

LIBERTY STREET HORIZON FUND

TICKER: LSHAX, LSHCX, LSHUX

Fourth Quarter 2011 Commentary

As of December 31, 2011

Total Returns	One Month	Three Month	Six Month	One Year w/Load	ITD (a)* w/Load	YTD
LSHAX	-5.19%	4.04%	-16.74%	-17.56%	-10.74%	-13.43%
LSHCX	-5.18%	4.02%	-16.88%	-14.43%	-10.48%	-13.78%
LSHUX	-5.01%	4.29%	-16.63%	-13.17%	-11.55%	-13.17%
S&P 500	1.02%	11.82%	-3.69%	2.11%	-1.66%	2.11%

Performance data quoted represents past performance and is no guarantee of future results. Total return figures include the reinvestment of dividends and capital gains. Current performance may be lower or higher than the performance data quoted. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than original cost. For the most recent month end performance, please call (800) 207-7108. Returns showing less than one year are cumulative. *ITD(a) represents annualized inception-to-date data. LSHAX inception 5/4/07; LSHCX inception 5/24/07; LSHUX inception 7/11/07. S&P500 ITD uses 5/4/07 inception date. Shares redeemed or exchanged within 90 days of purchase will be charged a 1.00% redemption fee. The gross operating expense ratio for the Class A, C, and Institutional Shares are 1.74%, 2.24% and 1.49%, respectively. The Fund's investment advisor contractually agreed, through at least August 31, 2012, to reduce fees or reimburse expenses so that the net expense ratios of the Class A, C and I Shares would not exceed 1.50%, 2.00% and 1.25%, respectively. Otherwise, performance shown would have been lower. Performance results with load reflect the deduction for Class A Shares of the 4.75% maximum front end sales charge. Class C shares are subject to a contingent deferred sales charge of .75% when redeemed within 12 months of purchase. Performance presented without the load would be lower if this charge was reflected. Because of ongoing market volatility, Fund performance may be subject to substantial short term changes.

Quarterly Performance Review

The Liberty Street Horizon Fund Institutional Class, as indicated in the chart above, appreciated in the 4th quarter of 2011 and underperformed the S&P 500 Index. For full-year 2011, the Liberty Street Horizon Fund Institutional Class depreciated 13.17%, while underperforming the S&P 500 Index, which appreciated 2.11%.

This result is certainly not desirable and certainly the Fund's sub-advisor, Horizon Asset Management, LLC, does not wish to produce negative returns or to underperform the average equity. That said, the Fund's investment philosophy tends to differ from other equity funds. In most cases the Fund selects securities considered out of favor by the media or analysts because of a general misunderstanding of their underlying businesses and/or their long-term prospects. Thus, the Fund generally does not own what is popular, since that which is popular tends to be overpriced. In this regard, the Fund, as well as many noted value-oriented managers, experienced negative returns in 2011.

It is important to understand the reasons why the companies in our Fund are distinctly unpopular at this time: we believe we are currently in an exchange traded funds (ETF)-driven bubble phase, affecting all sectors of the market.¹ First, it should be said that the performance of the Fund in 2011 is related to share price, which we believe is a temporary phenomenon associated with the bubble, and not, in our opinion, with the quality or intrinsic risk of the investments. Taken as a whole, the underlying operations of the companies that we own in our

¹ The Fund may invest in ETFs, and one Fund holding, Market Vectors Gaming, is an ETF which represented 0.39% of Fund holdings as 10/31/2011.



For more information, please contact the Fund at 800 207-7108 or visit the Fund's website at www.libertystreetfunds.com. Financial Professionals only may contact HRC Fund Associates, LLC at 212 240-9726. HRC is the affiliated broker dealer of Liberty Street Advisors, Inc.

