

# SECURITIES AND EXCHANGE COMMISSION

## FORM POS AMI

Post-effective amendments to 40 Act only filings

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### FILER

#### **PYXIS FUNDS II**

CIK:[891079](#) | IRS No.: **061357778** | State of Incorporation: **MA** | Fiscal Year End: **0930**  
Type: **POS AMI** | Act: **40** | File No.: [811-07142](#) | Film No.: **13552597**

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SUITE 800  
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**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM N-1A**  
**REGISTRATION STATEMENT**

*Under*  
*the Investment Company Act Of 1940*  
Amendment No. 109

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**PYXIS FUNDS II**

(Exact Name of Registrant as Specified in Charter)

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c/o Pyxis Capital, L.P.  
200 Crescent Court, Suite 700  
Dallas, Texas 75201

(Address of Principal Executive Offices, including Zip Code)

Registrant's Telephone Number, Including Area Code: 1-972-628-4100

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(Name and Address of Agent for Service)

**Mr. Ethan Powell**  
c/o Pyxis Capital, L.P.  
200 Crescent Court, Suite 700  
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*Copy to:*

**Mr. Brian Mitts**  
c/o Pyxis Capital, L.P.  
200 Crescent Court, Suite 700  
Dallas, Texas 75201

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## [Table of Contents](#)

### **EXPLANATORY NOTE**

This Registration Statement has been filed by Pyxis Funds II (the “Registrant”) on behalf of Pyxis Natural Resources Fund (the “Fund”), a series of the Registrant, pursuant to Section 8(b) of the Investment Company Act of 1940, as amended. However, shares of the Fund are not currently being offered for sale within the meaning of Section 5 of the Securities Act of 1933, as amended (the “1933 Act”). As a result, no amendment to the Fund’s Registration Statement under the 1933 Act is being made.

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## Table of Contents

### **Pyxis Natural Resources Fund**

POS AMI

**February 1, 2013**

**Class A - Ticker: HNRAX**

**Class C - Ticker: HNRCX**

**Class R - Ticker: HNRRX**

**Class Y - Ticker: HNRYS**

Investment portfolio of Pyxis Funds II managed by  
Pyxis Capital, L.P. ("Pyxis" or the "Adviser")

Although these securities have been registered with the Securities and Exchange Commission ("SEC"), the SEC has not approved or disapproved any shares offered in this Prospectus or determined whether this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Not FDIC Insured  
May Lose Value  
No Bank Guarantee

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## Table of Contents

<b>TABLE OF CONTENTS</b>	
<b><u>Summary Section</u></b>	<b>2</b>
<b><u>Important Additional Information</u></b>	<b>5</b>
<b><u>Additional Information About Principal Investment Strategies</u></b>	<b>6</b>
<b><u>Additional Information About Principal Risks</u></b>	<b>7</b>
<b><u>Management of the Fund</u></b>	<b>9</b>
<b><u>Disclosure of Portfolio Holdings</u></b>	<b>11</b>
<b><u>How to Buy Shares</u></b>	<b>11</b>
<b><u>Redemption of Shares</u></b>	<b>17</b>
<b><u>Exchange of Shares</u></b>	<b>21</b>
<b><u>Dividends and Other Distributions</u></b>	<b>23</b>
<b><u>Taxation</u></b>	<b>23</b>
<b><u>Net Asset Value</u></b>	<b>26</b>
<b><u>Mailings to Shareholders</u></b>	<b>28</b>

## [Table of Contents](#)

### **PYXIS NATURAL RESOURCES FUND**

#### **Investment Objective**

The investment objective of Pyxis Natural Resources Fund (the “Fund”) is to seek growth of capital.

#### **Principal Investment Strategies**

The Fund is a feeder fund that pursues its investment objective through a “master-feeder” arrangement. The Fund invests substantially all of its assets in a master fund, the Ascendant Natural Resources Master Fund (the “Master Fund”), a separate investment company managed by Ascendant Advisors, LLC (“Ascendant”) with the same investment objective, investment policies, and risks as the Fund. As of the date of this Prospectus, the Fund has no outstanding shares and the Fund’s shares are not being offered for sale.

The Adviser has a fiduciary duty to the shareholders of the Fund to perform its duties in a manner that is most beneficial to the shareholders. Pyxis, in its role as the Adviser of the Fund, has the ability and obligation to continually monitor the Fund’s investment in the Master Fund. If the Adviser deems it to be in the best interests of the Fund, it may, with 60 days notice, liquidate the Fund’s position in the Master Fund. Some reasons the Adviser may consider liquidating its investment may include but are not limited to: poor performance over a significant period of time, Ascendant’s failure to adhere to the investment objectives and strategies stated in this Prospectus, or Ascendant’s disregard for regulations governing open-end mutual funds.

Under normal market conditions, the Master Fund invests at least 80% of its assets in the common stock of natural resource companies. The Master Fund and the Fund define natural resource companies as those in businesses that are primarily related to (i.e. have a majority of their assets in, or revenues or profits from) oil, gas, metals, forest products, agriculture, chemicals, commodities or other natural resources, including mining, refining or processing. The Master Fund invests without restriction as to issuer capitalization or country.

Ascendant, the investment adviser of the Master Fund, selects natural resource common stocks from the stocks listed on the major U.S. exchanges with, generally, at least five years of historical financial data, including American depositary receipts (“ADRs”) representing common stocks of foreign issuers. Ascendant’s selection process is primarily based on a bottom up, quantitative process utilizing a broad array of technical and fundamental data items developed through 40 years of proprietary research and statistical analysis and two years of experience managing a separate managed account portfolio that invests in the common stock of issuers in the natural resources industry. These data items consider fundamental measures including: stock valuation based on price to earnings ratio, balance sheet leverage, and relative-to-industry earnings. Based on this analysis, companies and industries are ranked based on prospects for relative price performance over various time horizons. Ascendant also evaluates the most attractive common stocks using qualitative considerations, such as the experience of a company’s management, to select securities.

Ascendant may sell a security based on its performance, new research or when the underlying investment thesis has deteriorated.

To the extent that the Fund invests substantially all of its assets in the Master Fund, Pyxis will continually monitor the investments of the Master Fund to be sure such investments continue to be appropriate for the Fund and will consider other investment options, as necessary. The Board has considered that the aggregate of the fees, on a net basis, charged by the Fund and the Master Fund would be the same as if the Fund were invested directly in the securities held by the Master Fund. The Master Fund is a new mutual fund and has a limited operating history.

The Fund is non-diversified as defined in the Investment Company Act of 1940, as amended (the “1940 Act”), but the Master Fund in which it invests is diversified, and therefore the Fund will operate as a diversified fund for so long as the Fund invests in the Master Fund, the Master Fund continues to operate as a diversified fund, or until the Fund may no longer be designated as non-diversified by operation of law. The Fund is not intended to be a complete investment program.



## Table of Contents

### **Principal Risks of Investing in the Master Fund**

When you sell Fund shares, they may be worth less than what you paid for them. Consequently, you can lose money by investing in the Fund. Because the Fund invests substantially all its assets in the Master Fund, the most significant risks of investing in the Fund are the risks to which the Fund is exposed through the Master Fund, which include those outlined in the following brief summary of principal risks. No assurance can be given that the Fund will achieve its investment objective, and investment results may vary substantially over time and from period to period. An investment in the Fund is not appropriate for all investors.

**Equity Market Risk.** Equity markets can be volatile. In other words, the prices of common stocks can fall rapidly in response to developments affecting a specific company or industry, or to changing economic, political or market conditions.

**Issuer-Specific Risk.** The value of a specific common stock can be more volatile than the market as a whole and can perform differently from the market as a whole.

**Small- and Medium-Cap Company Risk.** The value of small or medium capitalization company common stocks may be subject to more abrupt or erratic market movements than those of larger, more established companies or the market averages in general.

**Foreign Risk.** Changes in foreign economies and political climates are more likely to affect the Master Fund than a mutual fund that invests exclusively in U.S. companies. The values of foreign issuer common stocks and ADRs may be affected by changes in exchange control regulations, application of foreign tax laws, changes in governmental administration or economic or monetary policy. Recently, additional risks have arisen related to the high levels of debt of various European countries such as Greece, Italy and Spain. One or more member states might exit the European Union, placing its currency and banking system in jeopardy. These problems, and related political and monetary efforts to address these problems, may increase the potential for market declines in one or more member states that can spread to global markets. These increased risks may persist and may result in greater volatility in the securities markets and the potential for impaired liquidity and valuation.

**Non-Diversification Risk** is the risk that an investment in the Fund could fluctuate in value more than an investment in a diversified fund. As a non-diversified fund for purposes of the Investment Company Act of 1940 (the "1940 Act"), the Fund may invest a larger portion of its assets in the securities of a few issuers than a diversified fund. A non-diversified fund's investment in fewer issuers may result in the Fund's shares being more sensitive to the economic results of those issuers. Even though the Fund is non-diversified, the Master Fund in which it invests is diversified, and therefore the Fund will operate as a diversified fund for so long as the Fund invests in the Master Fund, the Master Fund continues to operate as a diversified fund, or until the Fund may no longer be designated as non-diversified by operation of law.

**Limited History of Operations Risk.** The Fund and the Master Fund are each new mutual funds and have a limited history of operation.

**No History of Mutual Fund Management Risk.** The Master Fund's adviser, Ascendant, has not previously managed a mutual fund.

**Natural Resources Risk.** The Master Fund's exposure to companies primarily engaged in the natural resource markets may subject the Master Fund to greater volatility than investments in a wider variety of industries. Natural resource companies may be affected by changes in overall market movements, commodity price volatility, changes in interest rates, or sectors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs, and international economic, political and regulatory developments.

**Management Risk.** Ascendant's and the Adviser's judgments about the attractiveness and potential appreciation of a common stock may prove to be inaccurate and may not produce the desired results.

**Master-Feeder Structure Risk** is the risk that the Fund's performance may suffer as a result of large cash inflows and outflows of the Master Fund in which the Fund invests. Additionally, the adviser of the Master Fund has not previously managed a mutual fund.





## [Table of Contents](#)

An investment in the Fund is not a bank deposit and is not insured or guaranteed by the FDIC or any other government agency. As with any mutual fund, there is no guarantee that the Fund will achieve its goal.

### **PYXIS NATURAL RESOURCES FUND**

#### **Portfolio Management**

Pyxis Capital, L.P. serves as the investment adviser to the Fund. The Adviser has overall responsibility for the general management and administration of the Fund. Ascendant Advisors, LLC serves as the adviser to the Master Fund. The portfolio managers for the Fund and the Master Fund are:

<u>Portfolio Manager</u>	<u>Managed the Applicable Fund Since</u>	<u>Title</u>
Brian Mitts	June 2012	Portfolio Manager of the Fund
Todd Smurl, CFA	Inception	President of Ascendant Advisors, LLC and Portfolio Manager of the Master Fund

For important information about purchase and sale of Fund shares, tax information and financial intermediary compensation, please turn to “Important Additional Information” on page 5 of this Prospectus.

## [Table of Contents](#)

### IMPORTANT ADDITIONAL INFORMATION

#### Purchase and Sale of Fund Shares

**Purchase minimums** (for Class A and Class C Shares)  
(reduced for certain accounts)

	By mail	By wire	Automatic
Initial Investment	\$ 500	\$1,000	\$ 25
Subsequent Investments	\$ 100	\$1,000	\$ 25

There is no program asset size or minimum investment requirements for initial and subsequent purchases of shares by eligible omnibus account investors.

**Purchase minimums** (for Class R and Class Y Shares)  
(eligible investors only)\*

	Class R	Class Y
Initial Investment	None	\$1 million**
Subsequent Investments	None	None

\* Class R and Class Y shares are available to investors who invest through programs or platforms maintained by an authorized financial intermediary. There is no minimum investment for purchases of shares by such eligible investors. Individual investors that invest directly with the Fund are not eligible to invest in Class R or Class Y shares.

\*\* The \$1 million minimum initial investment requirement only applies to eligible institutional investors purchasing shares for their own account directly from the Fund.

You may purchase shares of the Fund by mail, bank wire, electronic funds transfer or by telephone after you have opened an account with the Fund. You may obtain an account application from your financial intermediary, from the Fund by calling 1-877-665-1287 or from the Fund's website at [www.pyxisais.com](http://www.pyxisais.com).

In general, you may sell (redeem) all or part of your Fund shares on any business day through the following options:

Through your Financial Intermediary,

By writing to Pyxis Funds II - Pyxis Natural Resources Fund, PO Box 8656, Boston, Massachusetts 02021, or

By calling Boston Financial Data Services, Inc. at 1-877-665-1287.

Financial intermediaries may independently charge fees for shareholder transactions or for advisory services. Please see their materials for details.

#### Tax Information

The Fund intends to make distributions that generally will be taxable to you as ordinary income or capital gains, unless you are a tax-exempt investor or otherwise investing in the Fund through a tax-advantaged arrangement, such as a 401(k) plan or an individual retirement account. If you are investing in the Fund through a tax-advantaged arrangement, you may be taxed later upon withdrawals from that account.

#### Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase shares of the Fund through a broker-dealer or other financial intermediary (such as a bank), the Fund and the Fund's distributor or its affiliates and its related companies may pay the intermediary for the sale of Fund shares and related

services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment. Ask your salesperson or visit your financial intermediary' s website for more information.

## Table of Contents

### **ADDITIONAL INFORMATION ABOUT PRINCIPAL INVESTMENT STRATEGIES**

The investment objective of Pyxis Natural Resources Fund (the "Fund") is to seek growth of capital. In addition, the Fund is permitted to use other securities, non-principal investment strategies and techniques in pursuit of its investment objectives, as described in the Fund's SAI. The Fund is not under any obligation to use any of these techniques or strategies at any given time or under any particular economic condition. Certain instruments and investment strategies may expose the Fund to other risks and considerations, which are discussed later in this Prospectus and in the Fund's Statement of Additional Information ("SAI"). Any reference to investments made by the Fund includes those that may be made both directly by the Fund and indirectly by the Fund (e.g., through derivatives and other pooled investment vehicles). The principal investment strategies utilized by the Master Fund, in which the Fund intends to invest its assets, are substantially similar to those of the Fund.

Ascendant believes that no single investment philosophy is permanently superior, but rather styles rotate in and out of favor as the market environment changes. This investment philosophy has remained consistent since 1970. Ascendant's investment approach is to analyze vast amounts of data to identify those securities expected to outperform the overall market during a specific time period and then methodically rotate holdings as Ascendant's research identifies what it believes to be more attractive investment opportunities. An absence of sector, style and benchmark biases leads Ascendant to the construction of portfolios based strictly upon the conviction of objective research. Ascendant's goal is to consistently deliver strong, risk-adjusted returns over multiple market cycles.

Ascendant selects common stocks from stocks listed on the major US exchanges with, generally, five years of historical financial data, including American depositary receipts ("ADRs") representing common stocks of foreign issuers. Ascendant's selection process is primarily based on a bottom up, quantitative process utilizing a broad array of technical and fundamental data items developed through 40 years of proprietary research. These data items include, but are not limited to: (1) stock valuation (free cash flow, price/earnings), (2) earnings data (earnings and earnings trends), (3) dividend data, (4) debt ratios (long-term debt/equity ratio), (5) balance sheet data (book value), (6) profitability ratios, (7) intrinsic value and (8) changes in institutional ownership. The selection process also includes an industry relative analysis of measures such as P/E and historical performance. Based on this analysis, companies and industries are ranked based on prospects for relative price performance over various time horizons. Although Ascendant's process is primarily quantitative, it also evaluates the most attractive common stocks using qualitative considerations, such as the experience of a company's management, to select securities. In addition to conducting industry-level and company-specific analysis, the adviser also uses market cycle analysis as a tool to guide portfolio allocation and repositioning.

#### **Leverage**

Subject to applicable regulations, the Fund may employ leverage for short-term purposes such as meeting redemption requests, but not for investment purposes. To the extent the Fund borrows money from a bank, it may be required to post cash and/or securities as collateral to cover the loan until such time as it is repaid.

#### **Temporary Investments**

To respond to adverse market, economic, political or other conditions, the Master Fund or the Fund may invest 100% of its total assets, without limitation, in high-quality short-term debt securities and money market instruments. These short-term debt securities and money market instruments include shares of money market mutual funds, commercial paper, certificates of deposit, bankers' acceptances, U.S. government securities and repurchase agreements. While the Master Fund or the Fund is in a defensive position, the opportunity to achieve its investment objective will be limited. Furthermore, to the extent that the Master Fund or the Fund invests in money market mutual funds for cash positions, there will be some duplication of expenses because the Master Fund or the Fund pays its pro-rata portion of such money market funds' advisory fees and operational fees. The Master Fund or the Fund may also invest a substantial portion of its assets in such instruments at any time to maintain liquidity or pending selection of investments in accordance with its policies.

In addition, the Fund may hold cash under circumstances where the liquidation of the Fund has been approved by the Trustees, and therefore investments in accordance with the Fund' s investment objective and policies would no longer be appropriate.

## [Table of Contents](#)

*Additional Information.* The Board of Trustees may change any of the foregoing investment policies, including the Fund's investment objective without shareholder approval. The Fund will provide shareholders with written notice at least 60 days prior to a change in the investment objective.

### **INFORMATION ABOUT PRINCIPAL RISKS**

Like all mutual funds, investing in the Fund involves risk factors and special considerations. The Fund's and the Master Fund's risk is defined primarily by their principal investment strategies, which are described earlier in the Summary Section of this Prospectus. The principal risks of the Master Fund are identical to those of the Fund. Investments in the Fund are not insured against loss of principal. As with any mutual fund, there can be no assurance that the Fund will achieve its investment objectives. Investing in shares of the Fund should not be considered a complete investment program. There is a risk that the share value of the Funds will fluctuate.

One of your most important investment considerations should be balancing risk and return. Different types of investments tend to respond differently to shifts in the economic and financial environment. So, diversifying your investments among different asset classes - such as stocks, bonds and cash - and within all asset class - such as small-cap and large-cap stocks - may help you to manage risk and achieve the results you need to reach your financial goals.

*Equity Market Risk.* Equity markets can be volatile. In other words, the prices of equity securities can fall rapidly in response to developments affecting a specific company or industry, or to changing economic, political or market conditions. The Master Fund's investments may decline in value if the equity markets perform poorly. There is also a risk that the Master Fund's investments will underperform either the securities markets generally or particular segments of the securities markets.

*Foreign Risk.* Investments in securities of foreign issuers are subject to currency risk and country-specific risks such as political, diplomatic, regional conflicts, terrorism, war, social and economic instability and policies that have the effect of decreasing the value of foreign securities. Foreign countries may be subject to different trading settlement practices, less government supervision, less publicly available information, limited trading markets and greater volatility than U.S. investments. Recently, additional risks have arisen related to the high levels of debt of various European countries such as Greece, Italy and Spain. One or more member states might exit the European Union, placing its currency and banking system in jeopardy. These problems, and related political and monetary efforts to address these problems, may increase the potential for market declines in one or more member states that can spread to global markets. These increased risks may persist and may result in greater volatility in the securities markets and the potential for impaired liquidity and valuation.

*Issuer-Specific Risk.* The price of a specific security can be more volatile than the market as a whole and can perform differently from the value of the market as a whole. The price of securities of smaller issuers can be more volatile than those of larger issuers. The price of certain types of securities can be more volatile due to increased sensitivity to adverse issuer, political, regulatory, market or economic developments.

*Limited History of Operations Risk.* The Fund and Master Fund are new mutual funds and have a limited history of operation. In addition, Ascendant has not previously managed a mutual fund. Mutual Funds and their advisers are subject to restrictions and limitations imposed by the Investment Company Act of 1940, as amended, and the Internal Revenue Code that do not apply to Ascendant's management of individual and institutional accounts.

*Management Risk.* Ascendant's judgments about the attractiveness and potential appreciation of a security may prove to be inaccurate and may not produce the desired results. Additionally, Ascendant's reliance on investment strategy judgments about the growth potential of particular companies or the relative value of particular securities may prove to be incorrect or inconsistent with the overall market's assessment of these characteristics, which may result in lower than expected returns. Ascendant's investment style may subject the Master Fund to certain risks. A portfolio company's earnings growth may not increase as much as the adviser

assumes it will. Even if a portfolio company' s earnings grow as the adviser expects, there may not be a corresponding increase in the



## Table of Contents

portfolio company' s share value. Also, Ascendant' s determination of reasonable valuation for a portfolio security may be incorrect. Additionally, Ascendant' s assessment of the credit quality of an issuer may prove incorrect, subjecting the Master Fund to high default risk. Consequently, the Master Fund may pay more for a portfolio security than it is worth.

*Master-Feeder Structure Risk.* While the master/feeder structure is designed to reduce costs, it may not do so, and the Fund might encounter operational or other complications. For example, large-scale redemptions by other feeder funds, if any, of their shares in the Master Fund could have adverse effects on the Fund, such as requiring the liquidation of a substantial portion of the Master Fund' s holdings at a time when it may be disadvantageous to do so. Also, other feeder funds of the Master Fund, if any, may have a greater ownership interest in the Master Fund than the Fund' s interest, and, therefore, could have effective voting control over the operation of the Master Fund. In addition, the master/feeder structure presents certain special tax considerations. See "Taxation" below for more information.

*Natural Resource Risk.* The Master Fund' s exposure to companies primarily engaged in the natural resource markets may subject the Master Fund to greater volatility than investments in traditional securities. Natural resource companies may be affected by changes in overall market movements, commodity price volatility, changes in interest rates, or sectors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs, and international economic, political and regulatory developments. Economic forces, including forces affecting the agricultural commodity, energy and mining markets, as well as government policies and regulations affecting the extraction and production of natural resources could adversely affect the companies in which the Master Fund may invest and, thus, the Master Fund' s returns. Governmental policies affecting the natural resources industries, such as taxes, tariffs, duties, subsidies and import and export restrictions on commodities and commodity products, can influence industry profitability and the volume and types of exports. In addition, the companies in which the Master Fund invests must comply with a broad range of environmental laws and regulations. Additional or more stringent environmental laws and regulations may be enacted in the future and such changes could have a material adverse effect on the business of the companies in which the Master Fund invests.

*No History of Mutual Fund Management Risk.* Ascendant, the adviser to the Master Fund, has not previously managed a mutual fund. Mutual funds and their advisers are subject to restrictions and limitations imposed by the Investment Company Act of 1940, as amended, and the Internal Revenue Code that do not apply to Ascendant' s management of individual and institutional accounts. As a result, investors cannot judge Ascendant by its track record of managing a mutual fund and Ascendant may not achieve the intended result in managing the Master Fund.

*Small and Medium Capitalization Company Risk.* The value of small or medium capitalization company securities may be subject to more abrupt or erratic market movements than those of larger, more established companies or the market averages in general. Companies with small and medium size market capitalization often have narrower markets, fewer products or services to offer and more limited managerial and financial resources than do larger, more established companies. Investing in lesser-known, small and medium capitalization companies involves greater risk of volatility of the Master Fund' s net asset value than is customarily associated with larger, more established companies. Often smaller and medium capitalization companies and the industries in which they are focused are still evolving and, while this may offer better growth potential than larger, more established companies, it also may make them more sensitive to changing market conditions. Small cap companies may be subject to more pronounced versions of the risks described because of their smaller size.

*Non-Diversification Risk.* Due to the nature of the Fund' s investment strategy and its non-diversified status, it is possible that a material amount of a Fund' s portfolio could be invested in the securities of one or a few issuers. Investing a significant portion of a Fund' s portfolio in any one or a few issuers may result in the Fund' s shares being more sensitive to the economic results of those few issuers. Even though the Fund is non-diversified, the Master Fund in which it invests is diversified, and therefore the Fund will operate as a diversified fund for so long as the Fund invests in the Master Fund, the Master Fund continues to operate as a diversified fund, or until the Fund may no longer be designated as non-diversified by operation of law.



## Table of Contents

### MANAGEMENT OF THE FUND

#### **Board of Trustees and Investment Adviser**

The Board of Trustees (the “Board”) has overall management responsibility for the Fund. See “Management of the Trust” in the SAI for the names of and other information about the Trustees and officers of the Fund.

Pyxis Capital, L.P., (“Pyxis” or the “Adviser”), serves as the investment adviser to the Fund. The address of the Adviser is 200 Crescent Court, Suite 700, Dallas, Texas 75201. The Fund has entered into an investment advisory agreement with Pyxis (the “Investment Advisory Agreement”) pursuant to which Pyxis provides the day-to-day management of the Fund’s portfolio of securities, which includes buying and selling securities for the Fund and conducting investment research. To the extent that the Fund invests substantially all of its assets in the Master Fund, Pyxis will continually monitor Ascendant and the investments of the Master Fund to be sure such investments continue to be appropriate for the Fund and will consider other investment options, as necessary. Additionally, Pyxis pays the compensation of the Trustee of the Fund who is Pyxis’s affiliate. In return for its advisory and administrative services, the Fund pays Pyxis a monthly fee of 0.30% of the Fund’s average daily managed assets, computed and accrued daily, and an administrative fee of 0.20% of the Fund’s average daily managed assets, computed and accrued daily. “Average Daily Managed Assets” of the Fund shall mean the average daily value of the total assets of the Fund, less all accrued liabilities of the Fund (other than the aggregate amount of any outstanding borrowings constituting financial leverage). Pyxis has voluntarily undertaken to reduce its management fee and/or subsidize certain expenses of the Fund to the extent that the annual operating expenses, excluding Acquired Fund Fees and Expenses, exceed 2.25% with respect to Class A Shares; 2.90% with respect to Class C Shares, 2.40% with respect to Class R Shares, and 1.90% with respect to Class Y Shares. This voluntary management fee and/or expense subsidy may be modified or discontinued by Pyxis at any time with 14 days’ notice. A discussion regarding the Board of Trustees’ approval of the Investment Advisory Agreement for the Fund will be available in the Fund’s initial shareholder report. The Investment Advisory Agreement may be terminated by the Fund or by vote of a majority of the outstanding voting securities of the Fund, without the payment of any penalty, on 60 days’ written notice. In addition, the Investment Advisory Agreement automatically terminates in the event of its “assignment” (as defined in the 1940 Act).

#### **Adviser of the Master Fund**

The Master Fund in which the Fund invests is managed under the general oversight of the Board of Trustees of the Northern Lights Fund Trust. Ascendant Advisors, LLC, a registered investment adviser (“Ascendant”), serves as the adviser to the Master Fund. Ascendant will provide a quarterly certification to the Board confirming the fee is paid from the bona fide profits of Ascendant. Pursuant to the terms and conditions of an agreement (the “Participation Agreement”) between the Adviser, Ascendant and the Fund, Pyxis will continually monitor the investments of the Master Fund to be sure such investments continue to be appropriate for the Fund.

Ascendant was established in 1970 and serves as an investment adviser for separate accounts, individual investors and other mutual funds. Ascendant was previously named Pension Management Corporation and was renamed in July 2009. Ascendant’s principal address is Four Oaks Place, 1330 Post Oak Blvd, Suite 1550, Houston, Texas, 77056.

#### **Multi-Manager Structure**

Pyxis Funds II (the “Trust”) and the Adviser qualify for exemptive relief under a multi-managers’ exemptive order (the “Order”) from certain provisions of the 1940 Act, pursuant to which the Adviser will, subject to the oversight of the Fund’s Board of Trustees, be permitted to enter into and materially amend sub-advisory agreements on behalf of the Fund with sub-advisers unaffiliated with the Adviser without such agreements being approved by the shareholders of the Fund. The Fund’s Board of Trustees and the Adviser will therefore have the right to hire, terminate or replace sub-advisers without first obtaining shareholder approval, including in the event that a sub-advisory agreement has automatically terminated as a result of an assignment. The Adviser will continue to have the ultimate responsibility to oversee each sub-adviser and recommend its hiring, termination and

replacement. The Trust has obtained approval of the Fund' s reliance on the Order from the Board and from the initial shareholder of the Fund. The Trust and the Adviser will be subject to certain conditions imposed by the Order, including the

## [Table of Contents](#)

condition that within 90 days of hiring of a new non-affiliated sub-adviser, the Fund will provide shareholders with an information statement containing information about the sub-adviser. Shareholders of the Fund retain the right to terminate a sub-advisory agreement for the Fund at any time by a vote of the majority of the outstanding securities of the Fund.

### **Portfolio Managers of the Fund and Master Fund**

Brian Mitts has served as Senior Retail Fund Analyst of HCM since 2007 and Pyxis since its inception. Mr. Mitts has also served as Principal Accounting Officer and Treasurer of the funds in the Pyxis Fund Complex since November 2010. Prior to his current duties, Mr. Mitts was the Manager of Financial Reporting at HBK Investments (a hedge fund) from 2005 to 2007. Mr. Mitts holds degrees from the University of Texas at Austin (BBA, MPA). Mr. Mitts also holds the Certified Public Accountant(CPA) designation.

