperformed for the one-, three- and six-month, and three- and five-year periods.

With respect to the Evolution Market Leader Fund, the Board considered management's description of the performance of the Lipper universe of small cap core funds. The Board also considered that: (1) as of July 31, 2009, the Fund underperformed its benchmark index for all periods presented; and (2) as of June 30, 2009, the Fund underperformed the average of the relevant Lipper fund universe for all periods presented.

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. The Board considered the overall profitability of Rafferty's investment business and its representation that it does not allocate internal costs and assess profitability with respect to its services to individual Funds. Based on these considerations, the Board determined that, in the exercise of its business judgment, the costs of the services provided and the profits realized under the Advisory Agreement was 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 the Funds help to lower the overall fees paid by Flexible's clients and are offered to those clients in wrap programs. The Board also noted that, in some cases, Flexible uses the fees it receives from the Funds to reduce the asset-based fees it charges clients for providing investment advisory services. The Board further noted that Rafferty negotiated the lowest fee that Flexible charges for comparable client accounts. With respect to each Fund, the Board considered Flexible's profits for its services to the extent such information was provided. In this regard, the Board noted Flexible's representation that it did not earn any pre- or post-tax profits with respect to the services it provided to the Funds.

Based on these considerations, the Board determined that, in the exercise of its business judgment, the costs of the services provided and the profits realized under the Agreements were fair and reasonable.

Economies of Scale. The Board considered Rafferty's representation that it believes that asset levels at this time are not sufficient to achieve economies of scale or warrant a reduction in fee rates or the addition of breakpoints. Rafferty noted that it was continuing 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 was not necessary at this time.

Other Benefits. The Board considered Rafferty's representation that its relationship with the Funds has permitted Rafferty to attract business to its non-mutual fund account. The Board also considered that Rafferty's overall business with brokerage firms helps to lower commission rates and provide better execution for Fund portfolio transactions. The Board also considered that Flexible has greater access to certain trust platforms due to its subadvisory services to the 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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ANNUAL REPORT AUGUST 31, 2009

Adviser

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

Sub-Advisor

Flexible Plan Investments, Ltd.
3883 Telegraph Road
Bloomfield Hills, MI 48302

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

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

Custodian

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

Independent Registered Public Accounting Firm

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

Distributor

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

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

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

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

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