LSHFQ4CCA02_12

LIBERTY STREET HORIZON FUND Q4 2011 COMMENTARY

portfolio tend to be quite profitable, maintain liquid balance sheets and are managed by owner-operators. Owner-operators are usually highly successful individuals who are typically their companies' largest shareholders. Their equity tends to represent a large or dominant portion of their personal wealth, such that they may have the greatest self-interest in the appreciation of those shares. Additionally, we do not believe the Fund's performance is due to valuation. From our perspective, the companies that we own generate competitive fundamental returns, but are trading at discounted levels. These companies have few serious competitive threats and display no balance sheet or regulatory issues, meaning that the cause of such price behavior likely stems from other factors.

As in prior quarters, this quarter's commentary will provide an analysis regarding the general market movement in recent years towards indexation and passive strategies, including the influx of capital to ETFs. The purpose of this analysis is not to compare mutual funds with ETFs, as there are significant fundamental differences between those investment vehicles. Rather, our discussion pertains to the growth of ETFs as an overall market condition, how that may affect the valuation of companies, and an analysis of those valuations when deciding what companies to buy for the Fund.

Measuring the Indexation Phenomenon – the ETF-Driven Bubble

For a sense of magnitude, the 12/31/11 assets under management (AUM) of ETFs was- over \$1 trillion, as compared to 1999, when AUM was only \$34 billion. This influx into ETFs was exacerbated during the recent financial crisis: in the three years following 2007, the percentage of domestic equity mutual fund assets invested in index funds rose by 25% to 14.5% of the total market, according to the Investment Company Institute, a national association of U.S. investment companies. One must note that in addition to the \$1 trillion in passive ETFs, index mutual funds and assets indexed in private accounts add to the total amount of money invested in passive portfolios.

Additionally, the influence of indexation, creating a portfolio of securities that represents an index, can be seen in the high trading volume of ETFs. For instance, according to MarketWatch.com, the average daily trading value over a the rolling thirty-day period of both the SPDR S&P 500 ETF (NYSEARCA: SPY) and the iShares Russell 2000 ETF (NYSEARCA: IWM) was around 25% of their market capitalization in late January 2012, which is an abnormally high figure relative to most equities. At these levels of trading activity, the entire dollar amount traded of these ETFs every four days equaled approximately their total market capitalization. As a means of comparison, Apple Inc. (NASDAQ: APPL), the largest stock in the U.S., would take approximately 80 days to experience the same dynamic, given the trading characteristics seen over the same historical thirty-day time period. The dollar value of all ETF shares traded now accounts for about 50% of total U.S. equity market trading². This is a wave before which no amount of security selection talent can stand because, as discussed below, the funds flow is bifurcated in a very particular way that depresses the shares of some stocks as it inflates those of others.

What does it mean for investors when the liquidity of an instrument such as an ETF is greater than that of its constituent parts? There is greater trading volume in IWM, for instance, than in many of the companies comprising it. It has been calculated that if IWM had to create a sufficient number of new units (provide liquidity) for the aggregate volume of short positions (positions of borrowed securities held in hopes that the price will decline) in IWM, it would take the ETF more than 180 days to buy all the component securities if it limits its buying to 10% of the average daily volume of each holding². This extreme does not apply to the more liquid individual companies within the Russell 2000's holdings, and there are other mechanisms for providing liquidity in a continuous market (like derivatives), but the daily liquidity needs of these large ETFs in creating new or destroying old units can't always be met in the open market.

² Primary source: J.P. Morgan Equity Derivatives Strategy; cited by Harold Bradley and Robert E Litan, for the Ewing Marion Kauffman Foundation in their October 19, 2011 prepared testimony before the U.S. Senate Committee on Banking, Housing and Urban Affairs, Subcommittee on Securities, Insurance and Investments. However, the ETF Industry Organization has estimated ETFs' proportion of total notional U.S. equity volume at 33% (<http://www.etf-ia.com/sites/default/files/Notional-Volume.pdf>).



For more information, please contact the Fund at 800 207-7108 or visit the Fund's website at www.libertystreetfunds.com. Financial Professionals only may contact HRC Fund Associates, LLC at 212 240-9726. HRC is the affiliated broker dealer of Liberty Street Advisors, Inc.