Todd Smurl, CFA, has more than 20 years of investment experience and has served as President of Ascendant and a member of its Investment Committee since December, 2010. Previously, Mr. Smurl founded Consilium Wealth Consulting, a professional services firm targeting the wealth management industry, where he served from January 2007 to December 2010. Prior to Consilium, Mr. Smurl was an Executive Vice President and Managing Director of Compass Bank Wealth Management Division, overseeing approximately \$4 Billion of assets under management. Prior to joining Compass, Mr. Smurl was a Senior Vice President with the Private Bank at Bank of America, holding several positions including Director of Alternative Investments, Regional Investment Strategist and Portfolio Manager. Mr. Smurl holds degrees from University of Arkansas at Little Rock (MBA) and the University of Central Arkansas (BBA). Mr. Smurl also holds the Chartered Financial Analyst (CFA) designation.

The SAI provides additional information about the portfolio manager' s compensation, other accounts managed by the portfolio manager and the portfolio manager' s ownership of securities issued by the Fund.

### **Underwriter of the Fund**

The Fund' s shares are offered for sale through Foreside Funds Distributors LLC (the "Underwriter"), 400 Berwyn Park, 899 Cassatt Road, Berwyn, Pennsylvania 19312. Shareholders and Financial Advisors (as defined under "How to Buy Shares") should not send any transaction or account requests to this address. Transaction or account requests should be directed to Pyxis Funds II - Pyxis Natural Resources Fund, PO Box 8656, Boston, Massachusetts 02021.

### **Administrator**

Pyxis provides administration services to the Fund for a monthly administration fee, computed and accrued daily, at an annual rate of 0.20% of the Fund' s Average Daily Managed Assets. In such capacity, Pyxis generally assists the Fund in all aspects of its administration and operations. Additionally, Pyxis furnishes offices, necessary facilities, equipment and personnel.

## DISCLOSURE OF PORTFOLIO HOLDINGS

The Fund has adopted policies and procedures to protect the Fund's portfolio information and prevent the misuse of that information by third parties. A description of the Fund's policies and procedures relating to the disclosure of the Fund's portfolio holdings is available in the Fund's SAI and on the Fund's website at [www.pyxisais.com](http://www.pyxisais.com).

## HOW TO BUY SHARES

You can purchase shares of the Fund on any day that the New York Stock Exchange ("NYSE") is open for business (see "Net Asset Value"). You can purchase shares of the Fund from any financial advisor, broker-dealer or other financial intermediary that has entered into an agreement with the Underwriter with respect to the sale of shares of the Fund (a "Financial Advisor"), or Boston Financial Data Services, Inc., 2000 Crown Colony Drive, Quincy, Massachusetts 02169-0953, the Fund's transfer agent (the "Transfer Agent"). Your Financial Advisor can help you establish an appropriate investment portfolio, buy shares, and monitor your investments. The Fund has authorized Financial Advisors to receive purchase and redemption orders on its behalf. Financial Advisors are authorized to designate other intermediaries to receive purchase and redemption orders on the Fund's behalf. The Fund will be deemed to have received a purchase or redemption order when a Financial Advisor or its authorized designee receives the order in "good order." The specific requirements for "good order" depend on the type of transaction and method of purchase. Contact Pyxis if you have questions about your circumstances. Generally, "good order" means that you placed your order with your Financial Advisor or its authorized designee or your payment (made in accordance with any of the methods set forth in the table below) has been received and your application is complete, including all necessary documentation and signatures. Customer orders will be priced at the Fund's NAV per share next computed after the orders are received by a Financial Advisor or its authorized designee in good order. Investors may be charged a fee by their Financial Advisors, payable to the Financial Advisor and not the Fund, if investors effect a transaction in Fund shares through either a Financial Advisor or its authorized designee.

The USA PATRIOT Act may require the Fund, a Financial Advisor or its authorized designee to obtain certain personal information from you which will be used to verify your identity. If you do not provide the information, it may not be possible to open your account. If the Fund, a Financial Advisor or authorized designee is unable to verify your customer information, the Fund reserves the right to close your account or to take such other steps as it deems reasonable.

Outlined below are various methods for buying shares of the Fund:

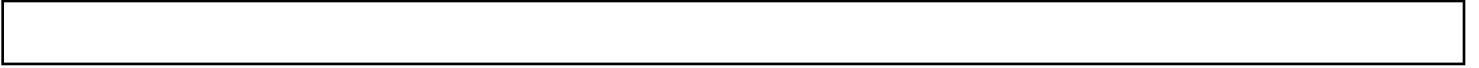
<b>Method</b>	<b>Instructions</b>
Through your Financial Advisor	Your Financial Advisor can help you establish your account and buy shares on your behalf. To receive the current trading day's price, your Financial Advisor must receive your request in good order prior to the close of regular trading on the NYSE, usually 4:00 p.m., Eastern time. Your Financial Advisor may charge you fees for executing the purchase for you.
By check (new account) <sup>(1)</sup>	For new accounts, send to the Fund, at the address noted below, <sup>(2)</sup> a completed application and check made payable to "Pyxis Funds II - Pyxis Natural Resources Fund." All purchases must be in U.S. Dollars and must be drawn on a U.S. bank. Pyxis Funds II does not accept cash, U.S. savings bonds, traveler's checks, money orders, California warrant checks, starter checks, third-party checks, or credit card courtesy checks. Checks dated six months old or older and post-dated checks will not be accepted.

## Table of Contents

By check (existing account) <sup>(1)</sup>	For existing accounts, fill out and return to the Fund, at the address noted below, <sup>(2)</sup> the additional investment stub included in your account statement, or send a letter of instruction, including the Fund name and account number, with a check made payable to “Pyxis Funds II - Pyxis Natural Resources Fund.” All purchases must be in U.S. Dollars and must be drawn on a U.S. bank. Pyxis Funds II does not accept cash, U.S. savings bonds, traveler’s checks, money orders, California warrant checks, starter checks, third-party checks, or credit card courtesy checks. Checks dated six months old or older and post-dated checks will not be accepted.
By exchange	You or your Financial Advisor may acquire shares of the Fund for your account by exchanging shares you own in certain other funds advised by Pyxis for shares of the same class of the Fund, subject to the conditions described in “Exchange of Shares” below. In addition, you or your Financial Advisor may exchange shares of a class of a Fund you own for shares of a different class of the same Fund, subject to the conditions described in “Exchange of Shares” below. To exchange, send written instructions to the applicable Fund, at the address noted below or call 1-877-665-1287.
By wire	<p>You may purchase shares of the Fund by wiring money from your bank account to your Fund account. Prior to sending wire transfers, please contact Shareholder Services at 1-877- 665-1287 for specific wiring instructions and to facilitate prompt and accurate credit upon receipt of your wire.</p> <p>You can also find the specific wiring instructions at <a href="http://www.pyxisais.com/Tools/Forms/">http://www.pyxisais.com/Tools/Forms/</a></p> <p>To receive the current trading day’s price, your wire, along with a valid account number, must be received in your Fund account prior to the close of regular trading on the NYSE, usually 4:00 p.m., Eastern time.</p> <p>If your initial purchase of shares is by wire, you must first complete a new account application and promptly mail it to Pyxis Funds II - Pyxis Natural Resources Fund, at the address noted below.<sup>(2)</sup> After completing a new account application, please call (877) 665-1287 to obtain your account number. Please include your account number on the wire.</p>
By electronic funds transfer via an automated clearing house (“ACH”) transaction <sup>(1)</sup>	You may purchase shares of the Fund by electronically transferring money from your bank account to your Fund account by calling (877) 665-1287. An electronic funds transfer may take up to two business days to settle and be considered in good order. You must set up this feature prior to your telephone request. Be sure to complete the appropriate section of the application.
Automatic investment plan	You may make monthly or quarterly investments automatically from your bank account to your Fund account. You may select a pre-authorized amount to be sent via electronic funds transfer. For this feature, please call the Fund at (877) 665-1287 or visit the Fund’s website <a href="http://www.pyxisais.com">www.pyxisais.com</a> .

<sup>(1)</sup> The redemption of shares purchased by check or an automated clearing house (“ACH”) transaction is subject to certain limitations (see “Redemption of Shares”). Any purchase by check or ACH transaction that does not clear may be cancelled, and the investor will be responsible for any associated expenses and losses to the Fund.

<sup>(2)</sup> Regular Mail: Send to “Pyxis Funds II - Pyxis Natural Resources Fund,” PO Box 8656, Boston Massachusetts 02266-8656. Overnight Mail: Send to “Pyxis Funds II - Pyxis Natural Resources Fund,” 30 Dan Road, Suite #8656, Canton, Massachusetts 02021-2809.





## Table of Contents

### Minimum Investments (for Class A and Class C)

	<u>By mail</u>	<u>By wire</u>	<u>Automatic</u>
Initial Investment	\$ 500	\$1,000	\$ 25
Subsequent Investments	\$ 100	\$1,000	\$ 25

Accounts that fall below the \$500 account minimum may be automatically redeemed by the Fund on 30 days' notice and the account shareholder will bear any associated transaction costs, market exposure risks and tax consequences.

### Minimum Investments (for Class R and Class Y shares) (eligible investors only)\*

	<u>Class R</u>	<u>Class Y</u>
Initial Investment	None	\$1 million**
Subsequent Investments	None	None

\* Class R and Class Y shares are available to investors who invest through programs or platforms maintained by an authorized financial intermediary. There is no minimum investment for purchases of shares by such eligible investors. Individual investors that invest directly with the Fund are not eligible to invest in Class R or Class Y shares.

\*\* The \$1 million minimum initial investment requirement only applies to eligible institutional investors purchasing shares for their own account directly from the Fund.

The Fund reserves the right to change or waive the investment minimums and reserves the right to liquidate a shareholder's account if the value of shares held in the account is less than the minimum account size. The Fund also reserves the right to reject for any reason, or cancel as permitted or required by law, any purchase order. In addition, without notice, the Fund may stop offering shares completely, or may offer shares only on a limited basis, for a period of time or permanently.

### Retirement Plans

Shares of the Fund are available for purchase through individual retirement accounts ("IRA") and other retirement plans. The Fund offers several different types of IRAs, including prototype IRAs, Roth IRAs, simplified employee pension ("SEP") IRAs, and simple IRAs for both individual and employers. For further information, please call the Fund at (877) 665-1287 or your Financial Advisor. An IRA application and further details about IRAs and other retirement plans are available from your Financial Advisor or the Fund.

### Purchases in Kind – If You Invest More than \$10 Million

Large investments in the Fund (\$10 million or more) may be detrimental to existing shareholders because they can significantly increase transaction costs charged to existing shareholders. In these circumstances, the Fund may require that you purchase Fund shares "in kind," or provide the Fund with securities instead of cash. The Fund or the Transfer Agent would inform you of the securities acceptable to the Fund. The securities would be accepted by the Fund at their market value in return for Fund shares of equal value. You may have to pay associated brokerage commissions for the securities that you purchase. The transfer of securities to the Fund will be a taxable event.

### Choosing a Share Class

The Fund offers four classes of shares in this Prospectus—Class A, Class C, Class R and Class Y Shares. Based on your personal situation, your Financial Advisor can help you decide which class of shares makes the most sense for you. Sales charges and expenses are determined by the share class you select and the manner in which you purchase.



## Table of Contents

Class A shares carry an initial sales charge. Class A shares bought without an initial sales charge in accounts aggregating \$1 million or more at the time of purchase are subject to a 0.50% contingent deferred sales charge (“CDSC”) if the shares are sold within one year of purchase. Class C shares are offered without an initial sales charge, but are subject to a CDSC for one year after purchase. Class R and Class Y shares are offered without an initial sales charge or a CDSC, but are not available to individual investors that invest directly with the Fund. Class C and Class R shares have higher annual operating expenses than Class A and Class Y shares because of higher distribution and shareholder service fees.

Your Financial Advisor may receive different compensation for selling one class of shares than for selling another class. It is important to remember that the CDSCs and shareholder service fees for Class C shares and the distribution and shareholder service fees for the Class R shares have the same purpose as the front-end sales charge on sales of Class A shares: to compensate the Distributor for concessions and expenses it pays to Financial Advisors.

The Fund may modify the manner in which shares are offered, minimum investments, or sales charge rates or waivers at any time without prior notice.

### Purchasing Class A Shares

Class A shares may be appropriate for long-term investors who compensate their investment professionals for the services they provide with traditional front-end sales charges and for investors who qualify for quantity discounts or waivers. Your purchases of Class A Shares are made at the public offering price for these shares, that is, the NAV per share for Class A Shares plus a front-end sales charge that is based on the amount of your initial investment when you open your account. The front-end sales charge you pay on an additional investment is based on your total net investment in the Fund, including the amount of your additional purchase. Shares you purchase with reinvested dividends or other distributions are not subject to a sales charge. As shown in the table below, a portion of the sales charge is paid as a commission to your Financial Advisor on the sale of Class A Shares. The total amount of the sales charge, if any, differs depending on the amount you invest as shown in the tables below.

Amount Invested**	Sales Charge					
	As a % of the Public Offering Price		As a % of Your Net Investment		% of Offering Price Paid to Financial Advisor*	
Less than \$50,000	5.75	%	6.10	%	5.25	%
\$50,000 to \$99,999	4.25	%	4.44	%	3.75	%
\$100,000 to \$249,999	3.25	%	3.36	%	2.75	%
\$250,000 to \$499,999	2.50	%	2.56	%	2.00	%
\$500,000 to \$999,999	2.00	%	2.04	%	1.55	%
\$1,000,000 or more***	None		None		†	

\* From time to time, the Fund may decide to reallocate the entire amount of the front-end sales charge to dealers. Dealers who receive more than 90% of the sales charge may be considered “underwriters” under the U.S. securities laws.

\*\* Except for certain employee benefit plans that select Class C shares (see “Purchasing Class C Shares” below), purchases of \$1,000,000 or more intended for Class C shares should be made in Class A shares (for individual investors) or in Class Y shares (for institutional investors).

\*\*\* Purchases of \$1 million or more of Class A shares pursuant to a sales charge waiver are subject to a 0.50% CDSC if redeemed within one year of purchase. The Class A shares CDSC does not apply to investors purchasing \$1 million or more of the Fund’s Class A shares if such investors are otherwise eligible to purchase Class A shares pursuant to another sales charge waiver. The CDSC is calculated by multiplying the CDSC percentage by the lesser of the share class’ net asset value at the time of the purchase or its net asset value at the time of redemption.

† For purchases through a Financial Advisor that exceed \$1 million, the Financial Advisor will receive a concession of 0.50% of any amounts under \$3 million, 0.40% of any amounts greater than \$3 million and less than \$5 million; 0.25% of any amounts greater than \$5 million and less than \$25 million and 0.12% thereafter, to the selling dealer.

## [Table of Contents](#)

### **Reduced Sales Charges for Class A Shares**

You may pay a lower sales charge when purchasing Class A Shares through *Rights of Accumulation*, which work as follows: if the combined value (determined at the current public offering price) of your accounts in all classes of shares of the Fund and other Participating Funds (as defined below) maintained by you, your spouse or your minor children, together with the value (also determined at the current public offering price) of your current purchase, reaches a sales charge discount level (according to the above chart), your current purchase will receive the lower sales charge, provided that you have notified the Underwriter and your Financial Advisor, if any, in writing of the identity of such other accounts and your relationship to the other account holders and submitted information (such as account statements) sufficient to substantiate your eligibility for a reduced sales charge. Such reduced sales charge will be applied upon confirmation of such shareholders' holdings by the Transfer Agent. The Fund may terminate or amend this Right of Accumulation at any time without notice. As used herein, "Participating Funds" refers to any series of Pyxis Funds I (except for the Pyxis/iBoxx Senior Loan ETF), Pyxis Funds II and the RBB Cash Fund (each as defined below under "Exchange of Shares") and registered, open-end investment companies advised by the Adviser and distributed by the Underwriter and as otherwise permitted from time to time by the Board.

You may also pay a lower sales charge when purchasing Class A Shares and shares of other Participating Funds by signing a *Letter of Intent* within 90 days of your purchase. By doing so, you would be able to pay the lower sales charge on all purchases by agreeing to invest a total of at least \$100,000 within 13 months. If your Letter of Intent purchases are not completed within 13 months, your account will be adjusted by redemption of the amount of shares needed to pay the higher initial sales charge level for the amount actually purchased. Upon your request, a Letter of Intent may reflect purchases within the previous 90 days. See the SAI for additional information about this privilege. More information regarding reduced sales charges is available, free of charge, at: <http://www.pyxisais.com/Tools/Forms>.

In addition, certain investors may purchase shares at no sales charge or at a reduced sales charge. For example, Class A Shares are offered at no sales charge to investors who are clients of financial intermediaries who have entered into an agreement with the Underwriter to offer Fund shares through self-directed investment brokerage accounts that do not charge transaction fees to their clients. See the SAI for a description of this and other situations in which sales charges are reduced or waived.

### **Purchasing Class C Shares**

Class C Shares may be appropriate for shorter-term investors, if you do not want to pay a traditional front-end sales charge on your purchase of Fund shares or are unsure of the length of time you will hold your investment.

Class C Shares are available for investment through programs or platforms maintained by Financial Advisors, provided that the cost to Pyxis (or its affiliates) for providing or paying for any selling or administrative servicing activities in connection with investor accounts on such programs or platforms does not exceed an amount equal to 1.00% (reflecting the Class C shares distribution and service fees or Rule 12b-1 fees) of the average net asset value of such accounts. There is no program asset size or minimum investment requirements for initial and subsequent purchases of shares by eligible omnibus account investors.

Because you may purchase Class C Shares at the NAV next determined without paying an initial sales charge, your entire investment in Class C Shares is available to work for you. However, Class C Shares pay a higher Rule 12b-1 fee than each of the other share classes and never convert to Class A Shares. In that regard, Class C Shares may be more appropriate for investors with a shorter investment horizon because long-term shareholders of Class C Shares may pay more than the economic equivalent of Class A Shares' maximum front-end sales charge.

## [Table of Contents](#)

Trail commissions of up to 1.00% may be paid by the Distributor to Financial Advisors that provide on-going services with respect to Class C Shares.

Class C Shares are subject to a 1.00% CDSC if redeemed within one year of purchase. Proceeds from the CDSC may be used to defray the expenses of the Fund and Pyxis related to the sale of Class C Shares, including the payment of compensation to Financial Advisors. For purposes of calculating the CDSC, the start of the holding period is the date on which the purchase is made. Shares you purchase with reinvested dividends or capital gains are not subject to a CDSC. When shares are redeemed, the Fund will automatically redeem those shares (if any) not subject to a CDSC and then those you have held the longest. In certain circumstances, CDSCs may be waived, as described in the SAI.

The CDSC is calculated by multiplying the CDSC percentage by the lesser of the share class' net asset value of the block of shares being redeemed at the time of their purchase or the net asset value at the time of redemption.

Intended purchases of Class C Shares of \$1,000,000 or more by investors not eligible for Class Y Shares should be made in Class A Shares. An amount up to 1% of the amount invested in Class C Shares may be paid to Financial Advisors.

### **Purchasing Class R Shares**

Class R Shares have no initial sales charges or CDSC.

Class R Shares are available to investors who invest through programs or platforms maintained by Financial Advisors that aggregate trades for groups of investors through omnibus or pooled account arrangements, provided that the cost to Pyxis (or its affiliates) for providing or paying for any selling or administrative servicing activities in connection with investor accounts on such programs or platforms does not typically exceed an amount equal to 0.65% (including the 0.50% distribution and service fees or Rule 12b-1 fees) of the average net asset value of such accounts. There is no program asset size or minimum investment requirements for initial and subsequent purchases of shares by eligible omnibus account investors.

Individual investors that invest directly with the Fund are not eligible to invest in Class R Shares.

Although Class R Shares pay a lower Rule 12b-1 fee than Class C Shares, Class R Shares pay a higher Rule 12b-1 fee than Class A Shares.

Trail commissions of up to 0.50% may be paid by the Distributor to Financial Advisors that provide on-going services with respect to Class R Shares.

### **Purchasing Class Y Shares – Institutional Investors**

Class Y Shares have no initial sales charges or CDSC.

Class Y Shares are available to investors who invest through programs or platforms maintained by Financial Advisors, provided that the cost to Pyxis (or its affiliates) for providing or paying for any selling or servicing activities in connection with investor accounts on such programs or platforms does not typically exceed an amount equal to 0.15% of the average net asset value of such accounts. There is no program asset size or minimum investment requirements for initial and subsequent purchases of shares by eligible investors investing through programs or platforms maintained by Financial Advisors.

Class Y Shares may also be purchased by: (i) existing Class Y shareholders of record that still hold Class Y shares of any Pyxis Fund as of January 29, 2008; and (ii) all other institutional investors, including defined benefit plans, endowments, foundations and corporations purchasing shares for their own accounts directly with the Fund, with a minimum initial investment of \$1 million in the Fund for each such investor.

Individual investors that invest directly with the Fund are not eligible to invest in Class Y shares.



## REDEMPTION OF SHARES

The Fund redeems its shares based on the NAV next determined after the Transfer Agent or Financial Advisor receives your redemption request in good order. The Fund reserves the right to reject any redemption request that is not in good order. The specific requirements for good order depend on the type of account and transaction and the method of redemption. Contact Pyxis if you have any questions about your particular circumstances. Generally, “good order” means that the redemption request meets all applicable requirements described in this Prospectus. See “Net Asset Value” for a description of the calculation of NAV per share.

You can redeem shares of the Fund on any day that the NYSE is open for business. The Fund, however, may suspend the right of redemption and postpone payment for more than seven days: (i) during periods when trading on the NYSE is closed on days other than weekdays or holidays; (ii) during periods when trading on the NYSE is restricted; (iii) during any emergency which makes it impractical for the Fund to dispose of its securities or fairly determine the NAV of the Fund; and (iv) during any other period permitted by the SEC for your protection.

The Fund is meant for long-term investing. It is not meant for “market timing” or other types of frequent or short-term trading (“disruptive trading”). Disruptive trading can adversely affect Fund performance and the interests of long-term investors by, among other things, interfering with the efficient management of the Fund’s investment portfolio. Accordingly, the Fund has adopted, and the Board of Trustees has approved, policies and procedures reasonably designed to monitor Fund trading activity and, where disruptive trading is detected, to take action to stop such activity. The Fund reserves the right to amend these policies and procedures at any time without prior notice to investors or Financial Advisor.

*Direct Investor Accounts.* An investor that redeems or exchanges out of (or purchases) the Fund within 30 days of a purchase or exchange into (or redemption out of) the Fund may be restricted from further investing in the Fund or any other Pyxis Fund or exchanging between Pyxis Funds, subject to the exceptions described below, all without prior notice to the investor. The Fund may also restrict investments and exchanges by investors that are believed to have engaged in a pattern of disruptive trading. In addition, the Fund may reject purchase orders or terminate or restrict the exchange privileges of any account associated with a broker-dealer representative, branch office, or firm that the Fund has determined to be a source or facilitator of disruptive trading, even if no disruptive trading has occurred in that particular account. Exchanges and purchases may be permitted again for restricted investors under certain circumstances in the sole discretion of Pyxis. The foregoing restrictions apply to direct investor accounts and do not apply to shares held on the books of Financial Advisors through omnibus accounts with the Fund. The restrictions applicable to omnibus accounts with Financial Advisors are discussed below.

The restrictions described above do not apply to (1) systematic withdrawals (e.g., regular periodic automatic redemptions, dividend and capital gain distributions, and systematic share class conversions); (2) systematic purchases (e.g., regular periodic automatic purchases, payroll contributions, and dividend reinvestments) where the entity maintaining the shareholder account is able to identify the transaction as a systematic withdrawal or purchase; (3) transactions by fund-of-funds advised by Pyxis; (4) transactions initiated by the trustee or adviser to a donor advised charitable fund; and (5) certain transactions (plan contributions, plan benefit payments, plan expenses and portfolio rebalancing) by defined benefit plans that receive asset allocation services by Pyxis. The Fund may also exclude small transactions less than an amount set from time to time under the Fund’s policies.

*Omnibus Accounts with Financial Advisors.* The Fund is also offered through Financial Advisors that may establish an “omnibus” account with the Fund. Because the Fund may not receive information on the trading activity of the underlying individual investors, it may be difficult or impossible for the Fund to detect or stop disruptive trading in omnibus accounts. The difficulty may be even greater if there are multiple tiers of Financial Advisors or if omnibus accounts are used to hide disruptive trading within the trading activity of a large number of underlying investors.

In deciding whether to establish an omnibus account with a Financial Advisor, the Fund will consider whether the Financial Advisor has its own disruptive trading policies and procedures (which policies and procedures may differ materially from those applied by the Fund to direct accounts). If the Financial Advisor has its own disruptive trading policies and procedures, the Fund will seek assurance from the Financial Advisor that such policies and procedures will be effectively enforced.





## Table of Contents

If the Financial Advisor does not have its own disruptive trading policies and procedures, the Fund will seek to obtain the Financial Advisor's cooperation in enforcing the Fund's disruptive trading policies and procedures to the extent feasible. Such cooperation may include periodically providing the Fund with the trading activity of its underlying investors and, if disruptive trading is detected by the Fund, making efforts to stop it.

There are a number of existing omnibus accounts with Financial Advisors that were established prior to the adoption of the foregoing policies and procedures. These Financial Advisors may not have their own disruptive trading policies and procedures and/or the Fund may not have obtained their cooperation in enforcing the Fund's disruptive trading policies and procedures. The Fund will continue to make reasonable efforts to work with these Financial Advisors to implement the policies and procedures described above, although there is no guarantee that such efforts will be successful.

*Defined Contribution Plans.* Participants in certain defined contribution plans that exchange out of the Fund may be restricted from further exchanging back into the Fund for a period of at least 30 days. This restriction does not affect the participant's ability to exchange into any investment option that has not been restricted or the participant's ability to continue contributions into the participant's defined contribution plan (including the Fund). This restriction also does not apply to certain withdrawals (such as distributions, hardship withdrawals and plan loans), systematic rebalancing or loan repayments.

*Reservation of Rights to Reject Purchase or Exchange Orders.* The Fund reserves the right to reject any purchase or exchange order at any time for any reason without prior notice to the investor or Financial Advisor.

*Limitations on Ability to Prevent Disruptive Trading.* Despite the efforts of the Fund and the Distributor to protect the Fund from harm caused by disruptive trading, there is no guarantee that the Fund's disruptive trading policies and procedures will be effective. As discussed above, it may be difficult or impossible for the Fund to detect or stop disruptive trading in certain omnibus accounts with Financial Advisors. Regardless of whether those Financial Advisors have their own disruptive trading policies and procedures or cooperate in enforcing the Fund's policies and procedures to the extent feasible, there is no guarantee that they will be effective and they may differ materially from those applied by the Fund to direct accounts. In addition, investors that purposely engage in disruptive trading may employ strategies to avoid detection. Consequently, the Fund may not be able to detect or stop disruptive trading until harm to the Fund has already occurred.

*Risks of Disruptive Trading.* Disruptive trading, especially involving large dollar amounts, may adversely affect Fund performance and the interests of long-term investors by interfering with efficient portfolio management and the implementation of long-term investment strategies. In particular, disruptive trading may: (1) require the Fund to keep more assets in cash or other liquid holdings than it would otherwise consider appropriate, causing the Fund to miss out on gains in a rising market; (2) require the Fund to sell some of its investments sooner than it would otherwise consider appropriate in order to honor redemptions; and (3) increase brokerage commissions and other portfolio transaction expenses by causing the Fund to buy and sell securities more frequently as assets move in and out.

To the extent the Master Fund invests in foreign securities, it may be particularly susceptible to disruptive trading because of investors attempting to engage in "time-zone arbitrage," a trading strategy that exploits the fact that the closing prices of foreign securities owned by the Fund are established some time before the Fund calculates its own share price (which typically occurs at 4:00 p.m. Eastern Time).

*Redemption Fee.* A 2% redemption/exchange fee is charged on redemptions of shares of the Fund that are redeemed (either by selling the shares or exchanging into another Pyxis Fund) within two months of purchase (either by buying the shares or exchanging into the Pyxis Funds), subject to certain exceptions. Shares of the Fund held for more than two months are not subject to this 2% redemption/exchange fee. To discourage shareholders from engaging in disruptive trading in the Fund, and to offset brokerage commissions, market impact, and other costs associated with disruptive trading, a 2% redemption/exchange fee is charged on redemptions of shares of the Fund. This fee is paid to the Fund, not to Pyxis or the Distributor, and is designed to offset the brokerage commissions, market impact, and other costs associated with short-term trading. Shares held the longest will always be

redeemed first. If a shareholder transfers shares to a different account registration or converts them to a different share class, the shares will retain their original purchase date for purposes of assessing the redemption/exchange fee.

## Table of Contents

The redemption/exchange fee does not apply to redemption of shares: (1) acquired through dividends or capital gains investments; (2) purchased through a defined contribution retirement plan (such as 401(k) and 403(b) plans); (3) redeemed because of death or disability, as defined in the Code; (4) that are mandatory retirement distributions of IRA accounts that represent the minimum required distribution from an IRA; and (5) that are redemptions effected through systematic withdrawal plan. These exceptions apply to shares purchased or redeemed either directly with the Fund or its Transfer Agent or indirectly through a Financial Advisor. In addition, the Adviser may, at its discretion, waive a redemption/exchange fee.

The 2% redemption/exchange fee will also be imposed on investments made through Financial Advisors in certain omnibus accounts that are not exempt as described above.