LIBERTY STREET HORIZON FUND Q4 2011 COMMENTARY

Since the liquidity and daily trading volume of some of the largest ETFs now exceed the liquidity of the stocks that comprise the index, this phenomenon has reached a critical point. Indexes, which are meant to measure the performance of and provide exposure to groups of stocks, have come to distort the prices of the stocks they are meant to measure. Paradoxically, the trauma of the 2008/2009 financial crisis, instigated a surge of investors into these instruments to diversify holdings and reduce overall portfolio volatility has, by the magnitude of these efforts, actually contributed to the increasingly lockstep movements among indexes. It has driven both correlations and volatility to abnormally high levels.

The Impact of the ETF Bubble on Valuation – The ETF Divide

ETFs don't merely purchase securities; they also don't purchase certain securities, depending on the index they track. It is critical for ETF manufacturers to raise a large volume of assets because of the typical low-fee structure of the business, meaning that the scalability of any ETF, and therefore its profitability, is ultimately dependent upon the liquidity of its least liquid member. Therefore, ETF manufacturers choose to exclude companies with more modest market capitalizations or even large ones if they have limited share float. Under this system, inclusion or exclusion from an index was not based on the total stock market value of a company, but rather on the market value after excluding shares held by insiders (officers, directors or any person owning more than 10% of a company's stock). The valuation discrepancy across the ETF divide—those companies that are included in major and multiple ETFs versus those that are excluded—is becoming so severe that the two groups are beginning to exhibit very different valuation and variability characteristics, according to internal analyses that the Fund's sub-advisor has undertaken.

This bears some similarities to the 1999-2000 bubble period, when blue-chip equities were discarded in favor of certain technology stocks. Today, companies that were already constituents of major indexes continue to receive their proportionate share of fund inflows, even if they have poor fundamentals or are strategically challenged businesses. This mode of investing in equities is done with complete disregard for the evaluation of the individual companies whose shares are being purchased.

For other types of companies, such as the owner-operators, the inverse dynamic applies. The owner-operator companies are particularly prone to being on the wrong side of the ETF divide. Due to heavy inside-ownership, they often have more limited float and are accorded correspondingly lower weights if they are in an index. Ironically, as an owner-operator company repurchases shares, typically an anti-dilutive action, their float decreases, as we discussed in our third quarter commentary. This forces the ETF to reduce the company's weight within its trading vehicles, if the indexes that they track did so as well, which in turn requires share sales by any index-based holders. Thus, when well-regarded insiders buy, index-based investors must sell. Additionally, many owner-operator companies are also multi-industry companies that do not qualify for the many sector-specific ETFs. As a consequence, the Fund's sub-advisor believes that owner-operators are undervalued, taken as a whole.

The Seeds of the Bubble Reversal

This, then, is a form of bubble, defined as the flow of funds into a sector or securities irrespective of fundamental merit or valuation. When that continues for too long, excesses are likely to arise. Like all bubbles, we expect it to reverse. When?

One external issue may be legislative. The U.S. Senate Committee on Banking, Housing and Urban Affairs held hearings in October 2011 to examine the role of ETFs in the marketplace. The concern is systemic risk, risk inherent to the entire market or segment, which is a nasty term nowadays. Those hearings aside, this particular multi-trillion dollar wave appears to be exhausting itself. In conceptual terms, the rising correlations of equity securities globally will likely reduce the utility of indexation, even though one of the intended benefits of creating new indexes was to decrease correlations to broader markets. Concurrently, there is increasing pressure for fee compression amongst the ETF providers. If a product loses its utility to both the buyers and the sellers, then its business purpose becomes obsolete.



LIBERTY STREET HORIZON FUND Q4 2011 COMMENTARY

There are indicators that such a reversal is already in development. For example, BlackRock (NYSE: BLK), the largest provider of ETFs including iShares, has expense ratios generally in the range of 35 to 70 basis points (100 basis points = 1.00%), and has been managing some of its funds for a decade. Some years ago, Vanguard began to establish ETFs for the same major indexes that represent significant assets at BlackRock, charging 12 to 25 basis points for the very same product. Fee compression on scores of billions of dollars of assets represents pure loss of pre-tax income to BlackRock, which is a serious problem.

What are they doing? On September 1st, 2011, BlackRock filed for SEC permission to offer 13 actively managed ETFs that would not have to disclose their holdings daily. This would permit them to offer not merely exposure to a sector or batch of stocks, but to actively manage the portfolio to create the possibility of outperforming—and could therefore maintain or even raise their fees. If BlackRock is doing that, so must some competitors. Eaton Vance (NYSE: EV) filed for the same exemptive relief shortly thereafter. How do you outperform an index? If the notion is to maintain a fee structure by offering the possibility of outperforming an index, then one avenue available is to select companies that are: 1) not in the index, and 2) offer the possibility of idiosyncratic returns, as, maybe, from stocks selling below book value or below NAV, or that have superior measures of business return yet are less expensive than the index. In other words, you select stocks which are on the wrong side of the ETF divide - the sorts of stocks our Fund owns. If the wave of indexation flows reverses and comes coursing back, it would try to move through a universe of stocks with a limited market capitalization and limited float. The potential impact would be large, indeed. And it might not be long in coming.

Now, the current discounts are not a terrible circumstance from the point of view of a value investor who can acquire companies on the 'wrong side' of the ETF divide. Venture into individual stock selection, instead of basket selection, and the valuations can be fractions, not multiples, of book value. The only catch is to wait, though as just discussed, the wait might not be all that long. One day, we believe history will record yet another of those odd periods when investors could have purchased all manner of stocks at multi-decade low valuations, almost indiscriminately, but missed out in their enthusiasm for a particular passion of that era.

Holdings Review

Sears Holdings

There has been much said and written about the company recently, some of it scathing, some witty, the majority of it negative. And, applied to Sears as a retail store business, it is all true; virtually every successive management decision over the course of six years has been either naïve, misguided, incompetent, or arrogant—if Sears is viewed as a department store company. This includes the initial decision to curtail the advertising budget, the reduction of inventories, the reduction in sales staff, the disinvestment in the physical infrastructure, and the succession of chief executive officers, the latest with not a bit of prior retailing experience. While Sears has spent billions on share repurchases, its competitors spent billions on store reformatting and refurbishment. Valued on its retail sales and operating income, Sears stock is a decidedly unappealing sight.

Yet, if viewed as a real estate company, virtually every management decision has been logical. This has been the investment thesis since the position was established: that the ultimate value of the real estate was worth more than the market capitalization of the company, and that the realization of that value would be a long-term prospect, since it appeared that the controlling shareholder, Eddie Lampert, was intent on first maximizing the cash flow available from the retail business. Indeed, since 1996, shares repurchase have increased the amount of real estate owned per share by over 50%. If Sears has been engaged in a long-term end game of capitalizing the real estate, then there would necessarily have to come a time when the stores would begin to reach a point of diminishing returns. Eight years after Mr. Lampert became chairman, this appears to be happening to at least some of the stores, and those are being closed; they are not being supported with capital spending. What might seem to be a manifestation of failure as a retailer is simply one step in a long end game as a realtor. In fact, the original thesis cannot be fulfilled unless stores are sold, and they are unlikely to be sold if they are highly profitable.