Financial Advisors may impose short-term trading restrictions that differ from those of the Fund. Any shareholder purchasing shares of the Fund through a Financial Advisor should check with the Financial Advisor or the Fund to determine whether the shares will be subject to a short-term trading fee.

The Fund reserves all rights, including the right to refuse any purchase request (including requests to purchase by exchange) from any person or group who, in the Fund's view, is likely to engage in excessive trading or if such purchase or exchange is not in the best interests of the Fund and to limit, delay or impose other conditions on purchases or exchanges. The Fund has adopted a policy of seeking to minimize short-term trading in its shares and monitors purchase, exchange and redemption activities to assist in minimizing short-term trading.

You may redeem shares of the Fund through your Financial Advisor or its authorized designee or directly from the Fund through the Transfer Agent. If you hold your shares in an individual retirement account ("IRA"), you should consult a tax advisor concerning the current tax rules applicable to IRAs. Outlined below are various methods for redeeming shares:

<u>Method</u>	<u>Instructions</u>
By letter	You may mail a letter requesting redemption of shares to: "Pyxis Funds II - Pyxis Natural Resources Fund," PO Box 8656, Boston, Massachusetts 02021. Your letter should state the name of the Fund, the share class, the dollar amount or number of shares you are redeeming and your account number. You must sign the letter in exactly the same way the account is registered. If there is more than one owner of shares, all must sign. A Medallion signature guarantee is required for each signature on your redemption letter. You can obtain a Medallion signature guarantee from financial institutions, such as commercial banks, brokers, dealers and savings associations. A notary public cannot provide a Medallion signature guarantee. If the account is registered to a corporation, trust or other entity, additional documentation may be needed. Please call (877) 665-1287 for further details.

## Table of Contents

By telephone or the Internet	Unless you have requested that telephone or Internet redemptions from your account not be permitted, you may redeem your shares in an account (excluding an IRA) directly registered with the Transfer Agent by calling (877) 665-1287 or visiting the Fund' s website <a href="http://www.pyxisais.com">www.pyxisais.com</a> . If the Transfer Agent acts on telephone or Internet instructions after following reasonable procedures to protect against unauthorized transactions, neither the Transfer Agent nor the Fund will be responsible for any losses due to unauthorized telephone or Internet transactions and instead you would be responsible. You may request that proceeds from telephone or Internet redemptions be mailed to you by check (if your address has not changed in the prior 30 days) or forwarded to you by bank wire. If you would like to request that such proceeds be invested in shares of other registered, open-end investment companies advised by the Adviser and distributed by the Underwriter, please see "Exchange of Shares" below. Among the procedures the Transfer Agent may use are passwords or verification of personal information. The Fund may impose limitations from time to time on telephone or Internet redemptions.
Proceeds by check	The Fund will make checks payable to the name(s) in which the account is registered and normally will mail the check to the address of record within seven days.
Proceeds by bank wire	The Fund accepts telephone or Internet requests for wire redemption in amounts of at least \$1,000. The Fund will send a wire to either a bank designated on your new account application or on a subsequent letter in good order as described above under the instructions for redeeming shares "By letter." The proceeds are normally wired on the next business day.

### **Automatic Cash Withdrawal Plan**

You may automatically redeem shares on a monthly basis if you have at least \$10,000 in your account and if your account is directly registered with the Transfer Agent. Call (877) 665-1287 or visit [www.pyxisais.com](http://www.pyxisais.com) for more information about this plan.

### **Involuntary Redemption**

The Fund may redeem all shares in your account (other than an IRA) if their aggregate value falls below \$5,000 as a result of redemptions (but not as a result of a decline in NAV). You will be notified in writing if the Fund initiates such action and allowed 30 days to increase the value of your account to at least \$5,000.

### **Redemption Proceeds**

A redemption request received by the Fund will be effected at the NAV per share next determined after the Fund receives the request in good order. If you request redemption proceeds by check, the Fund will normally mail the check to you within seven days after receipt of your redemption request. If, however, you purchased your Fund shares by check or ACH transaction, and unless you have documentation satisfactory to the Fund that your transaction has cleared, the Fund may hold proceeds for shares purchased by check or ACH until the purchase amount has been deemed collected, which is eight business days from the date of purchase for checks and five business days from the date of purchase for ACH transactions. While the Fund will delay the processing of the payment until the check clears, your shares will be valued at the NAV per share next determined after receipt by the Transfer Agent or your Financial Advisor of your redemption request in good order.

The Fund may pay your redemption proceeds wholly or partially in portfolio securities. Payments would be made in portfolio securities, which may include illiquid securities, only if the Adviser or the Board of Trustees believes that it would be in the Fund' s best interests not to pay redemption proceeds in cash. If the Fund pays your redemption proceeds in portfolio securities, you will be exposed to market risk until you convert these portfolio securities into cash, and you will likely pay commissions upon any such conversion. If you receive illiquid



## Table of Contents

securities, you could find it more difficult to sell such securities and may not be able to sell such securities at prices that reflect the Adviser's or your assessment of their fair value or the amount paid for them by the Fund. Illiquidity may result from the absence of an established market for such securities as well as legal, contractual or other restrictions on their resale and other factors. Unless you are a tax-exempt investor or investing through a tax-deferred retirement plan or other tax-advantaged arrangement, a redemption of shares is generally a taxable event, and you may realize a gain or a loss for U.S. federal income tax purposes (see "Taxation").

### EXCHANGE OF SHARES

Shareholders of the Fund may exchange their Fund shares on any business day for shares of the same share class of any series of Pyxis Funds II (currently, Pyxis Alpha Trend Strategies Fund, Pyxis Alternative Income Fund, Pyxis Energy MLP Fund, Pyxis Trend Following Fund, Pyxis Core America Equity Fund, Pyxis Dividend Equity Fund, Pyxis Premier Growth Equity Fund, Pyxis Small-Cap Equity Fund, Pyxis Global Select Equity Fund, Pyxis International Equity Fund, Pyxis Fixed Income Fund, Pyxis Tax-Exempt Fund, and Pyxis Total Return Fund) and such exchanges will be effected at the relative daily NAVs per share, plus any applicable redemption/exchange fee with respect to the exchanged shares (see "Redemption of Shares"). If you do not currently have an account in the Fund into which you wish to exchange your shares, you will need to exchange enough Fund shares to satisfy such Fund's current minimum investment account requirement. **Read the Fund's Prospectus carefully before investing.**

Shareholders of the Fund also may exchange their Fund shares on any business day for shares of the same share class of any series of Pyxis Funds I, except for the Pyxis/iBoxx Senior Loan ETF, (currently, Pyxis Long/Short Equity Fund, Pyxis Long-Short Healthcare Fund and Pyxis Floating Rate Opportunities Fund) ("Pyxis Funds I"), and such exchanges will be effected at the relative daily NAVs per share, plus any applicable redemption/exchange fee with respect to the exchanged shares (see "Redemption of Shares"). If you do not currently have an account in Pyxis Funds I into which you wish to exchange your shares, you will need to exchange at least \$5,000 (\$50 for individual retirement accounts) of Fund shares in order to satisfy Pyxis Long/Short Equity Fund and Pyxis Long-Short Healthcare Fund's current minimum investment account requirements and at least \$2,500 (\$50 for individual retirement accounts) of Fund shares in order to satisfy Pyxis Floating Rate Opportunities Fund's current minimum investment account requirement. Call (877) 665-1287 for the applicable Pyxis Funds I prospectus, including applicable investment minimums, and read it carefully before investing.

Additionally, you can also exchange your Fund shares on any business day for shares of the RBB Money Market Fund (the "RBB Cash Fund"), a money market mutual fund advised by BlackRock Advisors, LLC. The minimum to open an account in the RBB Cash Fund is currently \$1,000. Call (877) 665-1287 for the RBB Cash Fund prospectus, including applicable investment minimums, and read it carefully before investing.

Shareholders of the Fund, Pyxis Funds I (except for the Pyxis/iBoxx Senior Loan ETF) and the RBB Cash Fund may exchange their shares daily for shares of the same class of any series of Pyxis Funds II at the relative daily NAVs per share. If the shares of the Fund or any Participating Fund (other than the RBB Cash Fund) that you are exchanging (the "Exchanged Shares") are subject to a CDSC, you will not be charged that CDSC upon the exchange. However, when you sell the shares acquired through the exchange (the "Acquired Shares"), the shares sold may be subject to a CDSC, depending upon when you originally purchased the Exchanged Shares. For purposes of determining the applicability of a CDSC, the length of time you own your shares will be computed from the date of your original purchase of the Exchanged Shares (and includes the period during which the Acquired Shares were held), and the applicable CDSC will be based on the CDSC schedule of the Exchanged Shares. No CDSC is charged when you exchange your shares of the Fund into the RBB Cash Fund; however, notwithstanding any statement above to the contrary, the applicable CDSC (based on the CDSC schedule of the Exchanged Shares) will be imposed when shares are redeemed from the RBB Cash Fund and will be calculated without regard to the holding time of the RBB Cash Fund.

Your exchange privilege will be revoked if the exchange activity is considered excessive. In addition, the Fund may reject any exchange request for any reason, including if it does not think that the exchange is in the best interests of the Fund and/or its shareholders. The Fund may also terminate your exchange privilege if the Adviser determines that your exchange activity is likely

to adversely impact its ability to manage the Fund or if the Fund otherwise determines that your exchange activity is contrary to their short-term trading policies and procedures.



## [Table of Contents](#)

Unless you are a tax-exempt investor or investing through a tax-deferred retirement plan or other tax-advantaged arrangement, an exchange is generally a taxable event, and you may realize a gain or a loss for U.S. federal income tax purposes (see “Taxation”).

To exchange via the Internet, visit the Funds’ website at <http://pyxisais.com>. To exchange by telephone, call 1-877-665-1287. Please have your account number and taxpayer identification number available when calling.

### **Cost Basis Reporting**

Upon the redemption or exchange of your shares in the Fund, the Fund or, if you purchase your shares through a Financial Advisor or other intermediary, your Financial Advisor or other intermediary, as applicable, generally will be required to provide you and the Internal Revenue Service (“IRS”) with cost basis and certain other related tax information about the Fund shares you redeemed or exchanged. This cost basis reporting requirement is effective for shares purchased, including through dividend reinvestment, on or after January 1, 2012. Please contact the Fund’ s transfer agent, Boston Financial Data Services, Inc., at 1-877-665-1287 or consult your Financial Advisor or other intermediary, as appropriate, for more information regarding available methods for cost basis reporting and how to select a particular method. Please consult your tax advisor to determine which available cost basis method is best for you.

### **Distribution and Service Fees**

The Fund is authorized under a distribution plan (the “Plan”) to use the assets attributable to the Fund’ s Class A, Class C, Class R and Class Y Shares, as applicable, to finance certain activities relating to the distribution of shares to investors and maintenance of shareholder accounts. These activities include marketing and other activities to support the distribution of the Class A, Class C, Class R and Class Y Shares and the services provided to you by your Financial Advisor. The Plan operates in a manner consistent with Rule 12b-1 under the 1940 Act, which regulates the manner in which an open-end investment company may directly or indirectly bear the expenses of distributing its shares.

Under the Plan, distribution and service fees paid by the Fund to the Underwriter will be at the rates shown in the table below. The Underwriter may pay all or a portion of these fees to Financial Advisors whose clients own shares of the Fund. These payments may include fees payable to NexBank Securities, Inc., a FINRA member broker-dealer that is an affiliate of the Adviser. Because the distribution and service fees are payable regardless of the Underwriter’ s expenses, the Underwriter may realize a profit from the fees. The Plan authorizes any other payments by the Fund to the Underwriter and its affiliates to the extent that such payments might be construed to be indirect financing of the distribution of shares of the Fund. Because these fees are paid out of the Fund’ s assets on an ongoing basis, these fees will increase the cost of your investment in the Fund. By purchasing a class of shares subject to higher distribution fees and service fees, you may pay more over time than on a class of shares with other types of sales charge arrangements. Long-term shareholders may pay more than the economic equivalent of the maximum front-end sales charges permitted by the rules of FINRA.

The Plan will continue in effect from year to year so long as continuance is specifically approved at least annually by a vote of the Board of Trustees, including a majority of the Trustees who are not “interested persons” (as defined in the 1940 Act) of the Fund and who have no direct or indirect financial interest in the operation of the Plan or in any agreements related to the Plan (the “Independent Trustees”), cast in person at a meeting called for the purpose of voting on the Plan. The Plan may not be amended to increase the fees materially without approval by a vote of a majority of the outstanding voting securities of the relevant class of shares, and all material amendments of the Plan must be approved by the Trustees in the manner provided in the foregoing sentence. The Plan may be terminated with respect to a class at any time by a vote of a majority of the Independent Trustees or by a vote of a majority of the outstanding voting securities of the relevant class of shares.

In addition to payments under the Plan, from time to time the Fund may pay broker-dealers and other intermediaries account-based fees for networking and account maintenance.

In addition, Pyxis and/or the Underwriter may, from time to time, at their own expense out of their own financial resources, make cash payments to broker-dealers as an incentive to sell shares of the Fund and/or to promote

## Table of Contents

retention of their customers' assets in the Fund. Such cash payments may be calculated on sales of shares of the Fund ("Sales-Based Payments") or on the average daily net assets of the Fund attributable to that particular broker-dealer ("Asset-Based Payments"). Each of Pyxis and/or the Underwriter may agree to make such cash payments to a broker-dealer in the form of either or both Sales-Based Payments and Asset-Based Payments. Pyxis and/or the Underwriter may also make other cash payments to broker-dealers in addition to or in lieu of Sales-Based Payments and Asset-Based Payments, in the form of payment for travel expenses, including lodging, incurred in connection with trips taken by qualifying registered representatives of those broker-dealers and their families to places within or outside the United States; meeting fees; entertainment; transaction processing and transmission charges; advertising or other promotional expenses; allocable portions, based on shares of the Fund sold, of salaries and bonuses of registered representatives of an affiliated broker-dealer that is a Financial Advisor; or other expenses as determined in Pyxis' s or the Underwriter' s discretion, as applicable. In certain cases these other payments could be significant to the broker-dealers. Any payments described above will not change the price paid by investors for the purchase of the shares of the Fund, the amount that the Fund will receive as proceeds from such sales, or the amounts payable under the Plans. Each of Pyxis and/or the Underwriter determines the cash payments described above in its discretion in response to requests from broker-dealers, based on factors it deems relevant. Broker-dealers may not use sales of the Fund' s shares to qualify for any incentives to the extent that such incentives may be prohibited by law. Amounts paid by Pyxis and/or the Underwriter to any broker-dealer in connection with the distribution of any shares of the Fund will count towards the maximum imposed by FINRA on underwriter compensation in connection with the public offering of securities. In addition, Pyxis may utilize its own resources to compensate the Underwriter for distribution or service activities on behalf of the Fund. These payments are not reflected in the annual fund operating expenses section of the "Fees and Expenses" table for the Fund.

### **Distribution and Shareholder Service Fee Rates**

	Pyxis Natural Resources Fund			
	Distribution Fee		Service Fee	
Class A	0.10	%	0.25	%*
Class C	0.75	%	0.25	%*
Class R	0.25	%	0.25	%*
Class Y	None		None	

\* The 0.25% paid under the Rule 12b-1 service fee plan may be used for distribution and/or shareholder service expenses.

### **DIVIDENDS AND OTHER DISTRIBUTIONS**

The Fund intends to declare and pay dividends of any net investment income and dividends of any net realized capital gains once each year. Unless you instruct the Fund to pay dividends of net investment income and dividends of net realized capital gains to you in a check mailed to you, they will automatically be reinvested in your account. There are no fees or charges to reinvest dividends or other distributions.

The Fund is subject to a 4% excise tax on net investment income and net realized capital gains that are not distributed on a Calendar-year basis. To avoid this tax or Fund-level U.S. Federal income taxes, the Fund may pay dividends of net investment income and net realized capital gains more frequently than annually. See "Taxation" below.

### **TAXATION**

The following discussion is a summary of some of the important U.S. federal income tax considerations generally applicable to investments in the Fund. Your investment may have other tax implications. The discussion reflects provisions of the Code, existing Treasury regulations, rulings published by the IRS, and other applicable authorities, as of the date of this Prospectus. These

authorities may be changed, possibly with retroactive effect, or subject to new legislative, administrative or judicial interpretations. No attempt is made to present a detailed explanation of all

## Table of Contents

U.S. federal, state, local and foreign tax law concerns affecting the Fund and its shareholders, or to address all aspects of taxation that may apply to individual shareholders or to specific types of shareholders, such as foreign persons, that may qualify for special treatment under U.S. federal income tax laws. The discussion set forth herein does not constitute tax advice. Please consult your tax advisor about foreign, federal, state, local or other tax laws applicable to you in light of your particular circumstances. For more information, including for a summary of certain tax consequences to foreign investors of investing in the Fund, please see “Income Tax Considerations” in the SAI.

The Fund intends to elect to be treated and intends to qualify annually as a regulated investment company (a “RIC”) under Subchapter M of the Code including by complying with the applicable qualifying income and diversification requirements. If the Fund so qualifies and satisfies certain distribution requirements, the Fund generally will not be subject to U.S. federal income tax on income and gains that the Fund distributes to its shareholders in a timely manner in the form of dividends or capital gains dividends (as defined below). As described in “Dividends” above, the Fund intends to distribute at least annually all or substantially all of its income and capital gains. The Fund will be subject to a Fund-level income tax at regular corporate income tax rates on any taxable income or gains that it does not distribute to its shareholders.

Because the Fund invests substantially all of its assets in the Master Fund, which intends to be treated as a partnership for U.S. federal tax purposes, the Fund’s ability to qualify annually as a RIC and avoid any Fund-level tax largely depends on the investment portfolio and related activities of the Master Fund, and the Fund’s ability to treat the investments of the Master Fund as investments of the Fund. In order to enable the Fund and other feeder funds that are RICs to invest in the Master Fund, the Master Fund is expected to conduct its investment activities so as to independently satisfy the income and diversification tests applicable to RICs. As a partner in the Master Fund, the Fund is required to take into account its share of the Master Fund’s income, gains, losses, deductions and other tax items for each taxable year substantially as though such items had been realized directly by the Fund and without regard to whether the Master Fund distributes any cash to the Fund. Thus, the amount, timing, and character of the Fund’s income, gains, losses, deductions and other tax items for each taxable year largely is determined at the Master Fund level. For more information, see “Income Tax Considerations” in the SAI.

If for any taxable year the Fund were not to qualify as a RIC, all of its taxable income would be subject to a Fund-level tax at regular corporate income tax rates without any deduction for distributions to shareholders. This treatment would reduce the Fund’s net income available for investment or distribution to its shareholders. In addition, all distributions from earnings and profits, including any net long-term capital gains, would be taxable to shareholders as ordinary income. Some portions of such distributions may be eligible for the dividends-received deduction in the case of corporate shareholders or to be treated as “qualified dividend income” in the case of individual shareholders. The Fund also could be required to recognize unrealized gains, pay substantial taxes and interest and make substantial distributions before requalifying as a RIC that is accorded special tax treatment.

Amounts not distributed on a timely basis in accordance with a calendar year distribution requirement will be subject to a nondeductible 4% U.S. federal excise tax at the Fund level. To avoid the tax, the Fund generally must distribute during each calendar year an amount at least equal to the sum of (i) 98% of its ordinary income (not taking into account any capital gains or losses) for the calendar year, (ii) 98.2% of its capital gains in excess of its capital losses for a one-year period ending on October 31 of the calendar year, and (iii) any undistributed amounts described in (i) and (ii) above from the prior year on which the Fund paid no U.S. federal income tax. While the Fund intends to distribute any income and capital gain in the manner necessary to minimize imposition of the 4% U.S. federal excise tax, there can be no assurance that sufficient amounts of the Fund’s taxable income and capital gain will be distributed to avoid entirely the imposition of the tax. In that event, the Fund will be liable for the excise tax only on the amount by which it does not meet the foregoing distribution requirement.

Certain of the Master Fund’s investment practices, including entering into futures, options and other derivative transactions and its hedging activities, generally, as well as the Master Fund’s investments in certain types of securities, including certain preferred stock, may be subject to special and complex U.S. federal income tax provisions that may, among other things: (i) disallow, suspend or otherwise limit the allowance of certain losses or deductions; (ii) convert lower taxed long-term capital gain or “qualified dividend income” into higher taxed short-term capital gain or ordinary income; (iii) accelerate the recognition of

income; (iv) convert short-term losses into long-term losses; (v) cause the Fund to recognize income or gain without a corresponding receipt of cash;

## Table of Contents

(vi) adversely affect the time as to when a purchase or sale of stock or other securities is deemed to occur; (vii) cause adjustments in the holding periods of the Master Fund's securities; or (viii) otherwise adversely alter the characterization of certain complex financial transactions. These U.S. federal income tax provisions could therefore affect the amount, timing and/or character of distributions to Fund shareholders, and could require the Fund to redeem a portion of its interest in the Master Fund (including at a time when it is not advantageous to do so) in order to obtain sufficient cash to satisfy its annual RIC distribution requirements and to otherwise avoid incurring Fund-level U.S. federal income and/or excise tax.

Investments by the Master Fund in foreign securities may be subject to withholding and other taxes imposed by foreign countries on dividends, interest, or capital gains. Tax treaties between the U.S. and other countries may reduce or eliminate such taxes. Foreign taxes paid by the Master Fund will reduce the return from the Master Fund's investments. The Fund generally does not expect to be eligible to elect to pass through to you a U.S. federal income tax credit or deduction for foreign taxes paid by the Master Fund.

Distributions paid to you by the Fund from net capital gain realized by the Fund (that is, the excess of any net long-term capital gain over net short-term capital loss, in each case with reference to any loss carryforwards) that the Fund reports as capital gain dividends ("capital gain dividends") generally are treated as long-term capital gain, and taxable to you at the rates applicable to long-term capital gain regardless of how long you have held your shares. All other dividends paid to you by the Fund (including dividends from short-term capital gain (that is, the excess of any net short-term capital gain over any net long-term capital loss)) from its current or accumulated earnings and profits generally are taxable to you as ordinary income. Corporations are taxed at the same rate on ordinary income as on capital gains. Distributions of investment income reported by the Fund as derived from "qualified dividend income" will be taxed in the hands of individuals at the rates applicable to long-term capital gains, provided holding period and other requirements are met at both the shareholder and Fund level. For taxable years beginning on or after January 1, 2013, a 3.8% Medicare contribution tax is imposed on the net investment income of certain individuals whose income exceeds certain threshold amounts, and of certain trusts and estates under similar rules. Net investment income generally includes for this purpose dividends paid by a Fund, including any capital gain dividends but excluding any exempt-interest dividends, and net capital gains recognized on the sale, redemption or exchange of shares of a Fund. Shareholders are advised to consult their tax advisors regarding the possible implications of this additional tax on their investment in a Fund.

In general, dividends of net investment income received by corporate shareholders of the Fund will qualify for the 70% dividends-received deduction generally available to corporations to the extent of the amount of eligible dividends received by the Fund from domestic corporations for the taxable year, provided holding period and other requirements are met at both the shareholder and Fund level.

If, for any taxable year, the Fund's total distributions exceed both its current earnings and profits and accumulated earnings and profits, the excess will generally be treated as a tax-free return of capital up to the amount of your tax basis in the shares. The amount treated as a tax-free return of capital will reduce your tax basis in the shares, thereby increasing your potential gain or reducing your potential loss on the subsequent sale of the shares. Any amounts distributed to you in excess of your tax basis in the shares will be taxable to you as capital gain (assuming the shares are held as a capital asset).

Dividends and other taxable distributions are taxable to you as described herein, whether received in cash or reinvested in additional shares of the Fund. Dividends and other distributions paid by the Fund generally are treated as received by you at the time the dividend or distribution is made. If, however, the Fund pays you a dividend in January that was declared in the previous October, November or December and you were a shareholder of record on a specified record date in one of those months, then such dividend will be treated for tax purposes as being paid by the Fund and received by you on December 31 of the year in which the dividend was declared.

The price of shares purchased at any time may reflect the amount of a forthcoming distribution. If you purchase shares just prior to a distribution (other than a distribution of net investment income that a Fund declares daily (see "Dividends and other

Distributions” above)), you will receive a distribution that will be taxable to you even though it represents in part a return of your invested capital.



## Table of Contents

The Fund will send you information after the end of each calendar year setting forth the amount and tax status of any dividends or other distributions paid to you by the Fund. Dividends and other distributions may also be subject to state, local and other taxes.

If you sell, exchange or otherwise dispose of any of your shares of the Fund (including (i) exchanging them for shares of another eligible Fund as described in “Exchange of Shares” above or (ii) through a redemption), you will generally recognize a gain or loss in an amount equal to the difference between your tax basis in such shares of the Fund and the amount you receive upon disposition of such shares. For information about determining your tax basis for shares purchased on or after January 1, 2012, see “Cost Basis Reporting” under “Exchange of Shares” above. If you hold your shares as capital assets, any such gain or loss will be long-term capital gain or loss if you have held (or are treated as having held) such shares for more than one year at the time of sale. All or a portion of any loss you realize on a taxable sale or exchange of your shares of the Fund will be disallowed if you acquire other shares of the Fund (whether through the automatic reinvestment of dividends or otherwise) within a 61-day period beginning 30 days before and ending 30 days after your sale or exchange of the shares. In such case, the basis of the shares acquired will be adjusted to reflect the disallowed loss. In addition, any loss realized upon a taxable sale or exchange of Fund shares held (or deemed held) by you for six months or less will be treated as long-term, rather than short-term, to the extent of any capital gain dividends received (or deemed received) by you with respect to those shares.

The Fund (or, if Fund shares are purchased through a Financial Advisor, a Financial Advisor) may be required to withhold, for U.S. federal backup withholding tax purposes, a portion of the dividends, distributions and redemption proceeds payable to you if: (i) you fail to provide the Fund (or Financial Advisor) with your correct taxpayer identification number (in the case of an individual, generally, such individual’s social security number) or to make the required certification; or (ii) the Fund (or Financial Advisor) has been notified by the IRS that you are subject to backup withholding. Certain shareholders are exempt from backup withholding. Backup withholding is not an additional tax and any amount withheld may be refunded or credited against your U.S. federal income tax liability, if any, provided that you furnish the required information to the IRS.

**THE FOREGOING IS A GENERAL AND ABBREVIATED SUMMARY OF THE PROVISIONS OF THE CODE AND THE TREASURY REGULATIONS IN EFFECT AS THEY DIRECTLY GOVERN THE TAXATION OF THE FUND AND ITS SHAREHOLDERS. THESE PROVISIONS ARE SUBJECT TO CHANGE BY LEGISLATIVE OR ADMINISTRATIVE ACTION, AND ANY SUCH CHANGE MAY BE RETROACTIVE. A MORE COMPLETE DISCUSSION OF THE TAX RULES APPLICABLE TO THE FUND CAN BE FOUND IN THE STATEMENT OF ADDITIONAL INFORMATION, WHICH IS INCORPORATED BY REFERENCE INTO THIS PROSPECTUS. SHAREHOLDERS ARE URGED TO CONSULT THEIR TAX ADVISERS REGARDING SPECIFIC QUESTIONS AS TO U.S. FEDERAL, STATE, LOCAL AND FOREIGN INCOME OR OTHER TAXES.**

### **Net Asset Value (NAV)**

The NAV per share of the Fund’s Class A, Class C, Class R and Class Y Shares is calculated as of the close of regular trading on the NYSE, normally 4:00 p.m., Eastern Time, on each day that the NYSE is open for business. The NYSE is open Monday through Friday, but currently is scheduled to be closed on New Year’s Day, Dr. Martin Luther King, Jr. Day, Presidents’ Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day or on the preceding Friday or subsequent Monday when a holiday falls on a Saturday or Sunday, respectively.

The NAV per share of each class of shares of the Fund is computed by dividing the value of the Fund’s net assets (i.e., the value of its securities and other assets less its liabilities, including expenses payable or accrued but excluding capital stock and surplus) attributable to the class of shares by the total number of shares of the class outstanding at the time the determination is made. The price of a particular class of the Fund’s shares for the purpose of purchase and redemption orders will be based upon the calculation of NAV per share of the Fund next made after the purchase or redemption order is received in good order. The value of the Fund’s portfolio assets may change on days the Fund is closed and on which you are not able to purchase or sell your shares.



## Table of Contents

Each investor in the Master Fund, including the Fund, may add to or reduce its investment in the Master Fund on each business day on which shares of the Fund are sold to the public. At the close of each such day, the value of each investor's beneficial interest in the Master Fund will be determined by multiplying the net value of the Master Fund, as determined by amortized cost, by the percentage, effective for that day, which represents that investor's share of the aggregate beneficial interests in the Master Fund. Any additions or withdrawals, which are to be effected as of the close of business on that day, will then be effected. The percentage of the aggregate beneficial interests in the Master Fund held by each investor in the Master Fund, including the Fund will then be recomputed as the percentage equal to the fraction (i) the numerator of which is the value of the investor's investment in the Master Fund as of the close of business on such day plus or minus, as the case may be, the amount of net additions to or withdrawals from such investor's investment in the Master Fund effected as of the close of business on such day, and (ii) the denominator of which is the aggregate net value of the Master Fund, as determined by amortized cost, as of the close of business on such day plus or minus, as the case may be, the amount of net additions to or withdrawals from the aggregate investments in the Master Fund by all investors, including the Fund, in the Master Fund. The percentage so determined for the Fund will then be applied to determine the value of the Fund's interest in the Master Fund as of the close of the following business day.