LIBERTY STREET HORIZON FUND Q4 2011 COMMENTARY

The retailing environment is far poorer today than it was several years ago, and no doubt poorer than Mr. Lampert could have anticipated at the beginning of this process, and that certainly affects the clearing price of retailing real estate. The balance sheet has been arranged such that it will not be until 2016 that the first major debt maturities and credit line expirations take place. Thus, there will be a good four years for retailing and housing (Sears sells the white goods—refrigerators, washing machines and dishwashers)—to recover, for real estate capitalization rates to improve, and for optionality to be realized within this enormous real estate portfolio. Aside from the owned stores there is reason to believe that there are many long-term, below-market leases among the 3,000-plus leased stores. These, too, have value as real estate. As does the company's 2 million square feet of owned office space at its headquarters in the Hoffman Estates suburb of Chicago. There are other assets, too. Aside from whatever values are attached to the brands that it owns (for example, Craftsman tools, Kenmore, Land's End and DieHard car batteries), Sears is also a major internet presence: it was listed as the 7th largest internet retailer in 2011 by Internet Retailer.

Events as they unfold will be monitored and evaluated, but to date, the basis for this investment still stands. As an end note, on January 9th, 10th, and 11th, which were days during which the Sears stock traded at its lowest price since 2004, Mr. Lampert increased his personal holdings by over 5.4 million shares priced at some \$162 million.

MasterCard

MasterCard (NYSE: MA) and Visa (NYSE: V) function as a virtual duopoly in providing the transaction processing infrastructure for credit cards, charging a variety of fees for each transaction. Part of the competitive barrier to entry is the enormous cumulative investments they have made over the decades. This affords some pricing power, and their returns on invested capital are among the highest one can find among publicly traded companies. It is also a high fixed-cost, low marginal cost business—the marginal cost of an incremental transaction is quite small, such that an increase in transaction volumes can result in expanding profit margins. As well MasterCard, which had its initial public offering (IPO) in 2006, manifested much lower profit margins than Visa, and there was no obvious structural reason why its profitability could not converge toward that of Visa; absent any other operating dynamics, such convergence alone would add a lot to MasterCard's profitability.

Another qualitative strength of the MasterCard business was that over one-quarter of revenues in 2009 derived from what might broadly be described as emerging markets, and those revenues were expanding at double-digit annual rates even as the company's major developed markets, the U.S. and Europe, contracted or grew modestly. Penetration rates in emerging markets are low and the ultimate expansion potential significant. Accordingly, based upon an expectation of normalized profitability a few years forward, anticipating the effacement of litigation liabilities, the advancement of revenues through overseas growth, and the scale and efficiency benefits of that growth, we considered MasterCard, which was otherwise debt-free, to be an undervalued, not overvalued, stock of extraordinarily high quality. As one measure of business quality, the company's return on average equity in 2009 was 53%; its return on assets, at 21%, exceeded most companies' return on equity (ROE).

First, through operating profits, MasterCard has paid off all of its \$1.4 billion of litigation settlements liabilities. Not being a business that requires substantial ongoing capital expenditures, net income, now in the \$2.5 billion range, is approximately equal to free cash flow. Having dispensed with its only substantive liability, and since the business does not require much reinvestment, the two basic uses for its free cash flow (other than for acquiring other businesses, which are hardly likely to be as profitable), are to pay dividends or to repurchase shares. Since the ROE in the first 9 months of 2011 was roughly 45%, repurchase of shares is, on its face value, a financially high-return investment. The company has begun to repurchase shares; this amounted to \$1.1 billion during the first 9 months of 2011. As to the balance sheet, cash now exceeds total liabilities. Operationally, revenues during the first 9 months of 2011 were 22% higher than in the prior-year period, and net income 31% higher; earnings-per-share, a result of the share repurchases, were 34% higher.



For more information, please contact the Fund at 800 207-7108 or visit the Fund's website at www.libertystreetfunds.com. Financial Professionals only may contact HRC Fund Associates, LLC at 212 240-9726. HRC is the affiliated broker dealer of Liberty Street Advisors, Inc.

LIBERTY STREET HORIZON FUND Q4 2011 COMMENTARY

Wall Street analysts' consensus of MasterCard's estimated earnings for 2012 are \$21.72 per share, which is consistent with a 36.5% net margin on sales that are 12%+ higher than in 2011. On this basis, the shares trade at 17.2x this year's expected earnings. At a price-to-earnings (P/E) of 17x, the company could repurchase about 1/17 of its shares annually, and without resorting to borrowing (although that would also be accretive). This hypothetical growth has the potential to add an additional 5.9% per year to the earnings progress of the basic business for a very long time. Some find the benefits of share repurchases on this order, which can require many years to become effective, difficult to appreciate. An exercise with more immediacy would be to presume that the company shifts to a higher dividend payout strategy.

We appreciate your continued support and look forward to a closing of the great ETF divide. We are hopeful that 2012 will start the recognition of that divide and that our Fund and shareholders will be rewarded for their patience over the fullness of time.



For more information, please contact the Fund at 800 207-7108 or visit the Fund's website at www.libertystreetfunds.com. Financial Professionals only may contact HRC Fund Associates, LLC at 212 240-9726. HRC is the affiliated broker dealer of Liberty Street Advisors, Inc.

LIBERTY STREET HORIZON FUND Q4 2011 COMMENTARY

RISKS AND DISCLOSURES:

The Fund holdings referenced in this Commentary represented the following percentages of Total Fund Holdings as of October 31, 2011, the most recent date that Total Fund Holdings were publicly available: Sears Holding Corp. 8.18%; MasterCard Inc. 3.30%. Apple, Visa, Eaton Vance, SPDR S&P 500, and iShares Russell 2000 were not Fund holdings as of October 31, 2011.

This material is not an offer or a solicitation of an offer to buy shares in any fund or security to any person in any jurisdiction in which such offer, solicitation, purchase, or sale would be unlawful under the securities laws of such jurisdiction. Furthermore, the Liberty Street Horizon Fund is not available for sale outside of the United States. The views in this material are intended to assist readers in understanding certain investment methodology and do not constitute investment advice.

It is important to note that all investments are subject to certain risks. The views in this material were those of the author as of the date of publication and may not reflect his view on the date this material is first published or any time thereafter. *Past performance is not an indicator of future results.*

There is no guarantee the Fund will achieve the investment objective. The Fund is non-diversified and may focus its investments in the securities of a comparatively small number of issuers. Investment in securities of a limited number of issuers exposes the Fund to greater market risk and potential monetary losses than if its assets were diversified among the securities of a greater number of issuers. The Fund may invest in small- and medium- sized companies, which involves greater risks than investing in larger, more established companies such as increased volatility of earnings and prospects, higher failure rates, and limited markets, product lines or financial resources. The Fund may invest in foreign or emerging markets securities, which involve special risks, including the volatility of currency exchange rates and, in some cases limited geographic focus, political and economic instability, and relatively illiquid markets. The Fund may invest in debt securities, which are subject to interest rate risk. An increase in interest rates typically causes a fall in the value of debt securities in which the Fund may invest. The Fund may also invest in high yield, lower rated (junk) bonds, which involve a greater degree of risk and price fluctuation than investment grade bonds in return for higher yield potential. The Fund may purchase IPOs and distressed securities. IPOs have special risks as there may be a limited number of shares available, unseasoned trading, lack of investor knowledge of the company and a limited operating history. Distressed securities involve considerable risk and can result in substantial or even total loss on the Fund's investment. These companies are more likely to become worthless than securities of more financially stable companies.

The S&P 500 Index is a broad based unmanaged index representing the performance of 500 widely held common stocks. One cannot invest directly in an index.

Before investing you should carefully consider the Fund's investment objectives, risks, charges and expenses. This and other information is in the prospectus, a copy of which may be obtained by calling 1-800-207-7108 or by visiting the Fund's website at www.libertystreetfunds.com. Please read the prospectus carefully before you invest.

Forside Fund Services, LLC, distributor.



For more information, please contact the Fund at 800 207-7108 or visit the Fund's website at www.libertystreetfunds.com. Financial Professionals only may contact HRC Fund Associates, LLC at 212 240-9726. HRC is the affiliated broker dealer of Liberty Street Advisors, Inc.