The Fund's portfolio securities are valued in accordance with the Fund's valuation policies approved by the Board of Trustees. There are no material differences between the valuation policies of the Fund and the Master Fund. The value of the Fund's investments is generally determined as follows:

Portfolio securities for which market quotations are readily available are valued at their current market value, except that debt securities that are not credit-impaired and have remaining maturities of 60 days or less will be valued at amortized cost, a method of fair valuation.

Foreign securities listed on foreign exchanges are valued based on quotations from the primary market in which they are traded and are translated from the local currency into U.S. dollars using current exchange rates. Foreign securities may trade on weekends or other days when the Fund does not calculate NAV. As a result, the market value of these investments may change on days when you cannot buy or redeem shares of the Fund.

Investments by the Fund in any other mutual fund are valued at their respective NAVs as determined by those mutual funds each business day. The prospectuses for those mutual funds explain the circumstances under which those funds will use fair value pricing and the effects of using fair value pricing.

All other portfolio securities, including derivatives and cases where market quotations are not readily available, are valued at fair value as determined in good faith pursuant to procedures established by the Board of Trustees. Pursuant to the Fund's pricing procedures, securities for which market quotations are not readily available may include securities that are subject to legal or contractual restrictions on resale, securities for which no or limited trading activity has occurred for a period of time, or securities that are otherwise deemed to be illiquid (i.e., securities that cannot be disposed of within seven days at approximately the price at which the security is currently priced by the Fund which holds the security). Market quotations may also be not "readily available" if an event occurs after the close of the principal exchange on which a portfolio security trades (but before the time for calculation of the Fund's NAV) if that event affects or is likely to affect (more than minimally) the NAV per share of the Fund. Fair value pricing involves judgments that are inherently subjective and inexact; as a result, there can be no assurance that fair value pricing will reflect actual market value, and it is possible that the fair value determined for a security will be materially different from the value that actually could be or is realized upon the sale of that asset.

**MAILINGS TO SHAREHOLDERS**

In order to reduce duplicative mail and expenses of the Fund, we may, in accordance with applicable law, send a single copy of the Fund's Prospectus and shareholder reports to your household even if more than one family member in your household owns shares of the Fund. Additional copies of the Prospectus and shareholder reports may be obtained by calling (877) 665-1287. If you do not want us to consolidate your Fund mailings and would prefer to receive separate mailings at any time in the future, please call us at the telephone number above and we will furnish separate mailings, in accordance with instructions, within 30 days of your request.

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## **Table of Contents**

### **Investment Adviser**

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Dallas, Texas 75201

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Boston, MA 02111

**PYXIS FUNDS II**

**PYXIS NATURAL RESOURCES FUND  
STATEMENT OF ADDITIONAL INFORMATION**

February 1, 2013

200 Crescent Court, Suite 700, Dallas, Texas 75201

For information, call 1-877-665-1287

	<u>Class A</u>	<u>Class C</u>	<u>Class R</u>	<u>Class Y</u>
<b>Pyxis Natural Resources Fund</b>	<b>HNRAX</b>	<b>HNRCX</b>	<b>HNRRX</b>	<b>HNRYX</b>

This Statement of Additional Information (“SAI”) supplements the information contained in the Pyxis Natural Resources Fund’s Prospectus dated February 1, 2013 (the “Prospectus”), and should be read in conjunction with the Prospectus. This SAI, although not a prospectus, is incorporated in its entirety by reference into the Prospectus. Copies of the Prospectus describing Pyxis Funds II (the “Trust”) and Pyxis Natural Resources Fund (the “Fund”) may be obtained without charge by calling the Trust at the telephone number listed above or by visiting the Fund’s website [www.pyxisais.com](http://www.pyxisais.com). The Trust’s financial statements for the fiscal year ended September 30, 2012, and the Report thereon are incorporated by reference to the Trust’s Annual Report. No other part of the Trust’s Annual Report is hereby incorporated by reference. For a free copy of the Trust’s annual or semi-annual reports, please call 1-877-665-1287. Information regarding the status of shareholder accounts may be obtained by calling the Trust at the telephone number listed above or by writing to the Trust at Boston Financial Data Services Inc., 2000 Crown Colony Drive, Quincy Massachusetts 02169-0953. Terms that are defined in the Prospectus shall have the same meanings in this SAI.

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## Table of Contents

<u>Table of Contents</u>	<u>Page</u>
<a href="#"><u>Investment Strategies and Risks</u></a>	3
<a href="#"><u>Special Information Concerning Master-Feeder Fund Structure</u></a>	24
<a href="#"><u>Portfolio Holdings</u></a>	25
<a href="#"><u>Investment Restrictions</u></a>	26
<a href="#"><u>Portfolio Transactions</u></a>	28
<a href="#"><u>Portfolio Turnover</u></a>	28
<a href="#"><u>Management of the Trust</u></a>	28
<a href="#"><u>Programs for Reducing or Eliminating Sales Charges</u></a>	39
<a href="#"><u>Dividends and Distributions</u></a>	42
<a href="#"><u>Income Tax Considerations</u></a>	42
<a href="#"><u>Principal Shareholders</u></a>	53
<a href="#"><u>Fund History and Additional Information</u></a>	53
<a href="#"><u>Financial Statements</u></a>	54
<a href="#"><u>Appendix A - Rating Categories</u></a>	A-1
<a href="#"><u>Appendix B - Proxy Voting Policy</u></a>	B-1

---

## Table of Contents

### INVESTMENT STRATEGIES AND RISKS

Pyxis Natural Resources Fund (the “Fund”) is a non-diversified series of Pyxis Funds II (“the Trust”), an open-end management investment company organized as an unincorporated business trust under the laws of The Commonwealth of Massachusetts pursuant to a Declaration of Trust dated August 10, 1992, as amended. Even though the Fund is non-diversified, the Master Fund in which it invests is diversified, and therefore the Fund will operate as a diversified fund for so long as the Fund invests in the Master Fund, the Master Fund continues to operate as a diversified fund, or until the Fund may no longer be designated as non-diversified by operation of law. The Fund will offer four classes of shares: Class A, Class C, Class R and Class Y. As of the date of this SAI, the Fund has no outstanding shares and the Fund’s shares are not being offered for sale.

Pyxis Capital, L.P. (“Pyxis” or the “Adviser”) is the investment adviser to the Fund. Pyxis currently seeks to achieve its investment objective by investing substantially all of its assets in the Ascendant Natural Resources Master Fund (the “Master Fund”) a separate investment company with the same objectives and strategies of the Fund. The Master Fund invests in a diversified portfolio of securities and is not offered directly to the public. Ascendant Advisors, LLC is the adviser of the Master Fund.

The principal investment objective of the Fund is not fundamental and can be changed without the approval of a majority of the outstanding voting shares of beneficial interest of the Fund. Shareholders will be given at least 60 days’ prior written notice of any change in the Fund’s investment objective. Certain investment restrictions of the Fund are fundamental and cannot be changed without shareholder approval. In contrast, certain other investment restrictions, as well as the investment policies, of the Fund are not fundamental and may be changed by the Trust’s Board of Trustees (the “Board” or “Trustees”) without shareholder approval.

There can be no assurance that the Fund will achieve its investment objectives. Investors should not consider the Fund alone to be a complete investment program. The Fund is subject to the risk of changing economic conditions, as well as the risk inherent in the ability of the portfolio managers of the Fund and of the Master Fund to make changes in the composition of the Fund in anticipation of changes in economic, business, and financial conditions. As with any security, a risk of loss is inherent in an investment in the shares of the Fund. The securities, investments, and investment practices used by the Fund all have attendant risks of varying degrees. For example, with respect to equity securities, there can be no assurance of capital appreciation and there is a substantial risk of decline. With respect to debt securities, there exists the risk that the issuer of a security may not be able to meet its obligations on interest or principal payments at the time required by the instrument. In addition, the value of debt instruments generally rise and fall inversely with prevailing current interest rates.

The Fund’s investment objective and strategies are described in the Prospectus. Supplemental information concerning certain of the securities and other instruments in which the Fund may invest, the investment policies and strategies that the Fund may utilize and certain risks attendant to those investments, policies and strategies is provided below. The Fund is not obligated to pursue the following strategies or techniques and does not represent that these strategies or techniques are available now or will be available at any time in the future. The Fund will not purchase all of the following types of securities or employ all of the following strategies unless doing so is consistent with its investment objectives. The Master Fund has similar investment strategies, risks and investment policies as that of the Fund.

The following descriptions summarize the investment techniques that may be employed by the Master Fund. The Master Fund may change certain techniques and limitations at the discretion of Ascendant and subject to approval by the Master Fund’s board of trustees. Percentage figures refer to the percentage of the Fund’s assets that may be invested in accordance with the indicated technique.

**Equity Securities.** Equity securities include common stock and securities convertible into common stocks, such as convertible bonds, warrants, rights and options. The value of equity securities varies in response to many factors, including the activities and financial condition of individual companies, the business market in which individual companies compete and general market and economic conditions. Equity securities fluctuate in value, often based on factors unrelated to the value of the issuer of the securities, and such fluctuations can be significant.

**Common Stock.** Common stock represents an equity (ownership) interest in a company, and usually possesses voting rights and earns dividends. Dividends on common stock are not fixed but are declared at the discretion of the issuer. Common stock generally



represents the riskiest investment in a company. In addition, common stock generally has the greatest appreciation and depreciation potential because increases and decreases in earnings are usually reflected in a company' s stock price.

The fundamental risk of investing in common stock is the risk that the value of the stock might decrease. Stock values fluctuate in response to the activities of an individual company or in response to general market and/or economic conditions. Historically, common stocks have provided greater long-term returns and have entailed greater short-term risks than fixed-income securities and money market investments. The market value of all securities, including common stocks, is based upon the market' s perception of value and not necessarily the book value of an issuer or other objective measures of a company' s worth.

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## Table of Contents

Convertible Securities. The Master Fund may invest in convertible securities and non-investment grade convertible securities. Convertible securities include fixed income securities that may be exchanged or converted into a predetermined number of shares of the issuer's underlying common stock at the option of the holder during a specified period. Convertible securities may take the form of convertible preferred stock, convertible bonds or debentures, units consisting of "usable" bonds and warrants or a combination of the features of several of these securities. Convertible securities are senior to common stock in an issuer's capital structure, but are usually subordinated to similar non-convertible securities. While providing a fixed income stream (generally higher in yield than the income derivable from common stock but lower than that afforded by a similar non-convertible security), a convertible security also gives an investor the opportunity, through its conversion feature, to participate in the capital appreciation of the issuing company depending upon a market price advance in the convertible security's underlying common stock.

Warrants. The Master Fund may invest in warrants. Warrants are options to purchase common stock at a specific price (usually at a premium above the market value of the optioned common stock at issuance) valid for a specific period of time. Warrants may have a life ranging from less than one year to twenty years, or longer. Warrants have expiration dates after which they are worthless. In addition, a warrant is worthless if the market price of the common stock does not exceed the warrant's exercise price during the life of the warrant. Warrants have no voting rights, pay no dividends, and have no rights with respect to the assets of the corporation issuing them. The percentage increase or decrease in the market price of the warrant may tend to be greater than the percentage increase or decrease in the market price of the optioned common stock.

Income Trusts. The Master Fund may invest in income trusts which are investment trusts that hold assets that are income producing. The income is passed on to the "unitholders." Each income trust has an operating risk based on its underlying business. The term may also be used to designate a legal entity, capital structure and ownership vehicle for certain assets or businesses. Shares or "trust units" are traded on securities exchanges just like stocks. Income is passed on to the investors, called unitholders, through monthly or quarterly distributions. Historically, distributions have typically been higher than dividends on common stocks. The unitholders are the beneficiaries of a trust, and their units represent their right to participate in the income and capital of the trust. Income trusts generally invest funds in assets that provide a return to the trust and its beneficiaries based on the cash flows of an underlying business. This return is often achieved through the acquisition by the trust of equity and debt instruments, royalty interests or real properties. The trust can receive interest, royalty or lease payments from an operating entity carrying on a business, as well as dividends and a return of capital.

Each income trust has an operating risk based on its underlying business; and, typically, the higher the yield, the higher the risk. They also have additional risk factors, including, but not limited to, poorer access to debt markets. Similar to a dividend paying stock, income trusts do not guarantee minimum distributions or even return of capital. If the business starts to lose money, the trust can reduce or even eliminate distributions; this is usually accompanied by sharp losses in a unit's market value. Since the yield is one of the main attractions of income trusts, there is the risk that trust units will decline in value if interest rates offering in competing markets, such as in the cash/treasury market, increase. Interest rate risk is also present within the trusts themselves because they hold very long term capital assets (e.g. pipelines, power plants, etc.), and much of the excess distributable income is derived from a maturity (or duration) mismatch between the life of the asset, and the life of the financing associated with it. In an increasing interest rate environment, not only does the attractiveness of trust distributions decrease, but quite possibly, the distributions may themselves decrease, leading to a double whammy of both declining yield and substantial loss of unitholder value. Because most income is passed on to unitholders, rather than reinvested in the business, in some cases, a trust can become a wasting asset unless more equity is issued. Because many income trusts pay out more than their net income, the unitholder equity (capital) may decline over time. To the extent that the value of the trust is driven by the deferral or reduction of tax, any change in government tax regulations to remove the benefit will reduce the value of the trusts. Generally, income trusts also carry the same risks as dividend paying stocks that are traded on stock markets.

Publicly Traded Partnerships. The Master Fund may invest in publicly traded partnerships ("PTPs"). PTPs are limited partnerships the interests in which (known as "units") are traded on public exchanges, just like corporate stock. PTPs are limited partnerships that provide an investor with a direct interest in a group of assets (generally, oil and gas properties). Publicly traded partnership units typically trade publicly, like stock, and thus may provide the investor more liquidity than ordinary limited partnerships. Publicly traded partnerships are also called master limited partnerships ("MLPs") and public limited partnerships. A limited partnership has one or

more general partners (they may be individuals, corporations, partnerships or another entity) which manage the partnership, and limited partners, which provide capital to the partnership but have no role in its management. When an investor buys units in a PTP, he or she becomes a limited partner.

There are different types of risks to investing in PTPs including regulatory risks and interest rate risks. Currently most partnerships enjoy pass through taxation of their income to partners in reliance on the “passive income” exception from taxation as a corporation in Section 7704(c) of the Internal Revenue Code of 1986, as amended (the “Code”). This avoids double taxation of earnings (i.e., at the PTP level and at the investor level). If the government were to change PTP business tax structure, unitholders would not be able to enjoy the relatively high yields in the sector for long. In addition, PTP’ s which charge government-regulated fees for transportation of oil and gas products through their pipelines are subject to unfavorable changes in government-approved rates and fees, which would affect a PTPs revenue stream negatively. PTPs also carry some interest rate risks. During increases in interest rates, PTPs may not produce decent returns to shareholders. The Master Fund’ s investments in PTPs may be limited by tax considerations, including the Fund’ s intention to qualify annually as a regulated investment company for tax purposes. See “Income Tax Considerations” below.

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## Table of Contents

**Money Market Instruments.** The types of money market instruments in which the Fund may invest either directly or indirectly are as follows: (i) securities issued or guaranteed by the U.S. Government or one of its agencies or instrumentalities (“Government Securities”), (ii) debt obligations of banks, savings and loan institutions, insurance companies and mortgage bankers, (iii) commercial paper and notes, including those with variable and floating rates of interest, (iv) debt obligations of foreign branches of U.S. banks, U.S. branches of foreign banks and foreign branches of foreign banks, (v) debt obligations issued or guaranteed by one or more foreign governments or any of their political subdivisions, agencies or instrumentalities, including obligations of supranational entities, (vi) debt securities issued by foreign issuers, and (vii) repurchase agreements.

The Fund may invest in the following types of Government Securities: debt obligations of varying maturities issued by the U.S. Treasury or issued or guaranteed by an entity controlled by or supervised by, and acting as an instrumentality of, the Government of the United States pursuant to authority granted by the United States Congress, such as the following: the Federal Housing Administration, Farmers Home Administration, Export-Import Bank of the United States, Small Business Administration, Government National Mortgage Association (“Ginnie Mae”), General Services Administration, Central Bank for Cooperatives, Federal Farm Credit Banks Funding Corporation, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation (“Freddie Mac”), Federal Intermediate Credit Banks, Federal Land Banks, Federal National Mortgage Association (“Fannie Mae”), Federal Deposit Insurance Corporation (“FDIC”), Maritime Administration, Tennessee Valley Authority, District of Columbia Armory Board, Student Loan Marketing Association and Resolution Trust Corporation. Direct obligations of the U.S. Treasury include a variety of securities that differ in their interest rates, maturities and dates of issuance. Certain of the Government Securities that may be held by the Fund are instruments that are supported by the full faith and credit of the United States (*i.e.*, U.S. Treasury bills and notes and obligations of Ginnie Mae), whereas other Government Securities that may be held by the Master Fund are supported by the right of the issuer to borrow from the U.S. Treasury (*i.e.*, Fannie Mae) or are supported solely by the credit of the instrumentality (*i.e.*, obligations of Freddie Mac). In September 2008, the Federal Housing Finance Agency placed Fannie Mae and Freddie Mac into conservatorship to control their operations. Certain financing arrangements were put in place to support their bonds, but they are not backed by the full faith and credit of the U.S. Government. Also included as U.S. Government securities are bank-issued debt instruments that are guaranteed by the FDIC under its Temporary Liquidity Guarantee Program, which is backed by the full faith and credit of the U.S. Government. Other securities issued by a Government agency or related entity also may be considered Government Securities even though they are considered derivatives or use complex structures, such as stripped mortgage-backed securities, or interest-only or principal-only securities. Because the U.S. Government is not obligated by law to provide support to an instrumentality that it sponsors, the Fund will invest in obligations issued by an instrumentality of the U.S. Government only if the portfolio manager determines that the instrumentality’s credit risk does not make its securities unsuitable for investment by the Fund. For purposes of a repurchase agreement entered into by the Master Fund, however, Government Securities serving as collateral for that repurchase agreement means only those types of Government Securities that permit the Master Fund to look-through the repurchase agreement to that collateral for the purposes permitted by the Investment Company Act of 1940, as amended (the “1940 Act”), to the extent it is necessary or appropriate for the Master Fund to look through to that collateral.

The Master Fund may also invest in money market instruments issued or guaranteed by foreign governments or by any of their political subdivisions, authorities, agencies or instrumentalities. Money market instruments held by the Master Fund may be rated no lower than A-2 by Standard & Poor’s, a division of The McGraw Hill Companies, Inc. (“S&P”) or Prime-2 by Moody’s Investors Service, Inc. (“Moody’s”) or the equivalent from another nationally recognized statistical rating organization (“NRSRO”), or if unrated, must be issued by an issuer having an outstanding unsecured debt issue then rated within the three highest categories. A description of the rating systems of Moody’s and S&P is contained in the Appendix. At no time will the investments of the Master Fund in bank obligations, including time deposits, exceed 25% of the value of the Master Fund’s assets.

**Cash and Temporary Defensive Positions.** During periods when the portfolio manager believes there are adverse market, economic, political or currency conditions domestically or abroad, the portfolio manager may assume, on behalf of the Fund, a temporary defensive posture and (i) without limitation hold cash, or (ii) restrict the securities markets in which the Fund’s assets are invested by investing those assets in securities markets deemed by the portfolio manager to be conservative in light of the Fund’s investment objectives and policies. Under normal circumstances, the Fund may invest a portion of its total assets in cash: (i) pending investment; (ii) for investment purposes; (iii) for cash management purposes, such as to meet redemptions, or pay operating expenses,

and (iv) during a Fund restructuring. The Fund may also hold cash under circumstances where the liquidation of the Fund has been approved by the Board and therefore investments in accordance with the Fund's investment objectives and policies would no longer be appropriate. To the extent that the Fund holds cash, it may not achieve its investment objectives. Cash includes bank deposits and highly rated, liquid short-term instruments, such as money market instruments. Certain of these instruments may be referred to as cash equivalents.

**Certificates of Deposit and Bankers' Acceptances.** The Master Fund may invest in certificates of deposit and bankers' acceptances, which are considered to be short-term money market instruments. Certificates of deposit are receipts issued by a depository institution in exchange for the deposit of funds. The issuer agrees to pay the amount deposited plus interest to the bearer of the receipt on the date specified on the certificate. The certificate usually can be traded in the secondary market prior to maturity. Bankers'

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## Table of Contents

acceptances typically arise from short-term credit arrangements designed to enable businesses to obtain funds to finance commercial transactions. Generally, an acceptance is a time draft drawn on a bank by an exporter or an importer to obtain a stated amount of funds to pay for specific merchandise. The draft is then “accepted” by a bank that, in effect, unconditionally guarantees to pay the face value of the instrument on its maturity date. The acceptance may then be held by the accepting bank as an earning asset or it may be sold in the secondary market at the going rate of discount for a specific maturity. Although maturities for acceptances can be as long as 270 days, most acceptances have maturities of six months or less.

**Fixed Income/Debt/Bond Securities.** Yields on fixed income securities, which the Master Fund defines to include preferred stock, are dependent on a variety of factors, including the general conditions of the money market and other fixed income securities markets, the size of a particular offering, the maturity of the obligation and the rating of the issue. An investment in the Master Fund will be subjected to risk even if all fixed income securities in the Master Fund’s portfolio are paid in full at maturity. All fixed income securities, including U.S. Government securities, can change in value when there is a change in interest rates or the issuer’s actual or perceived creditworthiness or ability to meet its obligations.

There is normally an inverse relationship between the market value of securities sensitive to prevailing interest rates and actual changes in interest rates. In other words, an increase in interest rates produces a decrease in market value. The longer the remaining maturity (and duration) of a security, the greater will be the effect of interest rate changes on the market value of that security. Changes in the ability of an issuer to make payments of interest and principal and in the markets’ perception of an issuer’s creditworthiness will also affect the market value of the debt securities of that issuer. Obligations of issuers of fixed income securities (including municipal securities) are subject to the provisions of bankruptcy, insolvency, and other laws affecting the rights and remedies of creditors, such as the Federal Bankruptcy Reform Act of 1978. In addition, the obligations of municipal issuers may become subject to laws enacted in the future by Congress, state legislatures, or referenda extending the time for payment of principal and/or interest, or imposing other constraints upon enforcement of such obligations or upon the ability of municipalities to levy taxes. Changes in the ability of an issuer to make payments of interest and principal and in the market’s perception of an issuer’s creditworthiness will also affect the market value of the debt securities of that issuer. The possibility exists, therefore, that, the ability of any issuer to pay, when due, the principal of and interest on its debt securities may become impaired.

The corporate debt securities in which the Master Fund may invest include corporate bonds and notes and short-term investments such as commercial paper and variable rate demand notes. Commercial paper (short-term promissory notes) is issued by companies to finance their or their affiliate’s current obligations and is frequently unsecured. Variable and floating rate demand notes are unsecured obligations typically redeemable upon not more than 30 days’ notice. These obligations include master demand notes that permit investment of fluctuating amounts at varying rates of interest pursuant to a direct arrangement with the issuer of the instrument. The issuer of these obligations often has the right, after a given period, to prepay the outstanding principal amount of the obligations upon a specified number of days’ notice. These obligations generally are not traded, nor generally is there an established secondary market for these obligations. To the extent a demand note does not have a 7-day or shorter demand feature and there is no readily available market for the obligation, it is treated as an illiquid security.

The Master Fund may invest in debt securities, including non-investment grade debt securities. The following describes some of the risks associated with fixed income debt securities:

*Interest Rate Risk.* Debt securities have varying levels of sensitivity to changes in interest rates. In general, the price of a debt security can fall when interest rates rise and can rise when interest rates fall. Securities with longer maturities and mortgage securities can be more sensitive to interest rate changes although they usually offer higher yields to compensate investors for the greater risks. The longer the maturity of the security, the greater the impact a change in interest rates could have on the security’s price. In addition, short-term and long-term interest rates do not necessarily move in the same amount or the same direction. Short-term securities tend to react to changes in short-term interest rates and long-term securities tend to react to changes in long-term interest rates.

*Credit Risk.* Fixed income securities have speculative characteristics and changes in economic conditions or other circumstances are more likely to lead to a weakened capacity of those issuers to make principal or interest payments, as compared to issuers of more highly rated securities.

*Extension Risk.* The Master Fund is subject to the risk that an issuer will exercise its right to pay principal on an obligation held by the Master Fund (such as mortgage-backed securities) later than expected. This may happen when there is a rise in interest rates. These events may lengthen the duration (i.e. interest rate sensitivity) and potentially reduce the value of these securities.

*Prepayment Risk.* Certain types of debt securities, such as mortgage-backed securities, have yield and maturity characteristics corresponding to underlying assets. Unlike traditional debt securities, which may pay a fixed rate of interest until maturity when the entire principal amount comes due, payments on certain mortgage-backed securities may include both interest and a partial payment of principal. Besides the scheduled repayment of principal, payments of principal may result from the voluntary prepayment, refinancing, or foreclosure of the underlying mortgage loans.

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## Table of Contents

Securities subject to prepayment are less effective than other types of securities as a means of "locking in" attractive long-term interest rates. One reason is the need to reinvest prepayments of principal; another is the possibility of significant unscheduled prepayments resulting from declines in interest rates. These prepayments would have to be reinvested at lower rates. As a result, these securities may have less potential for capital appreciation during periods of declining interest rates than other securities of comparable maturities, although they may have a similar risk of decline in market value during periods of rising interest rates. Prepayments may also significantly shorten the effective maturities of these securities, especially during periods of declining interest rates. Conversely, during periods of rising interest rates, a reduction in prepayments may increase the effective maturities of these securities, subjecting them to a greater risk of decline in market value in response to rising interest rates than traditional debt securities, and, therefore, potentially increasing the volatility of the Master Fund.

At times, some of the mortgage-backed securities in which the Master Fund may invest will have higher than market interest rates and therefore will be purchased at a premium above their par value. Prepayments may cause losses in securities purchased at a premium, as unscheduled prepayments, which are made at par, will cause the Funds to experience a loss equal to any unamortized premium.

The Master Fund's investments in certain debt instruments can require the Master Portfolio to accrue income and therefore allocate it to the Fund for tax purposes without a corresponding receipt of cash. As a result, the Fund may be required to redeem a portion of its interest in the Master Fund (including when not advantageous to do so) in order to obtain sufficient cash to satisfy the annual distribution requirements applicable to regulated investment companies under the Code and to otherwise avoid Fund-level federal taxes. See "Income Tax Considerations" below.

**Commercial Paper.** The Master Fund may purchase commercial paper. Commercial paper consists of short-term (usually from 1 to 270 days) unsecured promissory notes issued by corporations in order to finance their current operations. It may be secured by letters of credit, a surety bond or other forms of collateral. Commercial paper is usually repaid at maturity by the issuer from the proceeds of the issuance of new commercial paper. As a result, investment in commercial paper is subject to the risk the issuer cannot issue enough new commercial paper to satisfy its outstanding commercial paper, also known as rollover risk. Commercial paper may become illiquid or may suffer from reduced liquidity in certain circumstances. Like all fixed income securities, commercial paper prices are susceptible to fluctuations in interest rates. If interest rates rise, commercial paper prices will decline. The short-term nature of a commercial paper investment makes it less susceptible to interest rate risk than many other fixed income securities because interest rate risk typically increases as maturity lengths increase. Commercial paper tends to yield smaller returns than longer-term corporate debt because securities with shorter maturities typically have lower effective yields than those with longer maturities. As with all fixed income securities, there is a chance that the issuer will default on its commercial paper obligation.

**Time Deposits and Variable Rate Notes.** The Master Fund may invest in fixed time deposits, whether or not subject to withdrawal penalties.

The commercial paper obligations, which the Master Fund may buy are unsecured and may include variable rate notes. The nature and terms of a variable rate note (i.e., a "Master Note") permit the Master Fund to invest fluctuating amounts at varying rates of interest pursuant to a direct arrangement between the Master Fund as Lender, and the issuer, as borrower. It permits daily changes in the amounts borrowed. The Master Fund has the right at any time to increase, up to the full amount stated in the note agreement, or to decrease the amount outstanding under the note. The issuer may prepay at any time and without penalty any part of or the full amount of the note. The note may or may not be backed by one or more bank letters of credit. Because these notes are direct lending arrangements between the Master Fund and the issuer, it is not generally contemplated that they will be traded; moreover, there is currently no secondary market for them. Except as specifically provided in the Prospectus, there is no limitation on the type of issuer from whom these notes may be purchased; however, in connection with such purchase and on an ongoing basis, Ascendant will consider the earning power, cash flow and other liquidity ratios of the issuer, and its ability to pay principal and interest on demand, including a situation in which all holders of such notes made demand simultaneously. Variable rate notes are subject to the Master Fund's investment restriction on illiquid securities unless such notes can be put back to the issuer on demand within seven days.

**Insured Bank Obligations.** The Master Fund may invest in insured bank obligations. The Federal Deposit Insurance Corporation ("FDIC") insures the deposits of federally insured banks and savings and loan associations (collectively referred to as "banks") up to



\$250,000. The Master Fund may purchase bank obligations that are fully insured as to principal by the FDIC. Currently, to remain fully insured as to principal, these investments must be limited to \$250,000 per bank per fund; if the principal amount and accrued interest together exceed \$250,000, the excess principal and accrued interest will not be insured. Insured bank obligations may have limited marketability.

**Municipal Government Obligations.** In general, municipal obligations are debt obligations issued by or on behalf of states, territories and possessions of the United States (including the District of Columbia) and their political subdivisions, agencies and

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## Table of Contents

instrumentalities. Municipal obligations generally include debt obligations issued to obtain funds for various public purposes. Certain types of municipal obligations are issued in whole or in part to obtain funding for privately operated facilities or projects. Municipal obligations include general obligation bonds, revenue bonds, industrial development bonds, notes and municipal lease obligations. Municipal obligations also include additional obligations, the interest on which is exempt from federal income tax, that may become available in the future as long as the Board of Trustees of the Master Fund determines that an investment in any such type of obligation is consistent with the Master Fund's investment objectives. Municipal obligations may be fully or partially backed by local government, the credit of a private issuer, current or anticipated revenues from a specific project or specific assets or domestic or foreign entities providing credit support such as letters of credit, guarantees or insurance.

*Bonds and Notes.* General obligation bonds are secured by the issuer's pledge of its full faith, credit and taxing power for the payment of interest and principal. Revenue bonds are payable only from the revenues derived from a project or facility or from the proceeds of a specified revenue source. Industrial development bonds are generally revenue bonds secured by payments from and the credit of private users. Municipal notes are issued to meet the short-term funding requirements of state, regional and local governments. Municipal notes include tax anticipation notes, bond anticipation notes, revenue anticipation notes, tax and revenue anticipation notes, construction loan notes, short-term discount notes, tax-exempt commercial paper, demand notes and similar instruments.

*Municipal Lease Obligations.* Municipal lease obligations may take the form of a lease, an installment purchase or a conditional sales contract. They are issued by state and local governments and authorities to acquire land, equipment and facilities, such as vehicles, telecommunications and computer equipment and other capital assets. The Master Fund may invest in funds that purchase these lease obligations directly, or it may purchase participation interests in such lease obligations. States have different requirements for issuing municipal debt and issuing municipal leases. Municipal leases are generally subject to greater risks than general obligation or revenue bonds because they usually contain a "non-appropriation" clause, which provides that the issuer is not obligated to make payments on the obligation in future years unless funds have been appropriated for this purpose each year. Such non-appropriation clauses are required to avoid the municipal lease obligations from being treated as debt for state debt restriction purposes. Accordingly, such obligations are subject to "non-appropriation" risk. Municipal leases may be secured by the underlying capital asset and it may be difficult to dispose of any such asset in the event of non-appropriation or other default.

**United States Government Obligations.** These consist of various types of marketable securities issued by the United States Treasury, i.e., bills, notes and bonds. Such securities are direct obligations of the United States government and differ mainly in the length of their maturity. Treasury bills, the most frequently issued marketable government security, have a maturity of up to one year and are issued on a discount basis. The Master Fund may also invest in Treasury Inflation-Protected Securities (TIPS). TIPS are special types of treasury bonds that were created in order to offer bond investors protection from inflation. The values of the TIPS are automatically adjusted to the inflation rate as measured by the Consumer Price Index (CPI). If the CPI goes up by half a percent, the value of the bond (the TIPS) would also go up by half a percent. If the CPI falls, the value of the bond does not fall because the government guarantees that the original investment will stay the same. TIPS decline in value when real interest rates rise. However, in certain interest rate environments, such as when real interest rates are rising faster than nominal interest rates, TIPS may experience greater losses than other fixed income securities with similar duration.

**United States Government Agency Obligations.** These consist of debt securities issued by agencies and instrumentalities of the United States government, including the various types of instruments currently outstanding or which may be offered in the future. Agencies include, among others, the Federal Housing Administration, Government National Mortgage Association ("Ginnie Mae"), Farmer's Home Administration, Export-Import Bank of the United States, Maritime Administration, and General Services Administration. Instrumentalities include, for example, each of the Federal Home Loan Banks, the National Bank for Cooperatives, the Federal Home Loan Mortgage Corporation ("Freddie Mac"), the Farm Credit Banks, the Federal National Mortgage Association ("Fannie Mae"), and the United States Postal Service. These securities are either: (i) backed by the full faith and credit of the United States government (e.g., United States Treasury Bills); (ii) guaranteed by the United States Treasury (e.g., Ginnie Mae mortgage-backed securities); (iii) supported by the issuing agency's or instrumentality's right to borrow from the United States Treasury (e.g., Fannie Mae Discount Notes); or (iv) supported only by the issuing agency's or instrumentality's own credit (e.g., Tennessee Valley Association). On

September 7, 2008, the U.S. Treasury Department and the Federal Housing Finance Authority (the "FHFA") announced that Fannie Mae and Freddie Mac had been placed into conservatorship, a statutory process designed to stabilize a troubled institution with the objective of returning the entity to normal business operations. The U.S. Treasury Department and the FHFA at the same time established a secured lending facility and a Secured Stock Purchase Agreement with both Fannie Mae and Freddie Mac to ensure that each entity had the ability to fulfill its financial obligations. The FHFA announced that it does not anticipate any disruption in pattern of payments or ongoing business operations of Fannie Mae and Freddie Mac.

Government-related guarantors (i.e. not backed by the full faith and credit of the United States Government) include Fannie Mae and Freddie Mac. Fannie Mae is a government-sponsored corporation owned by stockholders. It is subject to general regulation by the Secretary of Housing and Urban Development. Fannie Mae purchases conventional (i.e., not insured or guaranteed by any government agency) residential mortgages from a list of approved seller/servicers which include state and federally chartered savings

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## [Table of Contents](#)

and loan associations, mutual savings banks, commercial banks and credit unions and mortgage bankers. Pass-through securities issued by Fannie Mae are guaranteed as to timely payment of principal and interest by Fannie Mae but are not backed by the full faith and credit of the United States Government.

Freddie Mac was created by Congress in 1970 for the purpose of increasing the availability of mortgage credit for residential housing. It is a government-sponsored corporation formerly owned by the twelve Federal Home Loan Banks and now owned by stockholders. Freddie Mac issues Participation Certificates ("PC's"), which represent interests in conventional mortgages from Freddie Mac's national portfolio. Freddie Mac guarantees the timely payment of interest and ultimate collection of principal, but PCs are not backed by the full faith and credit of the United States Government. Commercial banks, savings and loan institutions, private mortgage insurance companies, mortgage bankers and other secondary market issuers also create pass-through pools of conventional residential mortgage loans. Such issuers may, in addition, be the originators and/or servicers of the underlying mortgage loans as well as the guarantors of the mortgage-related securities. Pools created by such nongovernmental issuers generally offer a higher rate of interest than government and government-related pools because there are no direct or indirect government or agency guarantees of payments in the former pools. However, timely payment of interest and principal of these pools may be supported by various forms of insurance or guarantees, including individual loan, title, pool and hazard insurance and letters of credit. The insurance and guarantees are issued by governmental entities, private insurers and the mortgage poolers.

**Preferred Stock.** The Master Fund defines preferred stock as form of fixed income security because it has similar features to other forms of fixed income securities. Preferred stocks are securities that have characteristics of both common stocks and corporate bonds. Preferred stocks may receive dividends but payment is not guaranteed as with a bond. These securities may be undervalued because of a lack of analyst coverage resulting in a high dividend yield or yield to maturity. The risks of preferred stocks include a lack of voting rights and Ascendant may incorrectly analyze the security, resulting in a loss to the Master Fund. Furthermore, preferred stock dividends are not guaranteed and management can elect to forego the preferred dividend, resulting in a loss to the Master Fund. Preferred stock may also be convertible in the common stock of the issuer. Convertible securities may be exchanged or converted into a predetermined number of shares of the issuer's underlying common stock at the option of the holder during a specified period. Convertible securities are senior to common stocks in an issuer's capital structure, but are usually subordinated to similar non-convertible securities. A convertible security also gives an investor the opportunity, through its conversion feature, to participate in the capital appreciation of the issuing company depending upon a market price advance in the convertible security's underlying common stock. In general, preferred stocks generally pay a dividend at a specified rate and have preference over common stock in the payment of dividends and in liquidation. The Master Fund may invest in preferred stock with any or no credit rating. Preferred stock is a class of stock having a preference over common stock as to the payment of dividends and the recovery of investment should a company be liquidated, although preferred stock is usually junior to the debt securities of the issuer. Preferred stock market value may change based on changes in interest rates.

**Exchange-Traded Notes and Structured Notes.** The Master Fund may invest in exchange-traded notes ("ETNs"), which are a type of debt security that is typically unsecured and unsubordinated. This type of debt security differs from other types of bonds and notes because ETN returns are based upon the performance of a market index minus applicable fees, and typically, no periodic coupon payments are distributed and no principal protections exists, even at maturity. But as debt securities, ETNs do not own the underlying commodity or other index they are tracking. The purpose of ETNs is to create a type of security that combines both the aspects of bonds and exchange-traded funds ("ETFs"). Similar to ETFs, ETNs are traded on a major exchange, such as the New York Stock Exchange during normal trading hours. However, investors such as the Master Fund can also hold the debt security until maturity. At that time, the issuer will pay the investor a cash amount that would be equal to principal amount times the return of a benchmark index, less any fees or other reductions. Because fees reduce the amount of return at maturity or upon redemption, if the value of the underlying decreases or does not increase significantly, the Master Fund may receive less than the principal amount of investment at maturity or upon redemption.

The Master Fund may invest in structured notes, which are a type of debt security that is typically unsecured and unsubordinated. These notes are typically issued by banks or brokerage firms, and have interest and/or principal payments which are linked to changes in the price level of certain assets or to the price performance of certain indices. The value of a structured note will be influenced by time

to maturity, level of supply and demand for this type of note, interest rate and commodity market volatility, changes in the issuer's credit quality rating, and economic, legal, political, or geographic events that affect the referenced commodity. In addition, there may be a lag between a change in the value of the underlying reference asset and the value of the structured note. The Master Fund may also be exposed to increased transaction costs when it seeks to sell such notes in the secondary market.

**Ratings as Investment Criteria.** The ratings of nationally recognized statistical ratings organizations (“NRSROs”) such as S&P or Moody’ s represent the opinions of those organizations as to the quality of securities that they rate. Although these ratings, which are relative and subjective and are not absolute standards of quality, are used by the portfolio manager as initial criteria for the selection of portfolio securities on behalf of the Master Fund, the portfolio manager also relies upon its own analysis to evaluate potential investments.

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## [Table of Contents](#)

Subsequent to its purchase by the Master Fund, an issue of securities may cease to be rated or its rating may be reduced below the minimum required for purchase by the Master Fund. Although neither event will require the sale of the securities by the Master Fund, the portfolio manager will consider the event in its determination of whether the Master Fund should continue to hold the securities. To the extent that a NRSRO's ratings change as a result of a change in the NRSRO or its rating system, the Master Fund will attempt to use comparable ratings as standards for its investments in accordance with its investment objectives and policies.

**Certain Investment-Grade Debt Obligations.** Although obligations rated BBB by S&P or Baa by Moody's are considered investment grade, they may be viewed as being subject to greater risks than other investment grade obligations. Obligations rated BBB by S&P are regarded as having only an adequate capacity to pay principal and interest and those rated Baa by Moody's are considered medium-grade obligations that lack outstanding investment characteristics and have speculative characteristics as well.

**High Yield Securities.** The Master Fund may invest in high yield securities. High yield, high risk bonds are securities that are generally rated below investment grade by the primary rating agencies (BB+ or lower by S&P and Ba1 or lower by Moody's). Other terms used to describe such securities include "lower rated bonds," "non-investment grade bonds," "below investment grade bonds," and "junk bonds." These securities are considered to be high-risk investments. The risks include the following:

*Greater Risk of Loss.* These securities are regarded as predominately speculative. There is a greater risk that issuers of lower rated securities will default than issuers of higher rated securities. Issuers of lower rated securities generally are less creditworthy and may be highly indebted, financially distressed, or bankrupt. These issuers are more vulnerable to real or perceived economic changes, political changes or adverse industry developments. In addition, high yield securities are frequently subordinated to the prior payment of senior indebtedness. If an issuer fails to pay principal or interest, the Master Fund would experience a decrease in income and a decline in the market value of its investments.

*Sensitivity to Interest Rate and Economic Changes.* The income and market value of lower-rated securities may fluctuate more than higher rated securities. Although non-investment grade securities tend to be less sensitive to interest rate changes than investment grade securities, non-investment grade securities are more sensitive to short-term corporate, economic and market developments. During periods of economic uncertainty and change, the market price of the investments in lower-rated securities may be volatile. The default rate for high yield bonds tends to be cyclical, with defaults rising in periods of economic downturn.

*Valuation Difficulties.* It is often more difficult to value lower rated securities than higher rated securities. If an issuer's financial condition deteriorates, accurate financial and business information may be limited or unavailable. In addition, the lower rated investments may be thinly traded and there may be no established secondary market. Because of the lack of market pricing and current information for investments in lower rated securities, valuation of such investments is much more dependent on judgment than is the case with higher rated securities.

*Liquidity.* There may be no established secondary or public market for investments in lower rated securities. Such securities are frequently traded in markets that may be relatively less liquid than the market for higher rated securities. In addition, relatively few institutional purchasers may hold a major portion of an issue of lower-rated securities at times. As a result, the Master Fund may be required to sell investments at substantial losses or retain them indefinitely when an issuer's financial condition is deteriorating.

*Credit Quality.* Credit quality of non-investment grade securities can change suddenly and unexpectedly, and even recently-issued credit ratings may not fully reflect the actual risks posed by a particular high-yield security.

*New Legislation.* Future legislation may have a possible negative impact on the market for high yield, high risk bonds. As an example, in the late 1980's, legislation required federally-insured savings and loan associations to divest their investments in high yield, high risk bonds. New legislation, if enacted, could have a material negative effect on the Master Fund's investments in lower rated securities.

High yield, high risk investments may include the following:

*Straight fixed-income debt securities.* These include bonds and other debt obligations that bear a fixed or variable rate of interest payable at regular intervals and have a fixed or resettable maturity date. The particular terms of such securities vary and may include features such as call provisions and sinking funds.

*Zero-coupon debt securities.* These do not pay periodic interest but are issued at a discount from their value at maturity. When held to maturity, their entire return equals the difference between their issue price and their maturity value.

*Zero-fixed-coupon debt securities.* These are zero-coupon debt securities that convert on a specified date to periodic interest-paying debt securities.

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## [Table of Contents](#)

*Pay-in-kind bonds.* These are bonds which allow the issuer, at its option, to make current interest payments on the bonds either in cash or in additional bonds. These are bonds are typically sold without registration under the Securities Act of 1933, as amended (“1933 Act”), usually to a relatively small number of institutional investors.

*Convertible Securities.* These are bonds or preferred stock that may be converted to common stock.

*Preferred Stock.* These are stocks that generally pay a dividend at a specified rate and have preference over common stock in the payment of dividends and in liquidation.

*Loan Participations and Assignments.* These are participations in, or assignments of, all or a portion of loans to corporations or to governments, including governments of less developed countries (“LDCs”).

*Securities issued in connection with Reorganizations and Corporate Restructurings.* In connection with reorganizing or restructuring of an issuer, an issuer may issue common stock or other securities to holders of its debt securities. The Master Fund may hold such common stock and other securities even if it does not invest in such securities.

**Repurchase Agreements.** The Master Fund may engage in repurchase agreement transactions with respect to instruments that are consistent with its investment objectives. The Master Fund may engage in repurchase agreement transactions with certain member banks of the Federal Reserve System and with certain dealers listed on the Federal Reserve Bank of New York’s list of reporting dealers. Under the terms of a typical repurchase agreement, which is deemed a loan for purposes of the 1940 Act, the Master Fund would acquire an underlying obligation for a relatively short period (usually from one to seven days) subject to an obligation of the seller to repurchase, and the Master Fund to resell, the obligation at an agreed-upon price and time, thereby determining the yield during the Master Fund’s holding period. This arrangement results in a fixed rate of return that is not subject to market fluctuations during the Master Fund’s holding period. The value of the securities underlying a repurchase agreement of the Master Fund is monitored on an ongoing basis by Adviser, to ensure that the value is at least equal at all times to the total amount of the repurchase obligation, including interest. The Adviser also monitors, on an ongoing basis to evaluate potential risks, the creditworthiness of those banks and dealers with which the Master Fund enters into repurchase agreements.

If the Master Fund enters into a repurchase agreement, it will bear a risk of loss in the event that the other party to the transaction defaults on its obligation and the Master Fund is delayed or prevented from exercising its rights to dispose of the underlying securities. The Master Fund will, in particular, be subject to the risk of a possible decline in the value of the underlying securities during the period in which the Master Fund seeks to assert its right to them, the risk of incurring expenses associated with asserting those rights and the risk of losing all or a part of the income from the agreement.

**Restricted and Other Illiquid Investments.** Restricted securities are securities that are subject to contractual or legal restrictions on transfer, excluding for purposes of this restriction, Rule 144A securities that have been determined to be liquid by the Board based upon the trading markets for the securities. In addition, the Master Fund may invest up to 15% of its assets in “illiquid investments.” Illiquid investments are securities that cannot be disposed of by a Master Fund within seven days in the ordinary course of business at approximately the amount at which the Master Fund has valued the securities. Illiquid investments that are held by the Master Fund may take the form of options traded over-the-counter, repurchase agreements maturing in more than seven days, certain mortgage-related securities and securities subject to restrictions on resale the Adviser has determined are not liquid under guidelines established by the Board.

Restricted securities may be less liquid than publicly traded securities. Although these securities may be resold in privately negotiated transactions, the prices realized from these sales could be less than those originally paid by the Master Fund. In addition, companies whose securities are not publicly traded are not subject to the disclosure and other investor protection requirements that may be applicable if their securities were publicly traded. The Master Fund’s investments in illiquid investments are subject to the risk that should the Master Fund desire to sell any of these securities when a ready buyer is not available at a price that Pyxis deems representative of their value, the value of the Master Fund’s net assets could be adversely affected.



**Rule 144A Securities.** The Master Fund may purchase Rule 144A securities. Certain Rule 144A securities may be considered illiquid and therefore subject to the Master Fund' s limitation on the purchase of illiquid investments, unless the Board determines on an ongoing basis that an adequate trading market exists for the Rule 144A securities. The Master Fund' s purchase of Rule 144A securities could have the effect of increasing the level of illiquidity in the Master Fund to the extent that qualified institutional buyers become uninterested for a time in purchasing Rule 144A securities held by the Master Fund. The Board has established standards and procedures for determining the liquidity of a Rule 144A security and monitors Pyxis' s implementation of the standards and procedures.

**When-Issued, Forward Commitment and Delayed-Delivery Securities.** To secure prices or yields deemed advantageous at a particular time, the Master Fund may purchase securities on a when-issued, forward commitment or delayed-delivery basis, in which case, delivery of the securities occurs beyond the normal settlement period; no payment for or delivery of the securities is made by, and no income accrues to, the Master Fund, however, prior to the actual delivery or payment by the other party to the transaction. The Master

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## **Table of Contents**

Fund will enter into when-issued, forward commitment or delayed-delivery transactions for the purpose of acquiring securities and not for the purpose of leverage. When-issued securities purchased by the Master Fund may include securities purchased on a “when, as and if issued” basis under which the issuance of the securities depends on the occurrence of a subsequent event, such as approval of a merger, corporate reorganization or debt restructuring. Cash or other liquid assets in an amount equal to the amount of the Master Fund’s when-issued, forward commitment or delayed-delivery purchase commitments will be segregated with the Trust’s custodian, or with a designated subcustodian, in order to avoid or limit any leveraging effect that may arise in the purchase of a security pursuant to such a commitment.

Securities purchased on a when-issued, forward commitment or delayed-delivery basis may expose the Master Fund to risk because the securities may experience fluctuations in value prior to their delivery. Purchasing securities on a when-issued or delayed-delivery basis can involve the additional risk that the return available in the market when the delivery takes place may be higher than that applicable at the time of the purchase. This characteristic of when-issued, forward commitment and delayed-delivery securities could result in exaggerated movements in the Master Fund’s net asset value.

When the Master Fund engages in when-issued, forward commitment or delayed-delivery securities transactions, it relies on the selling party to consummate the trade. Failure of the seller to do so may result in the Master Fund’s incurring a loss or missing an opportunity to obtain a price considered to be advantageous.

**Foreign Securities.** Investing in securities issued by foreign companies and governments, including securities issued in the form of depositary receipts, involves considerations and potential risks not typically associated with investing in obligations issued by the U.S. Government and U.S. corporations. Less information may be available about foreign companies than about U.S. companies, and foreign companies generally are not subject to uniform accounting, auditing and financial reporting standards or to other regulatory practices and requirements comparable to those applicable to U.S. companies. The values of foreign investments are affected by changes in currency rates or exchange control regulations, restrictions or prohibitions on the repatriation of foreign currencies, application of foreign tax laws, including withholding taxes, changes in governmental administration or economic or monetary policy (in the United States or abroad) or changed circumstances in dealings between nations. Costs are also incurred in connection with conversions between various currencies. In addition, foreign brokerage commissions are generally higher than those charged in the United States and foreign securities markets may be less liquid, more volatile and less subject to governmental supervision than in the United States. Investments in foreign countries could be affected by other factors not present in the United States, including expropriation, confiscatory taxation, lack of uniform accounting and auditing standards, limitations on the use or removal of funds or other assets (including the withholding of dividends), and potential difficulties in enforcing contractual obligations, and could be subject to extended clearance and settlement periods.

**American Depositary Receipts.** The Master Fund may invest in securities of foreign issuers in the form of American Depositary Receipts (“ADRs”). ADRs are publicly traded on exchanges or over-the-counter in the United States and are issued through “sponsored” or “unsponsored” arrangements. In a sponsored ADR arrangement, the foreign issuer assumes the obligation to pay some or all of the depositary’s transaction fees, whereas under an unsponsored arrangement, the foreign issuer assumes no obligations and the depositary’s transaction fees are paid directly by the ADR holders. In addition, less information is available in the United States about an unsponsored ADR than a sponsored ADR. The Master Fund may invest in ADRs through both sponsored and unsponsored arrangements.

**Currency Exchange Rates.** The Master Fund’s share value may change significantly when the currencies, other than the U.S. dollar, in which the Master Fund’s portfolio investments are denominated, strengthen or weaken against the U.S. dollar. Currency exchange rates generally are determined by the forces of supply and demand in the foreign exchange markets and the relative merits of investments in different countries as seen from an international perspective. Currency exchange rates can also be affected unpredictably by intervention by U.S. or foreign governments or central banks or by currency controls or political developments in the United States or abroad.

**Developing Countries/Emerging Market Countries.** Investing in securities issued by companies located in developing countries or emerging market countries involves not only the risks described above with respect to investing in foreign securities, but also other

risks, including exposure to economic structures that are generally less diverse and mature than, and to political systems that can be expected to have less stability than, those of developed countries. Other characteristics of developing countries or emerging market countries that may affect investment in their markets include certain national policies that may restrict investment by foreigners in issuers or industries deemed sensitive to relevant national interests and the absence of developed legal structures governing private and foreign investments and private property. The typically small size of the markets for securities issued by companies located in developing countries or emerging markets countries and the possibility of a low or nonexistent volume of trading in those securities may also result in a lack of liquidity and in price volatility of those securities.

**Lending Portfolio Securities.** The Master Fund is authorized to lend its portfolio securities to well-known and recognized U.S. and foreign brokers, dealers and banks. These loans, if and when made, may not exceed 30% of the Master Fund' s assets taken at value.

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## [Table of Contents](#)

The Master Fund's loans of securities will be collateralized by cash, letters of credit or Government Securities. The Master Fund will retain the right to all interest and dividends payable with respect to the loaned securities. If the Master Fund lends its portfolio securities it may charge the borrower a negotiated fee and retain the ability to terminate the loan at any time. Cash or instruments collateralizing the Master Fund's loans of securities are segregated and maintained at all times with the Trust's custodian, or with a designated sub-custodian, in an amount at least equal to the current market value of the loaned securities. In lending securities, the Master Fund will be subject to risks, including the potential inability to recall the loaned securities should the borrower fail financially, and the possible loss in market value of the collateral. In addition, if the collateral consists of cash, the Master Fund's custodian or a designated sub-custodian will reinvest the cash. The Master Fund will bear the risk of any loss on the reinvested cash, however the custodian or sub-custodian will share in any returns on income amounts invested. The cost of securities lending is not reflected in the "Shareholder Fees" table or "Expense Example" in the Fund's prospectus.

If the Master Fund lends its portfolio securities, it will adhere to the following conditions whenever its portfolio securities are loaned: (i) the Master Fund must receive at least 100% cash collateral or equivalent securities from the borrower; (ii) the borrower must increase the collateral whenever the market value of the securities loaned rises above the level of the collateral; (iii) the Master Fund must be able to terminate the loan at any time; (iv) the Master Fund must receive a reasonable fee on the loan, as well as any dividends, interest or other distributions on the loaned securities, and any increase in market value of the loaned securities; and (v) the Master Fund may pay only reasonable custodian fees in connection with the loan. Payments received by the Master Fund in lieu of any dividends paid on the loaned securities will not be treated as "qualified dividend income" for purposes of determining what portion of the Master Fund's regular dividends (as defined below) received by individuals may be taxed at the currently lower rates applicable to long-term capital gains and will not qualify for the corporate dividends-received deduction (see "Income Tax Considerations" below). When securities are loaned, voting rights typically are passed to the borrower. However, if a member of the proxy committee determines that a proxy vote is materially important to the shareholders of the Trust and where it is feasible to recall the securities on a timely basis, Pyxis may use its reasonable efforts to recall the loaned securities. Pyxis disclaims any responsibility for its inability to vote on proposals where, despite its reasonable efforts, it could not successfully recall the loaned securities before the record date and/or the deadline for voting, as applicable. From time to time, the Master Fund may pay a part of the interest earned from the investment of collateral received for securities loaned to the borrower and/or a third party that is unaffiliated with the Master Fund and is acting as a "finder."

**Securities of Other Investment Companies.** The Fund may invest in investment companies such as open-end funds (mutual funds), closed-end funds and exchange traded funds (also referred to as "Underlying Funds"). Such investments are subject to limitations prescribed by the 1940 Act unless an SEC exemption is applicable or as may be permitted by rules under the 1940 Act or SEC staff interpretations thereof. The 1940 Act limitations currently provide, in part, that the Fund may not purchase shares of an investment company if (a) such a purchase would cause the Fund to own in the aggregate more than 3% of the total outstanding voting stock of the investment company; (b) such a purchase would cause the Fund to have more than 5% of its total assets invested in the investment company; or (c) more than 10% of the Fund's total assets would be invested in the aggregate in all investment companies. The Fund may invest in excess of the foregoing limitations in an exchange-traded fund ("ETF") that is not part of the same group of investment companies (e.g., an unaffiliated ETF) if the ETF has obtained exemptive relief from the SEC and both the ETF and the Fund adhere to the conditions in the exemptive relief. Accordingly, when affiliated persons hold shares of any of the Underlying Funds, the Fund's ability to invest fully in shares of those funds may be restricted, and the Adviser must then, in some instances, select alternative investments that would not have been its first preference.

The Fund may invest in investment companies that are advised by the Adviser or its affiliates, including ETFs, to the extent permitted by applicable law and/or pursuant to exemptive relief from the SEC. These investment companies typically incur fees that are separate from those fees incurred directly by the Fund. The Fund's purchase of such investment company securities results in the layering of expenses, such that shareholders would indirectly bear a proportionate share of the operating expenses of such investment companies, including advisory fees, in addition to paying Fund expenses.

The 1940 Act also provides that an Underlying Fund whose shares are purchased by the Fund will be obligated to redeem shares held by the Fund only in an amount up to 1% of the Underlying Fund's outstanding securities during any period of less than 30 days.

Shares held by the Fund in excess of 1% of an Underlying Fund' s outstanding securities therefore, will be considered not readily marketable securities, which, together with other such securities, may not exceed 15% of the Fund' s total assets.

Under certain circumstances an Underlying Fund may determine to make payment of a redemption by the Fund wholly or partly by a distribution in kind of securities from its portfolio, in lieu of cash, in conformity with the rules of the SEC. In such cases, the Fund may hold securities distributed by an Underlying Fund until the Adviser determines that it is appropriate to dispose of such securities.

Investment decisions by the investment advisers of the Underlying Funds are made independently of the Fund and its Adviser. Therefore, the investment advisor of one Underlying Fund may be purchasing shares of the same issuer whose shares are being sold by the investment advisor of another such fund. The result would be an indirect expense to the Fund without accomplishing any investment purpose. Because other investment companies employ an investment adviser, such investments by the Fund may cause shareholders to bear duplicate fees.

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## [Table of Contents](#)

The Fund (or the Adviser acting on behalf of the Fund) must comply with the following voting restrictions: when the Fund exercises voting rights, by proxy or otherwise, with respect to investment companies owned by the Fund, the Fund will either seek instruction from the Fund's shareholders with regard to the voting of all proxies and vote in accordance with such instructions, or vote the shares held by the Fund in the same proportion as the vote of all other holders of such security.

**Closed-End Investment Companies.** The Master Fund may invest its assets in "closed-end" investment companies (or "closed-end funds"), subject to the investment restrictions set forth above. Shares of closed-end funds are typically offered to the public in a one-time initial public offering by a group of underwriters who retain a spread or underwriting commission of between 4% or 6% of the initial public offering price. Such securities are then listed for trading on the New York Stock Exchange, the National Association of Securities Dealers Automated Quotation System (commonly known as "NASDAQ") and, in some cases, may be traded in other over-the-counter markets. Because the shares of closed-end funds cannot be redeemed upon demand to the issuer like the shares of an open-end investment company (such as the Fund), investors seek to buy and sell shares of closed-end funds in the secondary market.

The Master Fund generally will purchase shares of closed-end funds only in the secondary market. The Master Fund will incur normal brokerage costs on such purchases similar to the expenses the Master Fund would incur for the purchase of securities of any other type of issuer in the secondary market. The Master Fund may, however, also purchase securities of a closed-end fund in an initial public offering when, in the opinion of the Adviser, based on a consideration of the nature of the closed-end fund's proposed investments, the prevailing market conditions and the level of demand for such securities, they represent an attractive opportunity for growth of capital. The initial offering price typically will include a dealer spread, which may be higher than the applicable brokerage cost if the Master Fund purchased such securities in the secondary market.

The shares of many closed-end funds, after their initial public offering, frequently trade at a price per share that is less than the net asset value per share, the difference representing the "market discount" of such shares. This market discount may be due in part to the investment objective of long-term appreciation, which is sought by many closed-end funds, as well as to the fact that the shares of closed-end funds are not redeemable by the holder upon demand to the issuer at the next determined net asset value but rather are subject to the principles of supply and demand in the secondary market. A relative lack of secondary market purchasers of closed-end fund shares also may contribute to such shares trading at a discount to their net asset value.

The Master Fund may invest in shares of closed-end funds that are trading at a discount to net asset value or at a premium to net asset value. There can be no assurance that the market discount on shares of any closed-end fund purchased by the Master Fund will ever decrease. In fact, it is possible that this market discount may increase and the Master Fund may suffer realized or unrealized capital losses due to further decline in the market price of the securities of such closed-end funds, thereby adversely affecting the net asset value of the Master Fund's shares. Similarly, there can be no assurance that any shares of a closed-end fund purchased by the Master Fund at a premium will continue to trade at a premium or that the premium will not decrease subsequent to a purchase of such shares by the Master Fund.

Closed-end funds may issue senior securities (including preferred stock and debt obligations) for the purpose of leveraging the closed-end fund's common shares in an attempt to enhance the current return to such closed-end fund's common shareholders. The Master Fund's investment in the common shares of closed-end funds that are financially leveraged may create an opportunity for greater total return on its investment, but at the same time may be expected to exhibit more volatility in market price and net asset value than an investment in shares of investment companies without a leveraged capital structure.

**Exchange Traded Funds.** The majority of exchange traded funds ("ETFs") are passive funds that track their related index and have the flexibility of trading like a security. They are managed by professionals and provide the investor with diversification, cost and tax efficiency, liquidity, margin-ability, are useful for hedging, have the ability to go long and short, and some provide quarterly dividends. Additionally, some ETFs are unit investment trusts (UITs), which are unmanaged portfolios overseen by trustees. ETFs generally have two markets. The primary market is where institutions swap "creation units" in block-multiples of 50,000 shares for in-kind securities and cash in the form of dividends. The secondary market is where individual investors can trade as little as a single share during trading hours on the exchange. This is different from open-end mutual funds that are traded after hours once the net asset value (NAV) is calculated. ETFs share many similar risks with open-end and closed-end funds.

There is a risk that an ETF in which the Master Fund invests may terminate due to extraordinary events that may cause any of the service providers to the ETFs, such as the trustee or sponsor, to close or otherwise fail to perform their obligations to the ETF. Also, because the ETFs in which the Master Fund intends to principally invest may be granted licenses by agreement to use the indices as a basis for determining their compositions and/or otherwise to use certain trade names, the ETFs may terminate if such license agreements are terminated. In addition, an ETF may terminate if its entire net asset value falls below a certain amount. Although the Master Fund believes that, in the event of the termination of an underlying ETF, it will be able to invest instead in shares of an alternate ETF tracking

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## [Table of Contents](#)

the same market index or another market index with the same general market, there is no guarantee that shares of an alternate ETF would be available for investment at that time. To the extent the Master Fund invests in a sector product, the Master Fund is subject to the risks associated with that sector. The Master Fund's investments in certain ETFs may be limited by tax considerations, including the Fund's intention to qualify annually as a regulated investment company for tax purposes. See "Income Tax Considerations" below.

**REITs.** The Master Fund may invest in securities of real estate investment trusts ("REITs"). REITs are publicly traded corporations or trusts that specialize in acquiring, holding and managing residential, commercial or industrial real estate. A REIT is not taxed at the entity level on income distributed to its shareholders or unitholders if it distributes to shareholders or unitholders at least 90% of its taxable income for each taxable year and complies with regulatory requirements relating to its organization, ownership, assets and income.

REITs generally can be classified as equity REITs, mortgage REITs and hybrid REITs. An equity REIT invests the majority of its assets directly in real property and derives its income primarily from rents and from capital gains on real estate appreciation, which are realized through property sales. A mortgage REIT invests the majority of its assets in real estate mortgage loans and services its income primarily from interest payments. A hybrid REIT combines the characteristics of an equity REIT and a mortgage REIT. Although the Master Fund can invest in all three kinds of REITs, its emphasis is expected to be on investments in equity REITs.

Investments in the real estate industry involve particular risks. The real estate industry has been subject to substantial fluctuations and declines on a local, regional and national basis in the past and may continue to be in the future. Real property values and income from real property may decline due to general and local economic conditions, overbuilding and increased competition, increases in property taxes and operating expenses, changes in zoning laws, casualty or condemnation losses, regulatory limitations on rents, changes in neighborhoods and in demographics, increases in market interest rates, or other factors. Factors such as these may adversely affect companies that own and operate real estate directly, companies that lend to such companies, and companies that service the real estate industry.

Investments in REITs also involve risks. Equity REITs will be affected by changes in the values of and income from the properties they own, while mortgage REITs may be affected by the credit quality of the mortgage loans they hold. In addition, REITs are dependent on specialized management skills and on their ability to generate cash flow for operating purposes and to make distributions to shareholders or unitholders. REITs may have limited diversification and are subject to risks associated with obtaining financing for real property, as well as to the risk of self-liquidation. REITs also can be adversely affected by their failure to qualify for tax-free pass-through treatment of their income under the Code, or their failure to maintain an exemption from registration under the 1940 Act. By investing in REITs indirectly through the Master Fund, a shareholder bears not only a proportionate share of the expenses of the Master Fund, but also will bear indirectly expenses of the REITs in which it invests. Expenses from investments in REITs are not reflected in the "Annual Fund Operating Expenses" table or "Expense Example" in the Prospectus.

**Purchasing Put and Call Options on Securities.** The Master Fund may purchase put and call options that are traded on a U.S. or foreign securities exchange or in the over-the-counter market. The Master Fund may utilize up to 10% of its assets to purchase put options on portfolio securities and may do so at or about the same time that it purchases the underlying security or at a later time. By buying a put, the Master Fund will seek to limit its risk of loss from a decline in the market value of the security until the put expires. Any appreciation in the value of the underlying security, however, will be partially offset by the amount of the premium paid for the put option and any related transaction costs. The Master Fund may utilize up to 10% of its assets to purchase call options on portfolio securities. Call options may be purchased by the Master Fund in order to acquire the underlying securities for a price that avoids any additional cost that would result from a substantial increase in the market value of a security. The Master Fund may also purchase call options to increase its return at a time when the call is expected to increase in value due to anticipated appreciation of the underlying security. Prior to their expirations, put and call options may be sold by the Master Fund in closing sale transactions, which are sales by the Master Fund, prior to the exercise of options that it has purchased, of options of the same series. Profit or loss from the sale will depend on whether the amount received is more or less than the premium paid for the option plus the related transaction costs. The aggregate value of the securities underlying the calls or obligations underlying the puts, determined as of the date the options are sold, shall not exceed 25% of the net assets of the Master Fund. In addition, the premiums paid by the Master Fund in purchasing options on securities, options on securities indices and options on futures contracts will not exceed 20% of the Master Fund's net assets.



**Covered Option Writing.** The Master Fund may write covered put and call options on securities. The Master Fund will realize fees (referred to as “premiums”) for granting the rights evidenced by the options. A put option embodies the right of its purchaser to compel the writer of the option to purchase from the option holder an underlying security at a specified price at any time during the option period. In contrast, a call option embodies the right of its purchaser to compel the writer of the option to sell to the option holder an underlying security at a specified price at any time during the option period.

The Master Fund will write only options that are covered. A call option written by the Master Fund will be deemed covered (i) if the Master Fund owns the securities underlying the call or has an absolute and immediate right to acquire those securities without additional cash consideration upon conversion or exchange of other securities held in its portfolio, (ii) if the Master Fund holds a call at

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## Table of Contents

the same exercise price for the same exercise period and on the same securities as the call written, (iii) in the case of a call option on a stock index, if the Master Fund owns a portfolio of securities substantially replicating the movement of the index underlying the call option, or (iv) if at the time the call is written, an amount of cash, Government Securities or other liquid assets equal to the fluctuating market value of the optioned securities is segregated with the Trust's custodian or with a designated sub-custodian. A put option will be deemed covered (i) if, at the time the put is written, an amount of cash, Government Securities or other liquid assets having a value at least equal to the exercise price of the underlying securities is segregated with the Trust's custodian or with a designated sub-custodian, or (ii) if the Master Fund continues to own an equivalent number of puts of the same "series" (that is, puts on the same underlying securities having the same exercise prices and expiration dates as those written by the Master Fund), or an equivalent number of puts of the same "class" (that is, puts on the same underlying securities) with exercise prices greater than those that it has written (or if the exercise prices of the puts it holds are less than the exercise prices of those it has written, the difference is segregated with the Trust's custodian or with a designated sub-custodian).

The principal reason for writing covered call options on a securities portfolio is to attempt to realize, through the receipt of premiums, a greater return than would be realized on the securities alone. In return for a premium, the writer of a covered call option forfeits the right to any appreciation in the value of the underlying security above the strike price for the life of the option (or until a closing purchase transaction can be effected). Nevertheless, the call writer retains the risk of a decline in the price of the underlying security. Similarly, the principal reason for writing covered put options is to realize income in the form of premiums. The writer of a covered put option accepts the risk of a decline in the price of the underlying security. The size of the premiums that the Master Fund may receive may be adversely affected as new or existing institutions, including other investment companies, engage in or increase their option-writing activities.

Options written by the Master Fund will normally have expiration dates between one and nine months from the date written. The exercise price of the options may be below, equal to or above the market values of the underlying securities at the times the options are written. In the case of call options, these exercise prices are referred to as "in-the-money," "at-the-money" and "out-of-the-money," respectively.

So long as the obligation of the Master Fund as the writer of an option continues, the Master Fund may be assigned an exercise notice by the broker-dealer through which the option was sold, requiring the Master Fund to deliver, in the case of a call, or take delivery of, in the case of a put, the underlying security against payment of the exercise price. This obligation terminates when the option expires or the Master Fund effects a closing purchase transaction. The Master Fund can no longer effect a closing purchase transaction with respect to an option once it has been assigned an exercise notice. To secure its obligation to deliver the underlying security when it writes a call option, or to pay for the underlying security when it writes a put option, the Master Fund will be required to deposit in escrow the underlying security or other assets in accordance with the rules of the Options Clearing Corporation (the "Clearing Corporation") and of the securities exchange on which the option is written.

The Master Fund may engage in a closing purchase transaction to realize a profit, to prevent an underlying security from being called or put or, in the case of a call option, to unfreeze an underlying security (thereby permitting its sale or the writing of a new option on the security prior to the outstanding option's expiration). To effect a closing purchase transaction, the Master Fund would purchase, prior to the holder's exercise of an option that the Master Fund has written, an option of the same series as that on which the Master Fund desires to terminate its obligation. The obligation of the Master Fund under an option that it has written would be terminated by a closing purchase transaction, but the Master Fund would not be deemed to own an option as the result of the transaction. An option position may be closed out only if a secondary market exists for an option of the same series on a recognized securities exchange or in the over-the-counter market. In light of the need for a secondary market in which to close an option position, the Master Fund is expected to purchase only call or put options issued by the Clearing Corporation. Pyxis expects that the Master Fund will write options, other than those on Government Securities, only on national securities exchanges. Options on Government Securities may be written by the Master Fund in the over-the-counter market.

The Master Fund may realize a profit or loss upon entering into closing transactions. When the Master Fund has written an option, for example, it will realize a profit if the cost of the closing purchase transaction is less than the premium received upon writing the original option; the Master Fund will incur a loss if the cost of the closing purchase transaction exceeds the premium received upon

writing the original option. When the Master Fund has purchased an option and engages in a closing sale transaction, whether the Master Fund realizes a profit or loss will depend upon whether the amount received in the closing sale transaction is more or less than the premium the Master Fund initially paid for the original option plus the related transaction costs.

Option writing for the Master Fund may be limited by position and exercise limits established by U.S. securities exchanges and NASDAQ and by requirements of the Code for qualification as a regulated investment company. In addition to writing covered put and call options to generate current income, the Master Fund may enter into options transactions as hedges to reduce investment risk, generally by making an investment expected to move in the opposite direction of a portfolio position. A hedge is designed to offset a loss on a portfolio position with a gain on the hedge position; at the same time, however, a properly correlated hedge will result in a gain on the portfolio' s position being offset by a loss on the hedge position.

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## Table of Contents

The Master Fund will engage in hedging transactions only when deemed advisable by the portfolio manager. Successful use by the Master Fund of options will depend on the portfolio manager's ability to predict correctly movements in the direction of the securities underlying the option used as a hedge. Losses incurred in hedging transactions and the costs of these transactions will affect the Master Fund's performance.

**Securities Index Options.** The Master Fund may purchase and write put and call options on securities indices listed on U.S. or foreign securities exchanges or traded in the over-the-counter market, which indices include securities held in the Master Fund's portfolio. The Master Fund with such option writing authority may write only covered options. The Master Fund may also use securities index options as a means of participating in a securities market without making direct purchases of securities.

A securities index option written by the Master Fund will be deemed covered in any manner permitted under the 1940 Act or the rules and regulations thereunder or any other method determined by the SEC to be permissible.

A securities index measures the movement of a certain group of securities by assigning relative values to the securities included in the index. Options on securities indices are generally similar to options on specific securities. Unlike options on securities, however, options on securities indices do not involve the delivery of an underlying security; the option in the case of an option on a securities index represents the holder's right to obtain from the writer in cash a fixed multiple of the amount by which the exercise price exceeds (in the case of a call) or is less than (in the case of a put) the closing value of the underlying securities index on the exercise date. The Master Fund may purchase and write put and call options on securities indices or securities index futures contracts that are traded on a U.S. exchange or board of trade or a foreign exchange as a hedge against changes in market conditions and interest rates, and for duration management, and may enter into closing transactions with respect to those options to terminate existing positions. A securities index fluctuates with changes in the market values of the securities included in the index. Securities index options may be based on a broad or narrow market index or on an industry or market segment.

The delivery requirements of options on securities indices differ from options on securities. Unlike a securities option, which contemplates the right to take or make delivery of securities at a specified price, an option on a securities index gives the holder the right to receive a cash "exercise settlement amount" equal to (i) the amount, if any, by which the fixed exercise price of the option exceeds (in the case of a put) or is less than (in the case of a call) the closing value of the underlying index on the date of exercise, multiplied by (ii) a fixed "index multiplier." Receipt of this cash amount will depend upon the closing level of the securities index upon which the option is based being greater than, in the case of a call, or less than, in the case of a put, the exercise price of the option. The amount of cash received will be equal to the difference between the closing price of the index and the exercise price of the option expressed in dollars times a specified multiple. The writer of the option is obligated, in return for the premium received, to make delivery of this amount. The writer may offset its position in securities index options prior to expiration by entering into a closing transaction on an exchange or it may allow the option to expire unexercised.

The effectiveness of purchasing or writing securities index options as a hedging technique will depend upon the extent to which price movements in the portion of a securities portfolio being hedged correlate with price movements of the securities index selected. Because the value of an index option depends upon movements in the level of the index rather than the price of a particular security, whether the Master Fund realizes a gain or loss from the purchase or writing of options on an index depends upon movements in the level of prices in the market generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of a particular security. As a result, successful use by the Master Fund of options on securities indices is subject to the portfolio manager's ability to predict correctly movements in the direction of the market generally or of a particular industry. This ability contemplates different skills and techniques from those used in predicting changes in the price of individual securities.

Securities index options are subject to position and exercise limits and other regulations imposed by the exchange on which they are traded. The ability of the Master Fund to engage in closing purchase transactions with respect to securities index options depends on the existence of a liquid secondary market. Although the Master Fund will generally purchase or write securities index options only if a liquid secondary market for the options purchased or sold appears to exist, no such secondary market may exist, or the market may cease to exist at some future date, for some options. No assurance can be given that a closing purchase transaction can be effected when the portfolio manager desires that the Master Fund engage in such a transaction.

**Over-the-Counter (“OTC”) Options.** The Master Fund may purchase OTC or dealer options or sell covered OTC options. Unlike exchange-listed options where an intermediary or clearing corporation, such as the Clearing Corporation, assures that all transactions in such options are properly executed, the responsibility for performing all transactions with respect to OTC options rests solely with the writer and the holder of those options. A listed call option writer, for example, is obligated to deliver the underlying stock to the clearing organization if the option is exercised, and the clearing organization is then obligated to pay the writer the exercise price of the option. If the Master Fund were to purchase a dealer option, however, it would rely on the dealer from whom it purchased the option to perform if the option were exercised. If the dealer fails to honor the exercise of the option by the Master Fund, the Master Fund would lose the premium it paid for the option and the expected benefit of the transaction.

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## [Table of Contents](#)

Listed options generally have a continuous liquid market while dealer options have none. Consequently, the Master Fund will generally be able to realize the value of a dealer option it has purchased only by exercising it or reselling it to the dealer that issued it. Similarly, when the Master Fund writes a dealer option, it generally will be able to close out the option prior to its expiration only by entering into a closing purchase transaction with the dealer to which the Master Fund originally wrote the option. Although the Master Fund will seek to enter into dealer options only with dealers that will agree to and that are expected to be capable of entering into closing transactions with the Master Fund, there can be no assurance that the Master Fund will be able to liquidate a dealer option at a favorable price at any time prior to expiration. The inability to enter into a closing transaction may result in material losses to the Master Fund. Until the Master Fund, as a covered OTC call option writer, is able to effect a closing purchase transaction, it will not be able to liquidate securities (or other assets) used to cover the written option until the option expires or is exercised. This requirement may impair the Master Fund's ability to sell portfolio securities at a time when such sale might be advantageous. In the event of insolvency of the other party, the Master Fund may be unable to liquidate a dealer option.

**Spread Transactions.** The Master Fund may purchase covered spread options from securities dealers. These covered spread options are not presently exchange-listed or exchange-traded. The purchase of a spread option gives the Master Fund the right to put securities that it owns at a fixed dollar spread or fixed yield spread in relationship to another security that the Master Fund does not own, but which is used as a benchmark. The risk to the Master Fund, in addition to the risks of dealer options described above, is the cost of the premium paid as well as any transaction costs. The purchase of spread options will be used to protect the Master Fund against adverse changes in prevailing credit quality spreads, i.e., the yield spread between high quality and lower quality securities. This protection is provided during the life of the spread options.

**Futures Contracts and Options on Futures Contracts.** The Master Fund may enter into interest rate, financial and stock or bond index futures contracts or related options that are traded on a U.S. or foreign exchange or board of trade approved by the Commodities Futures Trading Commission ("CFTC") or in the over-the-counter market. If entered into, these transactions can be made for a variety of portfolio management purposes such as hedging against the effects of changes in the value of portfolio securities due to anticipated changes in interest rates and/or market conditions, to gain market exposure for accumulating and residual cash positions, for duration management, or when the transactions are economically appropriate to the reduction of risks inherent in the management of the Master Fund.

An interest rate futures contract provides for the future sale by one party and the purchase by the other party of a specified amount of a particular financial instrument (debt security) at a specified price, date, time and place. Financial futures contracts are contracts that obligate the holder to deliver (in the case of a futures contract that is sold) or receive (in the case of a futures contract that is purchased) at a future date a specified quantity of a financial instrument, specified securities, or the cash value of a securities index. A municipal bond index futures contract is based on an index of long-term, tax-exempt municipal bonds and a corporate bond index futures contract is based on an index of corporate bonds. Stock index futures contracts are based on indices that reflect the market value of common stock of the companies included in the indices. An index futures contract is an agreement pursuant to which two parties agree to take or make delivery of an amount of cash equal to a specified multiplier times the difference between the value of the index at the close of the last trading day of the contract and the price at which the index contract was originally written. The clearing house of the exchange on which a futures contract is entered into becomes the counterparty to each purchaser and seller of the futures contract. An option on an interest rate or index futures contract generally gives the purchaser the right, in return for the premium paid, to assume a position in a futures contract at a specified exercise price at any time prior to the expiration date of the option.

The Fund is operated by a person who has claimed an exclusion from the definition of the term "commodity pool operator" under the Commodity Exchange Act pursuant to Rule 4.5 under the CEA (the "exclusion") promulgated by the CFTC. Accordingly, neither the Fund nor the Adviser (with respect to the Fund) is subject to registration or regulation as a "commodity pool operator" under the CEA. To remain eligible for the exclusion, the Fund will be limited in its ability to use certain financial instruments regulated under the CEA ("commodity interests"), including futures and options on futures and certain swaps transactions. In the event that the Fund's investments in commodity interests are not within the thresholds set forth in the exclusion, the Adviser may be required to register as a "commodity pool operator" and/or "commodity trading advisor" with the CFTC with respect to the Fund. The Adviser's eligibility to claim the exclusion with respect to the Fund will be based upon, among other things, the level and scope of the Fund's investment in

commodity interests, the purposes of such investments and the manner in which the Fund holds out its use of commodity interests. The Fund's ability to invest in commodity interests (including, but not limited to, futures and swaps on broad-based securities indexes and interest rates) is limited by the Adviser's intention to operate the Fund in a manner that would permit the Adviser to continue to claim the exclusion under Rule 4.5, which may adversely affect the Fund's total return. In the event the Adviser becomes unable to rely on the exclusion in Rule 4.5 and is required to register with the CFTC as a commodity pool operator with respect to the Fund, the Fund's expenses may increase, adversely affecting the Fund's total return.

No consideration is paid or received by the Master Fund upon trading a futures contract. Upon entering into a futures contract, cash or other securities acceptable to the broker equal to approximately 1% to 10% of the contract amount will be segregated with the Trust's custodian or a designated sub-custodian. This amount, which is subject to change by the exchange on which the contract is

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## [Table of Contents](#)

traded, is known as “initial margin” and is in the nature of a performance bond or good faith deposit on the contract that is returned to the Master Fund upon termination of the futures contract, so long as all contractual obligations have been satisfied; the broker will have access to amounts in the margin account if the Master Fund fails to meet its contractual obligations. Subsequent payments, known as “variation margin,” to and from the broker, will be made daily as the price of the securities underlying the futures contract fluctuates, making the long and short positions in the contract more or less valuable, a process known as “marking-to-market.” At any time prior to the expiration of a futures contract, the Master Fund may elect to close a position by taking an opposite position, which will operate to terminate the Master Fund’s existing position in the contract.

If the Master Fund has hedged against the possibility of an increase in interest rates adversely affecting the value of securities held in its portfolio and rates decrease instead, the Master Fund will lose part or all of the benefit of the increased value of securities that it has hedged because it will have offsetting losses in its futures positions. In addition, in such situations, if the Master Fund had insufficient cash, it may have to sell securities to meet daily variation margin requirements at a time when it may be disadvantageous to do so. These sales of securities may, but will not necessarily, be at increased prices that reflect the decline in interest rates.

An option on a futures contract, unlike a direct investment in such a contract, gives the purchaser the right, in return for the premium paid, to assume a position in the futures contract at a specified exercise price at any time prior to the expiration date of the option. Upon exercise of an option, the delivery of the futures position by the writer of the option to the holder of the option will be accompanied by delivery of the accumulated balance in the writer’s futures margin account, which represents the amount by which the market price of the futures contract exceeds, in the case of a call, or is less than, in the case of a put, the exercise price of the option on the futures contract. The potential loss related to the purchase of an option on futures contracts is limited to the premium paid for the option (plus transaction costs). Because the price of the option to the purchaser is fixed at the point of sale, no daily cash payments are made to reflect changes in the value of the underlying contract. The value of the option, however, does change daily and that change would be reflected in the net asset value of the Master Fund holding the options.

The use of futures contracts and options on futures contracts as a hedging device involves several risks. No assurance can be given that a correlation will exist between price movements in the underlying securities or index and price movements in the securities that are the subject of the hedge. Losses incurred in hedging transactions and the costs of these transactions will affect the Master Fund’s performance.

Although the Trust intends that the Master Fund enters into futures contracts only if an active market exists for the contracts, positions in futures contracts and options on futures contracts may be closed out only on the exchange or board of trade on which they were entered and no assurance can be given that an active market will exist for the contracts at any particular time. Most U.S. futures exchanges and boards of trade limit the amount of fluctuation permitted in futures contract prices during a single trading day. Once the daily limit has been reached in a particular contract, no trades may be made on that day at a price beyond that limit. Futures contract prices may move to the daily limit for several consecutive trading days with little or no trading, thereby preventing prompt liquidation of futures positions and subjecting some futures traders to substantial losses. In such a case, and in the event of adverse price movements, the Master Fund would be required to make daily cash payments of variation margin. In such circumstances, an increase in the value of the portion of the portfolio being hedged, if any, may partially or completely offset losses on the futures contract.

**Forward Currency Transactions.** The Master Fund may hold currencies for various portfolio management purposes such as meeting settlement requirements for foreign securities. The Master Fund also may engage in currency exchange transactions to protect against uncertainty in the level of future exchange rates between a particular foreign currency and the U.S. dollar or between foreign currencies in which the Master Fund’s securities are or may be denominated. The use of forward currency contracts does not eliminate fluctuations in the underlying prices of the securities, but it does establish a rate of exchange that can be achieved in the future. The Master Fund will not enter into a currency transaction if, as a result, it will fail to qualify as a regulated investment company under the Code for a given year.

Forward currency contracts are agreements to exchange one currency for another at a future date. The date (which may be any agreed-upon fixed number of days in the future), the amount of currency to be exchanged and the price at which the exchange will take place will be negotiated and fixed for the term of the contract at the time that the Master Fund enters into the contract. Forward currency



contracts (i) are traded in a market conducted directly between currency traders (typically, commercial banks or other financial institutions) and their customers, (ii) generally have no deposit requirements and (iii) are typically consummated without payment of any commissions. The Master Fund, however, may enter into forward currency contracts requiring deposits or involving the payment of commissions. The cost to the Master Fund of engaging in currency transactions varies with factors such as the currency involved, the length of the contract period and the market conditions then prevailing. To assure that the Master Fund's forward currency contracts are not used to achieve investment leverage, cash or other liquid assets will be segregated with the Trust's custodian or a designated sub-custodian in an amount at all times equal to or exceeding the Master Fund's commitment with respect to the contracts.

Upon maturity of a forward currency contract, the Master Fund may (i) pay for and receive the underlying currency, (ii) negotiate with the dealer to roll over the contract into a new forward currency contract with a new future settlement date or (iii) negotiate

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## Table of Contents

with the dealer to terminate the forward contract into an offset with the currency trader providing for the Master Fund's paying or receiving the difference between the exchange rate fixed in the contract and the then, current exchange rate. The Trust may also be able to negotiate such an offset on behalf of the Master Fund prior to maturity of the original forward contract. No assurance can be given that new forward contracts or offsets will always be available to the Master Fund.

In hedging a specific portfolio position, the Master Fund may enter into a forward contract with respect to either the currency in which the position is denominated or another currency deemed appropriate by the Adviser.

The cost to the Master Fund of engaging in currency transactions varies with factors such as the currency involved, the length of the contract period and the market conditions then prevailing. Because transactions in currency exchanges are usually conducted on a principal basis, no fees or commissions are involved. The use of forward currency contracts does not eliminate fluctuations in the underlying prices of the securities, but it does establish a rate of exchange that can be achieved in the future. In addition, although forward currency contracts limit the risk of loss due to a decline in the value of the hedged currency, at the same time they limit any potential gain that might result should the value of the currency increase. If a devaluation is generally anticipated, the Master Fund may not be able to sell currency at a price above the anticipated devaluation level. The Master Fund will not enter into a currency transaction if, as a result, it will fail to qualify as a registered investment company under the Code for a given year.

In entering into forward currency contracts, the Master Fund will be subject to a number of risks and special considerations. The market for forward currency contracts, for example, may be limited with respect to certain currencies. The existence of a limited market may in turn restrict the Master Fund's ability to hedge against the risk of devaluation of currencies in which the Master Fund holds a substantial quantity of securities. The successful use of forward currency contracts as a hedging technique draws upon the portfolio manager's special skills and experience with respect to those instruments and will usually depend upon the portfolio manager's ability to forecast interest rate and currency exchange rate movements correctly. Should interest or exchange rates move in an unexpected manner, the Master Fund may not achieve the anticipated benefits of forward currency contracts or may realize losses and thus be in a less advantageous position than if those strategies had not been used. Many forward currency contracts are subject to no daily price fluctuation limits so that adverse market movements could continue with respect to those contracts to an unlimited extent over a period of time. If a devaluation is generally anticipated, the Master Fund may not be able to sell currency at a price above the anticipated devaluation level. In addition, the correlation between movements in the prices of those contracts and movements in the prices of the currencies hedged or used for cover will not be perfect. Although forward currency contracts limit the risk of loss due to a decline in the value of the hedged currency, at the same time, they limit any potential gain that might result should the value of the currency increase.

The ability to dispose of the Master Fund's positions in forward currency contracts depends on the availability of active markets in those instruments, and the portfolio manager cannot predict the amount of trading interest that may exist in the future in forward currency contracts. Forward currency contracts may be closed out only by the parties entering into an offsetting contract. As a result, no assurance can be given that the Master Fund will be able to utilize these contracts effectively for the intended purposes.

**Interest Rate Swaps, Currency Swaps and Index Swaps.** Interest rate swaps involve the exchange by the Master Fund with another party of their respective commitments to pay or receive interest, such as an exchange of fixed rate payments for floating rate payments. Currency swaps involve the exchange by the Master Fund with another party of their respective rights to make or receive payments in specified currencies. Index swaps involve the exchange by the Master Fund with another party of their respective rights to return on or increase in value of a basket of securities. Since swaps are individually negotiated, the Master Fund expects to achieve an acceptable degree of correlation between its portfolio investments and its swap positions. The use of swaps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio securities transactions. If the portfolio manager is incorrect in its forecasts of market values, interest rates and currency exchange rates, the investment performance of the Master Fund would be less favorable than it would have been if swaps were not used.

**Mortgage Related Securities.** The Master Fund may invest in mortgage related securities which represent pools of mortgage loans assembled for sale to investors by various governmental agencies, such as Ginnie Mae, by government sponsored corporations, such as Fannie Mae and Freddie Mac, as well as by private issuers, such as commercial banks, savings and loan institutions, mortgage bankers and private mortgage insurance companies.

The average maturity of pass-through pools of mortgage related securities in which the Master Fund may invest varies with the maturities of the underlying mortgage instruments. In addition, a pool's stated maturity may be shortened by unscheduled payments on the underlying mortgages. Factors affecting mortgage prepayments include the level of interest rates, general economic and social conditions, the location of the mortgaged property and age of the mortgage. Because prepayment rates of individual mortgage pools vary widely, the average life of a particular pool cannot be predicted accurately.

Mortgage related securities may be classified as private, governmental or government-related, depending on the issuer or guarantor. Private mortgage related securities represent pass-through pools consisting principally of conventional residential mortgage loans created by non-governmental issuers, such as commercial banks, savings and loan associations and private mortgage insurance

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## Table of Contents

companies. Governmental mortgage related securities are backed by the full faith and credit of the United States. Ginnie Mae, the principal U.S. guarantor of these securities, is a wholly-owned U.S. government corporation within the Department of Housing and Urban Development. Government-related mortgage related securities are not backed by the full faith and credit of the United States. Issuers include Fannie Mae and Freddie Mac. Fannie Mae is a government-sponsored corporation owned entirely by private stockholders, which is subject to general regulation by the Secretary of Housing and Urban Development. Pass-through securities issued by Fannie Mae are guaranteed as to timely payment of principal and interest by Fannie Mae. Freddie Mac is a stockholder-owned corporation chartered by Congress, which is subject to general regulation by the Secretary of Housing and Urban Development. Participation certificates representing interests in mortgages from Freddie Mac's national portfolio are guaranteed as to the timely payment of interest and ultimate collection of principal by Freddie Mac. In September 2008, the Federal Housing Finance Agency placed Fannie Mae and Freddie Mac into conservatorship to control their operations. Certain financing arrangements were put in place to support their bonds, but they are not backed by the full faith and credit of the U.S. Government.

Private, governmental or government-related entities may create mortgage loan pools offering pass-through investments in addition to those described above. The mortgages underlying these securities may be alternative mortgage instruments, that is, mortgage instruments whose principal or interest payments may vary or whose terms to maturity may be shorter than previously customary. The portfolio manager assesses new types of mortgage related securities as they are developed and offered to determine their appropriateness for investment by the Master Fund.

Several risks are associated with mortgage related securities generally. The monthly cash inflow from the underlying loans, for example, may not be sufficient to meet the monthly payment requirements of the mortgage related security. Prepayment of principal by mortgagors or mortgage foreclosures will shorten the term of the underlying mortgage pool for a mortgage related security. Early returns of principal will affect the average life of the mortgage related securities in these Master Fund. The occurrence of mortgage prepayments is affected by factors including the level of interest rates, general economic conditions, the location and age of the mortgage and other social and demographic conditions. In periods of rising interest rates, the rate of prepayment tends to decrease, thereby lengthening the average life of a pool of mortgage related securities. Conversely, in periods of falling interest rates the rate of prepayment tends to increase, thereby shortening the average life of a pool. Reinvestment of prepayments may occur at higher or lower interest rates than the original investment, thus affecting the yield of the Master Fund. Because prepayments of principal generally occur when interest rates are declining, the Master Fund will likely have to reinvest the proceeds of prepayments at lower interest rates than those at which its assets were previously invested, resulting in a corresponding decline in the Master Fund's yield. Thus, mortgage related securities may have less potential for capital appreciation in periods of falling interest rates than other fixed income securities of comparable maturity, although those other fixed income securities may have a comparable risk of decline in market value in periods of rising interest rates. To the extent that the Master Fund purchases mortgage related securities at a premium, unscheduled prepayments, which are made at par, will result in a loss equal to any unamortized premium.

Adjustable rate mortgage related securities ("ARMs") have interest rates that reset at periodic intervals, thereby allowing the Master Fund to participate in increases in interest rates through periodic adjustments in the coupons of the underlying mortgages, resulting in both higher current yields and lower price fluctuation than would be the case with more traditional long-term debt securities. Furthermore, if prepayments of principal are made on the underlying mortgages during periods of rising interest rates, the Master Fund generally will be able to reinvest these amounts in securities with a higher current rate of return. The Master Fund, however, will benefit from increases in interest rates to the extent that interest rates rise to the point at which they cause the current yield of ARMs to exceed the maximum allowable annual or lifetime reset limits (or "caps") for a particular mortgage. In addition, fluctuations in interest rates above these caps could cause ARMs to behave more like long-term fixed rate securities in response to extreme movements in interest rates. As a result, during periods of volatile interest rates, the Master Fund's net asset values may fluctuate more than if they did not purchase ARMs. Moreover, during periods of rising interest rates, changes in the coupon of the adjustable rate mortgages will slightly lag behind changes in market rates, creating the potential for some principal loss for shareholders who redeem their shares of the Master Fund before the interest rates on the underlying mortgages are adjusted to reflect current market rates.

Collateralized mortgage related securities ("CMOs") are obligations fully collateralized by a portfolio of mortgages or mortgage related securities. Payments of principal and interest on the mortgages are passed through to the holders of the CMOs on the same

schedule as they are received, although certain classes of CMOs have priority over others with respect to the receipt of prepayments on the mortgages. Therefore, depending on the type of CMOs in which the Master Fund' s invest, the investment may be subject to a greater or lesser risk of prepayment than other types of mortgage related securities.

Further, if the Master Fund purchases mortgage-backed or asset-backed securities that are "subordinated" to other interests in the same mortgage pool, the Master Fund as a holder of those securities may only receive payments after the pool' s obligations to other investors have been satisfied. An unexpectedly high rate of defaults on the mortgages held by a mortgage pool may limit substantially the pool' s ability to make payments of principal or interest to the Master Fund as a holder of such subordinated securities, reducing the values of those securities or in some cases rendering them worthless; the risk of such defaults is generally higher in the case of mortgage pools that include so-called "subprime" mortgages. An unexpectedly high or low rate of prepayments on a pool' s underlying mortgages may have a similar effect on subordinated securities. A mortgage pool may issue securities to various levels of subordination; the risk of non-payment affects securities at each level, although the risk is greater in the case of more highly subordinated securities.

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## [Table of Contents](#)

Mortgage related securities may not be readily marketable. To the extent any of these securities are not readily marketable in the judgment of the portfolio manager, the Master Fund limits its investments in these securities, together with other illiquid instruments, to not more than 15% of the value of its net assets.

**Mortgage Pass-Through Securities.** Interests in pools of mortgage pass-through securities differ from other forms of debt securities (which normally provide periodic payments of interest in fixed amounts and the payment of principal in a lump sum at maturity or on specified call dates). Instead, mortgage pass-through securities provide monthly payments consisting of both interest and principal payments. In effect, these payments are a “pass-through” of the monthly payments made by the individual borrowers on the underlying residential mortgage loans, net of any fees paid to the issuer or guarantor of such securities. Unscheduled payments of principal may be made if the underlying mortgage loans are repaid or refinanced or the underlying properties are foreclosed, thereby shortening the securities’ weighted average life. Some mortgage pass-through securities (such as securities guaranteed by Ginnie Mae) are described as “modified pass-through securities.” These securities entitle the holder to receive all interest and principal payments owed on the mortgage pool, net of certain fees, on the scheduled payment dates regardless of whether the mortgagor actually makes the payment. The principal governmental guarantor of mortgage pass-through securities is Ginnie Mae. Ginnie Mae is authorized to guarantee, with the full faith and credit of the U.S. Treasury, the timely payment of principal and interest on securities issued by lending institutions approved by Ginnie Mae (such as savings and loan institutions, commercial banks and mortgage bankers) and backed by pools of mortgage loans. These mortgage loans are either insured by the Federal Housing Administration or guaranteed by the Veterans Administration. A “pool” or group of such mortgage loans is assembled and, after being approved by Ginnie Mae, is offered to investors through securities dealers.

Government-related guarantors of mortgage pass-through securities (i.e., not backed by the full faith and credit of the U.S. Treasury) include Fannie Mae and Freddie Mac. Fannie Mae is subject to general regulation by the Secretary of Housing and Urban Development. Fannie Mae purchases conventional (i.e., not insured or guaranteed by any government agency) residential mortgages from a list of approved sellers/servicers which include state and federally chartered savings and loan associations, mutual savings banks, commercial banks and credit unions and mortgage bankers. Mortgage pass-through securities issued by Fannie Mae are guaranteed as to timely payment of principal and interest by Fannie Mae but are not backed by the full faith and credit of the U.S. Treasury.

Freddie Mac was created by Congress in 1970 for the purpose of increasing the availability of mortgage credit for residential housing. It is a U.S. government-sponsored corporation formerly owned by the twelve Federal Home Loan Banks and now owned by stockholders. Freddie Mac issues Participation Certificates (“PCs”), which represent interests in conventional mortgages from Freddie Mac’ s national portfolio. Freddie Mac guarantees the timely payment of interest and ultimate collection of principal, but PCs are not backed by the full faith and credit of the U.S. Treasury.

Commercial banks, savings and loan institutions, private mortgage insurance companies, mortgage bankers and other secondary market issuers also create pass-through pools of conventional residential mortgage loans. Such issuers may, in addition, be the originators and/or servicers of the underlying mortgage loans as well as the guarantors of the mortgage pass-through securities.

*Resets.* The interest rates paid on the Adjustable Rate Mortgage Securities (“ARMs”) in which the Master Fund may invest generally are readjusted or reset at intervals of one year or less to an increment over some predetermined interest rate index. There are two main categories of indices: those based on U.S. Treasury securities and those derived from a calculated measure, such as a cost of funds index or a moving average of mortgage rates. Commonly utilized indices include the one-year and five-year constant maturity Treasury Note rates, the three-month Treasury Bill rate, the 180-day Treasury Bill rate, rates on longer-term Treasury securities, the National Median Cost of Funds, the one-month or three-month London Interbank Offered Rate (LIBOR), the prime rate of a specific bank, or commercial paper rates. Some indices, such as the one-year constant maturity Treasury Note rate, closely mirror changes in market interest rate levels. Others tend to lag changes in market rate levels and tend to be somewhat less volatile.

*Caps and Floors.* The underlying mortgages which collateralize the ARMs in which the Master Fund invests will frequently have caps and floors which limit the maximum amount by which the loan rate to the residential borrower may change up or down: (1) per reset or adjustment interval, and (2) over the life of the loan. Some residential mortgage loans restrict periodic adjustments by limiting changes in the borrower’ s monthly principal and interest payments rather than limiting interest rate changes. These payment caps may

result in negative amortization. The value of mortgage securities in which the Master Fund invests may be affected if market interest rates rise or fall faster and farther than the allowable caps or floors on the underlying residential mortgage loans. Additionally, even though the interest rates on the underlying residential mortgages are adjustable, amortization and prepayments may occur, thereby causing the effective maturities of the mortgage securities in which the Master Fund invests to be shorter than the maturities stated in the underlying mortgages.

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## Table of Contents

**Floating and Variable Rate Instruments.** The Master Fund may invest in floating and variable rate instruments. Income securities may provide for floating or variable rate interest or dividend payments. The floating or variable rate may be determined by reference to a known lending rate, such as a bank's prime rate, a certificate of deposit rate or the London InterBank Offered Rate (LIBOR). Alternatively, the rate may be determined through an auction or remarketing process. The rate also may be indexed to changes in the values of interest rate or securities indexes, currency exchange rate or other commodities. Variable and floating rate securities tend to be less sensitive than fixed rate securities to interest rate changes and tend to have higher yields when interest rates increase. However, during periods of rising interest rates, changes in the interest rate of an adjustable rate security may lag changes in market rates.

The amount by which the rates paid on an income security may increase or decrease may be subject to periodic or lifetime caps. Fluctuations in interest rates above these caps could cause adjustable rate securities to behave more like fixed rate securities in response to extreme movements in interest rates.

Floating and variable rate income securities include securities whose rates vary inversely with changes in market rates of interest. Such securities may also pay a rate of interest determined by applying a multiple to the variable rate. The extent of increases and decreases in the value of securities whose rates vary inversely with changes in market rates of interest generally will be larger than comparable changes in the value of an equal principal amount of a fixed rate security having similar credit quality, redemption provisions and maturity.

The Master Fund may purchase floating and variable rate demand bonds and notes, which are debt securities ordinarily having stated maturities in excess of one year but which permit their holder to demand payment of principal at any time or at specified intervals. Variable rate demand notes include master demand notes, which are obligations that permit the Master Fund to invest fluctuating amounts, which may change daily without penalty, pursuant to direct arrangements between the Master Fund, as lender, and the borrower. These obligations have interest rates that fluctuate from time to time and frequently are secured by letters of credit or other credit support arrangements provided by banks. Use of letters of credit or other credit support arrangements will not adversely affect the tax-exempt status of variable rate demand notes. Because they are direct lending arrangements between the lender and borrower, variable rate demand notes generally will not be traded and no established secondary market generally exists for them, although they are redeemable at face value. If variable rate demand notes are not secured by letters of credit or other credit support arrangements, the Master Fund's right to demand payment will be dependent on the ability of the borrower to pay principal and interest on demand. Each obligation purchased by the Master Fund will meet the quality criteria established by the Adviser for the purchase of debt securities. The Adviser considers on an ongoing basis the creditworthiness of the issuers of the floating and variable rate demand obligations in the relevant Master Fund's portfolio, as necessary.

**Short Sales** Short sales are transactions in which the Master Fund sells a security it does not own in anticipation of a decline in the value of that security relative to the long positions held by the Master Fund. To complete such a transaction, the Master Fund must borrow the security to make delivery to the buyer. The Master Fund then is obligated to replace the security borrowed by purchasing it at the market price at or prior to the time of replacement. The price at such time may be more or less than the price at which the security was sold by the Master Fund. Until the security is replaced, the Master Fund is required to repay the lender any dividends or interest that accrues during the period of the loan. To borrow the security, the Master Fund also may be required to pay a premium, which would increase the cost of the security sold. The net proceeds of the short sale will be retained by the broker (or by the Trust's custodian or a designated sub-custodian in a special custody account), to the extent necessary to meet margin requirements, until the short position is closed out. The Master Fund also will incur transaction costs effecting short sales.

The Master Fund will incur a loss as a result of the short sale if the price of the security increases between the date of the short sale and the date on which the Master Fund replaces the borrowed security. Short sales may, however, protect the Master Fund against the risk of losses in the value of its portfolio securities because any unrealized losses with respect to such portfolio securities should be wholly or partially offset by a corresponding gain in the short position. However, any potential gains in such portfolio securities should be wholly or partially offset by a corresponding loss in the short position. The extent to which such gains or losses are offset will depend upon the amount of securities sold short relative to the amount the Master Fund owns, either directly or indirectly. There can be no assurance that the Master Fund will be able to close out a short position at any particular time or at an acceptable price.



The Master Fund also must segregate liquid assets equal to the difference between (a) the market value of the securities sold short at the time they were sold short and (b) the value of the collateral deposited with the broker in connection with the short sale (not including the proceeds from the short sale). While the short position is open, the Master Fund must maintain segregated assets at such a level that the amount segregated plus the amount deposited with the broker as collateral equal the current market value of the securities sold short.

**Legal and Regulatory Risk.** Legal, tax and regulatory changes could occur during the term of the Master Fund that may adversely affect the Master Fund. New or revised laws or regulations may be issued by the CFTC, the SEC, the IRS or the Treasury Department, the U.S. Federal Reserve or other banking regulators, other governmental regulatory authorities or self-regulatory

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## Table of Contents

organizations that supervise the financial markets that could adversely affect the Master Fund. In particular, these agencies are empowered to promulgate a variety of new rules pursuant to recently enacted financial reform legislation in the United States. The Master Fund also may be adversely affected by changes in the enforcement or interpretation of existing statutes and rules by these governmental regulatory authorities or self-regulatory organizations. In addition, the securities and futures markets are subject to comprehensive statutes, regulations and margin requirements. The CFTC, the SEC, the Federal Deposit Insurance Corporation, other regulators and self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. The regulation of derivatives transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial action.

The U.S. government recently enacted legislation which includes provisions for new regulation of the derivatives market, including clearing, margin, reporting and registration requirements. Because the legislation leaves much to rule making, its ultimate impact remains unclear. The regulatory changes could, among other things, restrict the Master Fund's ability to engage in derivatives transactions (including because certain types of derivatives transactions may no longer be available to the Master Fund) and/or increase the costs of such derivatives transactions (including through increased margin or capital requirements), and the Master Fund may be unable to execute its investment strategy as a result. It is unclear how the regulatory changes will affect counterparty risk.

The CFTC and certain futures exchanges have established limits, referred to as "position limits," on the maximum net long or net short positions which any person may hold or control in particular options and futures contracts. All positions owned or controlled by the same person or entity, even if in different accounts, may be aggregated for purposes of determining whether the applicable position limits have been exceeded. Thus, even if the Master Fund does not intend to exceed applicable position limits, it is possible that different clients managed by the Adviser and its affiliates may be aggregated for this purpose. Although it is possible that the trading decisions of the Adviser may have to be modified and that positions held by the Master Fund may have to be liquidated in order to avoid exceeding such limits, the Adviser believes that this is unlikely. The modification of investment decisions or the elimination of open positions, if it occurs, may adversely affect the profitability of the Master Fund.

The effect of any future regulatory change on the Master Fund could be substantial and adverse.

### **SPECIAL INFORMATION CONCERNING MASTER-FEEDER FUND STRUCTURE**

Unlike other open-end management investment companies (mutual funds) that directly acquire and manage their own portfolio securities, the Fund seeks to achieve its investment objective by investing substantially all of its assets in the Master Fund, a separate registered investment company with the same investment objective, strategies and risks as the Fund. Therefore, an investor's interest in the Master Fund's securities is indirect. In addition to selling beneficial interests to the Fund, the Master Fund may sell beneficial interests to the Ascendant Natural Resources Fund (the "Ascendant Feeder Fund"), a separate registered investment company. The Ascendant Feeder Fund will invest in the Master Fund on the same terms and conditions and will pay a proportionate share of the Master Fund's expenses. However, the Ascendant Feeder Fund is not required to sell its shares at the same public offering price as the Fund and is not subject to comparable variations in sales loads and other operating expenses. Therefore, investors in the Fund should be aware that these differences may result in differences in returns experienced by investors in the Ascendant Feeder Fund. Such differences in returns are also present in other mutual fund structures.

The Board of Trustees believes that the Fund will achieve certain efficiencies and economies of scale through the master-feeder structure and that the aggregate expenses of the Fund are no higher than if the Fund invested directly in the securities held by the Master Fund.

The Fund may be materially affected by the actions of the Ascendant Feeder Fund. For example, if the Ascendant Feeder Fund withdraws from the Master Fund, the Fund may experience higher pro rata operating expenses, thereby producing lower returns (however, this possibility exists as well for traditionally structured funds which have large institutional investors). Additionally, the Master Fund may become less diverse, resulting in increased portfolio concentration and potential risk. Also, if the Ascendant Feeder Fund has a greater pro rata ownership in the Master Fund, it could have effective voting control of the operations of the Master Fund. Except as permitted by the Securities and Exchange Commission, whenever the Fund is requested to vote on matters pertaining to the

Master Fund, the Trust will hold a meeting of shareholders of the Fund and will cast all of its votes in the same proportion as the votes of the Fund's shareholders. The Fund shareholders who do not vote will not affect the Trust's votes at the Master Fund meeting. The percentage of the Trust's votes representing the Fund shareholders not voting will be voted by the Trustees or officers of the Trust in the same proportion as the Fund shareholders who do, in fact, vote.

From time to time, the Fund may be required to vote on matters pertaining to the operation of the Master Fund. When required by law to do so, the Fund will hold a meeting of shareholders and will vote its interest in the Master Fund for or against such matters proportionately to the instructions to vote for or against such matters received from shareholders. The Fund shall vote shares for which it receives no voting instructions in the same proportion as the shares for which it receives voting instructions. Other investors in the

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## Table of Contents

Master Fund may alone or collectively acquire sufficient voting interests in the Master Fund to control matters relating to the operation of the Master Fund, which may require the Fund to withdraw its investment in the Master Fund or take other appropriate action. In addition, certain changes in the Master Fund's investment objective, policies or restrictions may require the Fund to withdraw its interest in the Master Fund. Such withdrawal could result in a distribution "in kind" of portfolio securities (as opposed to a cash distribution from the Master Fund). If securities are distributed, the Fund could incur brokerage, tax or other charges in converting the securities to cash. In addition, the distribution in kind may result in a less diversified portfolio of investments or adversely affect the liquidity of the Fund. Notwithstanding the above, there are other means for meeting redemption requests, such as borrowing.

In addition, the master-feeder structure presents certain special tax considerations. See "Income Tax Considerations" below for more information.

### **Potential Future Change to the Master-Feeder Fund Structure**

The Fund can withdraw its investment in the Master Fund if, at any time, the Fund's Board of Trustees ("Board") determines that it would be in the best interests of the Fund, or if the investment objective of the Master Fund changes so that it is inconsistent with the objective of the Fund. If the Fund withdraws its investment from the Master Fund, the Fund may invest all of its assets in another master fund that has the same investment objective as the Fund, Pyxis may directly manage the Fund's assets or delegate management to a sub-adviser, or the Board may take such other action it deems appropriate and in the best interests of the Fund, which may include liquidation of the Fund.

## **PORTFOLIO HOLDINGS**

The Fund's uncertified complete list of portfolio holdings information may be provided regularly pursuant to a standing request, such as on a monthly or quarterly basis, to (i) third party service providers, rating and ranking agencies, financial advisors and affiliated persons of the Fund and (ii) clients of Pyxis or its affiliates that invest in the Fund or such clients' consultants. No compensation or other consideration is received by the Fund, Pyxis, or any other person for these disclosures. A list of the entities that will receive the Fund's portfolio holdings information on such basis, the frequency with which it will be provided to them and the length of the lag between the date of the information and the date it will be disclosed is provided below:

<u>Company</u>	<u>Frequency</u>	<u>Lag</u>
MorningStar Inc.	Quarterly	30 days after quarter end
Lipper, Inc.	Quarterly	30 days after quarter end
Thomson Financial	Quarterly	30 days after quarter end

The largest five portfolio holdings are posted to the Trust's website on a monthly basis. In addition, certain service providers to the Fund, Pyxis, Transfer Agent (as defined herein) or Underwriter (as defined herein), such as rating and ranking agencies, pricing services, proxy voting service providers, accountants, attorneys, custodians, securities lending agents, brokers in connection with Fund transactions and providing pricing quotations, members of a bank syndicate providing a committed line of credit to the Fund, Transfer Agent and entities providing contingent deferred sales charge ("CDSC") financing, may for legitimate business purposes receive the Fund's portfolio holdings information earlier than 30 days after month end. If the Fund redeems a shareholder in kind, the shareholder generally receives its proportionate share of the Fund's portfolio holdings and, therefore, the shareholder and its agent may receive such information earlier than 30 days after month end.

Disclosure of the Fund's portfolio securities as an exception to the Fund's normal business practice requires a Fund officer (other than the Treasurer) to identify a legitimate business purpose for the disclosure and submit the proposal to the Fund's Treasurer for approval following business and compliance review. Additionally, no compensation or other consideration is received by the Fund, Pyxis, or any other person for these disclosures. The Trustees will review annually a list of the entities that received such information, the frequency of such disclosures and the business purpose therefor. These procedures are designed to address conflicts of interest between the Fund's shareholders on the one hand and Pyxis, or any affiliated person of the Fund or such entities on the other hand by creating a structured review and approval process that seeks to ensure that disclosure of information about the Fund's portfolio

securities is in the best interests of the Fund' s shareholders. There can be no assurance, however, that the Fund' s policies and procedures with respect to the disclosure of portfolio holdings information will prevent the misuse of such information by individuals or firms in possession of such information.

Holdings are released to all of the persons and entities described above on conditions of confidentiality, which include appropriate trading prohibitions. "Conditions of confidentiality" include confidentiality terms included in written agreements, implied by the nature of the relationship (*e.g.*, attorney-client relationship), or required by fiduciary or regulatory principles (*e.g.*, custody services provided by financial institutions).

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## Table of Contents

Portfolio holdings of the Fund are disclosed on a quarterly basis on forms required to be filed with the SEC as follows: (i) portfolio holdings as of the end of each fiscal year will be filed as part of the annual report filed on Form N-CSR; (ii) portfolio holdings as of the end of the first and third fiscal quarters will be filed on Form N-Q; and (iii) portfolio holdings as of the end of the six-month fiscal period will be filed as part of the semi-annual report filed on Form N-CSR. The Trust's Form N-CSRs and Form N-Qs are available on the SEC's website at [www.sec.gov](http://www.sec.gov).

The Fund's top five holdings also are posted on the Fund's website at [www.pyxisais.com](http://www.pyxisais.com) no sooner than 15 days after the end of each month. The day after this information has been made available to the public by means of posting on that website, it may also be included in other advertising and marketing material concerning the Fund.

Finally, the Fund releases information concerning any and all portfolio holdings when required by law. Such releases may include providing information concerning holdings of a specific security to the issuer of such security.

### INVESTMENT RESTRICTIONS

The Fund is subject to fundamental and non-fundamental investment policies and limitations. Under the 1940 Act, fundamental investment policies and limitations may not be changed without the vote of a majority of the outstanding voting securities (as defined in the 1940 Act) of the Fund. A "vote of a majority of the outstanding voting securities" of the Fund means the lesser of (i) 67% or more of the shares at a meeting if the holders of more than 50% of the outstanding shares are present or represented by proxy or (ii) more than 50% of the outstanding shares. If a percentage policy set forth in the Prospectus or one of the following percentage investment restrictions is adhered to at the time a transaction is effected, later changes in a percentage will not be considered a violation of the policy or restriction unless such change is caused by action of the Fund or pertains to the Fund's limitations on borrowing and investment in illiquid securities. The following policies and limitations supplement those described in the Prospectus and this SAI. Investment restrictions numbered 1 through 7 below have been adopted by the Trust as fundamental policies of the Fund. Investment restrictions 8 through 13 are not fundamental policies and may be changed by a vote of the Board at any time.

**Fundamental Investment Restrictions.** The following investment restrictions are fundamental policies and, as such, may not be changed without the approval of a "vote of a majority of the outstanding voting securities" (as defined in the 1940 Act) of the Fund. The Fund will not invest in an underlying fund, such as the Master Fund, to the extent those funds violate the below fundamental restrictions. There are no material differences between the fundamental investment restrictions of the Fund and those of the Master Fund.

1. **Borrowing Money.** The Fund will not borrow money, except: (a) from a bank, provided that immediately after such borrowing there is an asset coverage of 300% for all borrowings of the Fund; or (b) from a bank or other persons for temporary purposes only, provided that such temporary borrowings are in an amount not exceeding 5% of the Fund's total assets at the time when the borrowing is made.

2. **Senior Securities.** The Fund will not issue senior securities. This limitation is not applicable to activities that may be deemed to involve the issuance or sale of a senior security by the Fund, provided that the Fund's engagement in such activities is consistent with or permitted by the Investment Company Act of 1940, as amended, the rules and regulations promulgated thereunder or interpretations of the SEC or its staff.

3. **Underwriting.** The Fund will not act as underwriter of securities issued by other persons. This limitation is not applicable to the extent that, in connection with the disposition of portfolio securities (including restricted securities), the Fund may be deemed an underwriter under certain federal securities laws.

4. **Real Estate.** The Fund will not purchase or sell real estate. This limitation is not applicable to investments in marketable securities that are secured by or represent interests in real estate. This limitation does not preclude the Fund from investing in mortgage-related securities or investing in companies engaged in the real estate business or that have a significant portion of their assets in real estate (including real estate investment trusts).

5. Commodities. The Fund will not purchase or sell commodities unless acquired as a result of ownership of securities or other investments. This limitation does not preclude the Fund from purchasing or selling options or futures contracts, from investing in securities or other instruments backed by commodities or from investing in companies which are engaged in a commodities business or have a significant portion of their assets in commodities.

6. Loans. The Fund will not make loans to other persons, except: (a) by loaning portfolio securities; (b) by engaging in repurchase agreements; or (c) by purchasing non-publicly offered debt securities. For purposes of this limitation, the term "loans" shall not include the purchase of a portion of an issue of publicly distributed bonds, debentures or other securities.

7. Concentration. The Fund will not invest 25% or more of its total assets in a particular industry or group of industries, provided however that the Fund will concentrate (i.e. will invest 25% or more of its assets under normal circumstances) in securities of companies in the natural resources group of industries. The concentration limitation is not applicable to investments in obligations issued or guaranteed by the U.S. government, its agencies and instrumentalities or repurchase agreements with respect thereto.

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## Table of Contents

**Non-Fundamental Investment Restrictions.** The Fund is also subject to the following non-fundamental investment restrictions and policies that may be changed by the Board of Trustees without shareholder approval.

8. **Pledging.** The Fund will not mortgage, pledge, hypothecate or in any manner transfer, as security for indebtedness, any assets of the Fund except as may be necessary in connection with borrowings described in limitation (1) above. Margin deposits, security interests, liens and collateral arrangements with respect to transactions involving options, futures contracts, short sales and other permitted investments and techniques are not deemed to be a mortgage, pledge or hypothecation of assets for purposes of this limitation.

9. **Borrowing.** The Fund will not purchase any security while borrowings representing more than one third of its total assets are outstanding.

10. **Margin Purchases.** The Fund will not purchase securities or evidences of interest thereon on "margin." This limitation is not applicable to short-term credit obtained by the Fund for the clearance of purchases and sales or redemption of securities, or to arrangements with respect to transactions involving options, futures contracts, short sales and other permitted investment techniques.

11. **Illiquid Investments.** The Fund will not hold more than 15% of its net assets in securities for which there are legal or contractual restrictions on resale and other illiquid securities.

12. **80% Investment Policy.** The Fund has adopted a policy to invest, under normal market conditions, at least 80% of its assets (defined as net assets plus the amount of any borrowing for investment purposes) in the common stock of natural resource companies. Shareholders of the Fund will be provided with at least 60 days prior notice of any change in the Fund's 80% policy. The notice will be provided in a separate written document containing the following, or similar, statement, in boldface type: "Important Notice Regarding Change in Investment Policy." The statement will also appear on the envelope in which the notice is delivered, unless the notice is delivered separately from other communications to the shareholder.

13. **Other Investment Companies.** If the Fund is invested in by another series of the Trust or by a series of Pyxis Funds I, it may not acquire securities of registered open-end investment companies or registered unit investment trusts in reliance on Sections 12(d)(1)(F) or 12(d)(1)(G) of the 1940 Act.

### **Notes to Investment Restrictions**

The percentage limitations in the restrictions listed above apply at the time of purchases of securities and a later increase or decrease in percentage resulting from a change in value of net assets, or in any ratings, will not be deemed to result in a violation of the restriction. For purposes of investment restriction No. 7 above, the Adviser will, on behalf of the Fund, make reasonable determinations as to the appropriate industry classification to assign to each issuer of securities in which the Fund invests. As a general matter, the Adviser relies on the industry classifications provided by the Morgan Stanley Capital International/Standard & Poor's Global Industry Classification Standard. An industry is considered to be a group of companies whose principal activities, products or services offered give them a similar economic risk profile vis à vis issuers active in other sectors of the economy. The definition of what constitutes a particular industry is therefore an evolving one. Some issuers could reasonably fall within more than one industry category. To the extent that the Global Industry Classification Standard classifications are so broad that the primary economic characteristics in a single class are materially different, the Fund may further classify issuers in accordance with industry classifications as published by the SEC or relevant SEC staff interpretations. The Fund may change any source used for determining industry classifications without prior shareholder notice or approval.

Provisions of the 1940 Act require the Fund to maintain continuous asset coverage (that is, total assets including borrowings, less liabilities exclusive of borrowings) of 300% of the amount borrowed from a bank, with an exception for borrowings not in excess of 5% of the Fund's total assets made for temporary administrative purposes. Any borrowings for temporary administrative purposes in excess of 5% of the Fund's total assets must maintain continuous asset coverage. If the 300% asset coverage should decline as a result of market fluctuations or other reasons, the Fund may be required to sell some of its portfolio holdings within three days to reduce the debt and restore the 300% asset coverage, even though it may be disadvantageous from an investment standpoint if the Fund sells holdings at that time.



In addition, the Fund may not pledge, mortgage or hypothecate its assets except as may be necessary in connection with permissible borrowings or investments and then such pledging, mortgaging, or hypothecating may not exceed 33 1/3% of the Fund's total assets.

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## [Table of Contents](#)

### **PORTFOLIO TRANSACTIONS**

The Fund invests all of its investable assets in the Master Fund and therefore does not directly incur transactional costs for purchases and sales of portfolio investments.

Ascendant is authorized by the Board of Trustees of the Master Fund to allocate the orders placed on behalf of the Master Fund to brokers or dealers who may, but need not, provide research or statistical material or other services to the Master Fund or Ascendant for the Master Fund's use. Such allocation is to be in such amounts and proportions as Ascendant may determine.

In selecting a broker or dealer to execute each particular transaction, Ascendant will take the following into consideration:

the best net price available;

the reliability, integrity and financial condition of the broker or dealer;

the size of and difficulty in executing the order; and

the value of the expected contribution of the broker or dealer to the investment performance of the Master Fund on a continuing basis.

Brokers or dealers executing a portfolio transaction on behalf of the Master Fund may receive a commission in excess of the amount of commission another broker or dealer would have charged for executing the transaction if Ascendant determines in good faith that such commission is reasonable in relation to the value of brokerage, research and other services provided to the Master Fund. In allocating portfolio brokerage, Ascendant may select brokers or dealers who also provide brokerage, research and other services to other accounts over which the Ascendant exercises investment discretion. Some of the services received as the result of Fund transactions may primarily benefit accounts other than the Master Fund, while services received as the result of portfolio transactions effected on behalf of those other accounts may primarily benefit the Master Fund.

The Fund has not paid any brokerage commissions.

### **PORTFOLIO TURNOVER**

The frequency and amount of portfolio purchases and sales (known as the "turnover rate") will vary from year to year. The portfolio turnover rate may vary greatly from year to year and will not be a limiting factor when Ascendant deems portfolio changes appropriate. Although the Master Fund generally does not intend to trade for short-term profits, the securities held by the Master Fund will be sold whenever Ascendant believes it is appropriate to do so, without regard to the length of time a particular security may have been held. Higher portfolio turnover involves correspondingly greater transaction costs, including any brokerage commissions that the Master Fund will bear directly, and can cause the Master Fund to recognize more short-term capital gains (which are taxable to shareholders at higher rates than long-term capital gains). If Pyxis were to withdraw the Fund's assets from the Master Fund, the Fund would be permitted to engage in active trading to achieve its investment goals and, as a result, may have substantial portfolio turnover. A 100% turnover rate would occur if all of the Fund's or Master Fund's portfolio securities were replaced once within a one-year period.

### **MANAGEMENT OF THE TRUST**

The Board provides broad oversight of the operations and affairs of the Fund and protects the interests of shareholders. The Board has overall responsibility to manage and control the business affairs of the Fund, including the complete and exclusive authority to establish policies regarding the management, conduct and operation of the Fund's business. The names and birthdays of the Trustees and officers of the Fund, the year each was first elected or appointed to office, their principal business occupations during the last five years, the number of funds overseen by each Trustee and other directorships or trusteeships they hold are shown below. The business address for each Trustee and officer of the Fund is c/o Pyxis Capital, L.P., 200 Crescent Court, Suite 700, Dallas, Texas 75201.



[Table of Contents](#)

**INDEPENDENT TRUSTEES**

Name and Date of Birth	Position(s) with the Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Portfolios in		Experience, Qualifications, Attributes, Skills for Board Membership
				Pyxis Fund Complex Overseen by Trustee <sup>(1)</sup>	Other Directorships/ Trusteeships Held	
Timothy K. Hui (6/13/1948)	Trustee	Indefinite Term; Trustee since inception in 2006	Dean of Educational Resources since July 2012 and from July 2006 to January 2008, Vice President from February 2008 to June 2012, and Assistant Provost for Graduate Education from July 2004 to June 2006 at Cairn University.	17	None	Significant experience on this and/or other boards of directors/trustees; administrative and managerial experience; legal training and practice.
Scott F. Kavanaugh (1/27/1961)	Trustee and Chairman of the Board	Indefinite Term; Trustee since inception in 2006; Chairman of the Board since June 2012	Vice-Chairman, President and Chief Executive Officer at Keller Financial Group since September 2007; Chairman and Chief Executive Officer at First Foundation Bank since September 2007; Vice-Chairman, President, Chief Operating Officer and Chief Executive Officer of First Foundation, Inc. (holding company) since September 2007; and private investor since February 2004.	17	None	Significant experience on this and/or other boards of directors/trustees; significant executive experience including current and past service as chairman and chief executive officer of a bank; other financial industry and banking experience.
James F. Leary (3/9/1930)	Trustee	Indefinite Term; Trustee since inception in 2006	Managing Director, Benefit Capital Southwest, Inc. (a financial consulting firm) since January 1999.	17	Board Member of Capstone Group of Funds (7 portfolios)	Significant experience on this and/or other boards of directors/trustees; significant executive experience including past service as chief financial officer of an operating company; audit committee financial expert.
Bryan A. Ward (2/4/1955)	Trustee	Indefinite Term; Trustee	Senior Manager, Accenture, LLP (a	17	None	Significant experience on this and/or other boards of directors/trustees;

since inception consulting firm) since  
in 2006 January 2002.

significant managerial and  
executive experience;  
significant experience as a  
management consultant.

**INTERESTED TRUSTEE**

Ethan Powell<sup>2</sup>  
(6/20/1975)

Trustee;  
Executive  
Vice  
President  
and  
Secretary

Indefinite  
Term; Trustee  
and Executive  
Vice President  
since June  
2012; Secretary  
since  
November  
2010

Senior Retail Fund  
Analyst of Highland  
Capital Management, L.P.  
since 2007 and of Pyxis  
since its inception and  
Secretary of the funds in  
the Pyxis Fund Complex  
since November 2010;  
Manager in the Merger  
and Acquisitions Division  
at Ernst & Young from  
1999 to 2007.

17

None

Significant experience in  
the financial industry;  
significant executive  
experience including  
current and past service as  
an officer of funds in the  
Pyxis Fund Complex;  
significant administrative  
and managerial  
experience.

## [Table of Contents](#)

### OFFICERS

<b>Name and Date of Birth</b>	<b>Position(s) with the Fund</b>	<b>Term of Office and Length of Time Served</b>	<b>Principal Occupation(s) During Past Five Years</b>
Brian Mitts (8/26/1970)	Treasurer (Principal Accounting Officer and Principal Financial Officer)	Indefinite Term; Treasurer since November 2010	Chief Operations Officer of Pyxis since 2012; Senior Retail Fund Analyst of Highland Capital Management, L.P. since 2007 and Pyxis since its inception; Principal Accounting Officer and Treasurer of the funds in the Pyxis Fund Complex since November 2010; Manager of Financial Reporting at HBK Investments (a hedge fund) from 2005 to 2007.
Ethan Powell (6/20/1975)	Trustee; Executive Vice President and Secretary	Indefinite Term; Trustee and Executive Vice President since June 2012; Secretary since November 2010	Chief Product Strategist of Pyxis since 2012; Senior Retail Fund Analyst of Highland Capital Management, L.P. since 2007 and Pyxis since its inception; and Secretary of the funds in the Pyxis Fund Complex since November 2010; Manager in the Merger and Acquisitions Division at Ernst & Young from 1999 to 2007.
Alan Head (8/5/1973)	Chief Compliance Officer	Indefinite Term; Chief Compliance Officer since January 2012	Compliance Director at Highland Capital Management, L.P. and Chief Compliance Officer of NexBank Securities, Inc. (an affiliated broker-dealer) since November 2010; President of NexBank Securities, Inc. since November 2011; Vice President, Manager of Reporting and Research from May 2008 to September 2010 and Compliance; Manager from August 2005 to May 2008 at Capital Institutional Services.
Dustin Norris (1/6/1984)	Assistant Treasurer	Indefinite Term; Assistant Treasurer since November 2012	Senior Accounting Manager at Pyxis since August 2012; Assistant Treasurer of the Funds in the Pyxis Fund Complex since November 2012; Fund Accountant at Highland Capital Management, L.P. from June 2010 to August 2012; Auditor at Deloitte & Touche LLP from 2009 to June 2010.

<sup>1</sup> The “Pyxis Fund Complex” consists of all of the registered investment companies overseen by the Board and advised by the Adviser or an affiliated person of the Adviser as of the date of this SAI.

<sup>2</sup> Mr. Powell is deemed to be an “interested person” of the Funds under the 1940 Act because of his position with the Adviser.

### Qualifications of Trustees

The following provides an overview of the considerations that led the Board to conclude that each individual serving as a Trustee of the Trust should so serve. Among the factors the Board considered when concluding that an individual should serve on the Board were the following: (i) the individual’s business and professional experience and accomplishments; (ii) the individual’s ability to work effectively with the other members of the Board; (iii) the individual’s prior experience, if any, serving on company boards (including public companies and, where relevant, other investment companies) and the boards of other complex enterprises and organizations; and (iv) how the individual’s skills, experiences and attributes would contribute to an appropriate mix of relevant skills and experience on the Board.

In respect of each current Trustee, the individual’s professional accomplishments and prior experience, including, in some cases, in fields related to the operations of the Trust, were a significant factor in the determination that the individual should serve as a Trustee

of the Trust. Each Trustee's professional experience and additional considerations that contributed to the Board's conclusion that an individual should serve on the Board are summarized in the table above.

### **Trustees' Compensation**

The officers of the Fund and those Trustees who are "interested persons" (as defined in the 1940 Act) of the Trust receive no direct remuneration from the Fund. The following table sets forth the aggregate compensation anticipated to be paid to each of the Trustees who is not an "interested person" (as defined in the 1940 Act) of the Trust (the "Independent Trustees") by the Fund and the total compensation anticipated to be paid to each of the Trustees by the Pyxis Fund Complex for the Trust for the period ending September 30, 2012 and the other funds in the Pyxis Fund Complex (the "Funds") for the same period.

## [Table of Contents](#)

<u>Name of Trustee</u>	<u>Aggregate Compensation From the Trust</u>	<u>Pension or Retirement Benefits Accrued as Part of the Funds' Expense</u>	<u>Estimated Annual Benefits Upon Retirement</u>	<u>Total Compensation From the Pyxis Funds Complex</u>
<b>Interested Trustee</b>				
Ethan Powell	\$ 0	\$ 0	\$ 0	\$ 0
<b>Independent Trustees</b>				
Timothy K. Hui	\$ 14,128	\$ 0	\$ 0	\$ 150,000
Scott F. Kavanaugh	\$ 14,128	\$ 0	\$ 0	\$ 150,000
James F. Leary	\$ 14,128	\$ 0	\$ 0	\$ 150,000
Bryan A. Ward	\$ 14,128	\$ 0	\$ 0	\$ 150,000

Each Independent Trustee receives an annual retainer of \$150,000 payable in quarterly installments and allocated among each portfolio in the Pyxis Fund Complex based on relative net assets.

### *The Role of the Board of Trustees*

The Board oversees the management and operations of the Trust. Like most registered investment companies, the day-to-day management and operation of the Trust is performed by various service providers to the Trust, such as the Adviser, the Sub-Adviser, and the underwriter, administrator, custodian, and transfer agent, each of which is discussed in greater detail in this Statement of Additional Information. The Board has appointed senior employees of certain of these service providers as officers of the Trust, with responsibility to monitor and report to the Board on the Trust's operations. The Board receives regular reports from these officers and service providers regarding the Trust's operations. For example, the Treasurer provides reports as to financial reporting matters and investment personnel report on the performance of the Trust's portfolios. The Board has appointed a Chief Compliance Officer who administers the Trust's compliance program and regularly reports to the Board as to compliance matters. Some of these reports are provided as part of formal in person Board meetings which are typically held quarterly, in person, and involve the Board's review of, among other items, recent Trust operations. The Board also periodically holds telephonic meetings as part of its review of the Trust's activities. From time to time one or more members of the Board may also meet with management in less formal settings, between scheduled Board meetings, to discuss various topics. In all cases, however, the role of the Board and of any individual Trustee is one of oversight and not of management of the day-to-day affairs of the Trust and its oversight role does not make the Board a guarantor of the Trust's investments, operations or activities.

### *Board Structure and Leadership*

The Board has structured itself in a manner that it believes allows it to perform its oversight function effectively. The Board consists of five Trustees, four of whom (including the Chairman) are Independent Trustees. The remaining Trustee, Mr. Powell, also serves as Executive Vice President and Secretary of the Trust, and as such he participates in the oversight of the Trust's day-to-day business affairs. Mr. Powell is an "interested person" of the Trust (an "Interested Trustee") because of his position with Pyxis. The Trustees meet periodically throughout the year in person and by telephone to oversee the Trust's activities, review contractual arrangements with service providers for the Trust and review the Trust's performance. The Board conducts much of its work through certain standing Committees, each of which is comprised exclusively of all of the Independent Trustees and each of whose meetings are chaired by an Independent Trustee. The Board has four committees, the Audit Committee, the Governance Committee, the Litigation Committee and the Qualified Legal Compliance Committee, which are discussed in greater detail below.

*Audit Committee.* Pursuant to the Audit Committee Charter adopted by the Board of Trustees, the function of the Audit Committee is to (1) oversee the Trust's accounting and financial reporting processes and the audits of the Trust's financial statements and (2) assist in Board oversight of the integrity of the Trust's financial statements, the Trust's compliance with legal and regulatory requirements,



and the independent registered public accounting firm' s qualifications, independence and performance. The Audit Committee is comprised of Messrs. Hui, Leary and Ward. The Audit Committee met times during the fiscal year ended September 30, 2012. Mr. Ward acts as the Chairman of the Audit Committee.

*Governance Committee.* The Governance Committee' s function is to oversee and make recommendations to the full Board with respect to governance of the Fund, selection and nomination of Trustees, compensation of Trustees, and related matters. The Governance Committee will consider recommendations for nominees from shareholders sent to the Secretary of the Trust, 200 Crescent Court, Suite 700, Dallas, Texas 75201. A nomination submission must include all information relating to the recommended nominee that is required to be disclosed in solicitations or proxy statements for the election of Trustees, as well as information sufficient to evaluate the recommended nominee' s ability to meet the responsibilities of a Trustee of the Trust. Nomination submissions must be accompanied by

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## Table of Contents

a written consent of the individual to stand for election if nominated by the Board of Trustees and to serve if elected by the shareholders, and such additional information must be provided regarding the recommended nominee as reasonably requested by the Governance Committee. The Governance Committee is comprised of all of the Fund's Trustees. The Governance Committee was established in June 2012 to replace the Nominating Committee and did not meet during the fiscal year ended September 30, 2012. The Nominating Committee met three times during the fiscal year ended September 30, 2012. Scott Kavanaugh acts as the Chairman of the Governance Committee.

*Litigation Committee.* The Litigation Committee's function is to seek to address any potential conflicts of interest among the Trust, the Adviser and the Sub-Adviser, as applicable, in connection with any potential or existing litigation or other legal proceeding relating to securities held by the Trust and the Adviser or Sub-Adviser or another client of the Adviser or Sub-Adviser, as applicable. The Litigation Committee is comprised of Messrs. Hui, Kavanaugh, Leary and Ward. The Litigation Committee met nine times during the fiscal year ended September 30, 2012. The Litigation Committee does not have a Chairman, although meetings of the Committee are chaired by an Independent Trustee.

*Qualified Legal Compliance Committee.* The Qualified Legal Compliance Committee ("QLCC") is charged with compliance with Rules 205.2(k) and 205.3(c) of Title 17 of the Code of Federal Regulations regarding alternative reporting procedures for attorneys representing the Trust who appear and practice before the SEC on behalf of the Trust. The QLCC is comprised of Messrs. Hui, Kavanaugh, Leary and Ward. The QLCC did not meet during the fiscal year ended September 30, 2012. The QLCC does not have a Chairman, although meetings of the Committee are chaired by an Independent Trustee.

The Trust does not have a lead Independent Trustee. As noted above, the Board's leadership structure features all of the Independent Trustees serving as members of each Board Committee. Inclusion of all Independent Trustees in the Committees allows them to participate in the full range of the Board's oversight duties, including oversight of the risk management process. In addition, although the Independent Trustees recognize that having a lead Independent Trustee may in some circumstances help coordinate communications with management and otherwise assist a board in the exercise of its oversight duties, the Independent Trustees believe that because of the relatively small size of the Board, the ratio of Independent Trustees to Interested Trustees and the good working relationship among the Board members, it has not been necessary to designate a lead Independent Trustee.

The Board periodically reviews its leadership structure, including the role of the Chairman. The Board also completes an annual self-assessment during which it reviews its leadership and committee structure and considers whether its structure remains appropriate in light of the Trust's current operations. The Board believes that its leadership structure, including having an Independent Trustee to serve as the Chairman and the current percentage of the Board who are Independent Trustees, is appropriate given its specific characteristics. These characteristics include: (i) the extent to which the work of the Board is conducted through the standing committees, each of whose meetings are chaired by an Independent Trustee; (ii) the extent to which the Independent Trustees meet as needed, together with their independent legal counsel, in the absence of members of management and members of the Board who are "interested persons" of the Trust; and (iii) Mr. Powell's position with the Adviser, which enhances the Board's understanding of the operations of the Adviser.

### *Board Oversight of Risk Management*

The Board's role is one of oversight, rather than active management. This oversight extends to the Trust's risk management processes. These processes are embedded in the responsibilities of officers of, and service providers to, the Trust. For example, the Adviser, the Sub-Adviser and other service providers to the Trust are primarily responsible for the management of the Trust's investment risks. The Board has not established a formal risk oversight committee; however, much of the regular work of the Board and its standing Committees addresses aspects of risk oversight. For example, the Trustees seek to understand the key risks facing the Trust, including those involving conflicts of interest; how management identifies and monitors these risks on an ongoing basis; how management develops and implements controls to mitigate these risks; and how management tests the effectiveness of those controls.

In the course of providing that oversight, the Board receives a wide range of reports on the Trust's activities from the Adviser, the Sub-Adviser and other service providers, including reports regarding the Fund's investment portfolios, the compliance of the Fund with

applicable laws, and the Fund's financial accounting and reporting. The Board also meets periodically with the Trust's Chief Compliance Officer to receive reports regarding the compliance of the Fund with the federal securities laws and the Trust's internal compliance policies and procedures, and meets with the Trust's Chief Compliance Officer periodically, including at least annually, to review the Chief Compliance Officer's annual report, including the Chief Compliance Officer's risk-based analysis for the Trust. The Board's Audit Committee also meets regularly with the Treasurer and Trust's independent registered public accounting firm to discuss, among other things, the internal control structure of the Trust's financial reporting function. The Board also meets periodically with the portfolio manager of the Fund to receive reports regarding the management of the Fund, including its investment risks.

## [Table of Contents](#)

### Share Ownership

The following table shows the dollar range of equity securities beneficially owned by the Trustees in the Fund and the aggregate dollar range of equity securities owned by the Trustees in all funds overseen by the Trustees in the Pyxis Fund Complex as of December 31, 2012.

Name of Trustee	Aggregate Dollar Range of Equity Securities	
	Pyxis Natural Resources Fund	Owned in All Funds Overseen by Trustee in the Pyxis Fund Complex
<b>Interested Trustee</b>		
Ethan Powell	None	\$50,001 - \$100,000
<b>Independent Trustees</b>		
Timothy K. Hui	None	\$1-\$10,000
Scott F. Kavanaugh	None	\$10,001-\$50,000
James F. Leary	None	\$50,001 - \$100,000
Bryan A. Ward	None	\$1-\$10,000

### Trustee Positions

As of December 31, 2012, no Independent Trustee nor any of his immediate family members owned beneficially or of record any class of securities of the Adviser, or Underwriter or any person controlling, controlled by or under common control with any such entities.

### Other Interests

In the third quarter of 2012, certain trusts of which members of James Dondero's family are beneficiaries (the "Family Trust") purchased approximately one million dollars of shares issued by First Foundation, Inc., a bank holding company of which Mr. Kavanaugh is the Vice-Chairman, President, Chief Executive Officer and Chief Operating Officer. Following this purchase, the Family Trust holds approximately three and a half million dollars, or less than 4%, of First Foundation, Inc. shares.

### Code of Ethics

The Fund and Pyxis have each adopted codes of ethics that essentially prohibit certain of their personnel, including the Fund's portfolio manager, from engaging in personal investments that compete or interfere with, or attempt to take advantage of a client's, including the Fund's, anticipated or actual portfolio transactions, and are designed to assure that the interests of clients, including Fund shareholders, are placed before the interests of personnel in connection with personal investment transactions. Under the codes of ethics of the Fund and Pyxis, personal trading is permitted by such persons subject to certain restrictions; however, they are generally required to pre-clear most securities transactions with the appropriate compliance officer and to report all transactions on a regular basis.

### Anti-Money Laundering Compliance

The Fund and its service providers may be required to comply with various anti-money laundering laws and regulations. Consequently, the Fund and its service providers may request additional information from you to verify your identity. If at any time the Fund believes a shareholder may be involved in suspicious activity or if certain account information matches information on government lists of suspicious persons, the Fund may choose not to establish a new account or may be required to "freeze" a shareholder's account. The Fund and its service providers also may be required to provide a governmental agency with information about transactions that have occurred in a shareholder's account or to transfer monies received to establish a new account, transfer an existing account or transfer the proceeds of an existing account to a governmental agency. In some circumstances, the Fund or its service providers may not be permitted to inform the shareholder that it has taken the actions described above.

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## **Table of Contents**

### **Investment Advisory Agreement**

Pyxis serves as the Fund's investment adviser pursuant to an Investment Advisory Agreement with the Fund. Pyxis is controlled by James Dondero and Mark Okada, by virtue of their respective share ownership, and its general partner, Strand Advisors, Inc., of which Mr. Dondero is the sole stockholder. Under the Investment Advisory Agreement, Pyxis, among other things: (i) continuously furnishes an investment program for the Fund; (ii) places orders for the purchase and sale of securities for the accounts of the Fund; and (iii) votes, exercises consents and exercises all other rights pertaining to such securities on behalf of the Fund. Pursuant to a separate administration agreement, Pyxis also provides certain administration services to the Fund. See "Administrator" below.

Pyxis will carry out its duties under the Investment Advisory Agreement at its own expense. The Fund will pay its own ordinary operating and activity expenses, such as legal and auditing fees, investment advisory fees, administrative fees, custodial fees, transfer agency fees, the cost of communicating with shareholders and registration fees, as well as other operating expenses such as interest, taxes, brokerage, insurance, bonding, compensation of Independent Trustees of the Fund and extraordinary expenses.

The Investment Advisory Agreement provides that in the absence of willful misfeasance, bad faith or gross negligence in the performance (or reckless disregard) of its obligations or duties thereunder on the part of Pyxis, Pyxis shall not be subject to liability to the Fund for any error of judgment or mistake of law or for any loss suffered by the Fund in connection with the matters to which the Investment Advisory Agreement relates.

### **Investment Advisory Fee**

Under the Investment Advisory Agreement with the Fund, Pyxis receives a monthly fee, computed and accrued daily, at the annual rate of 0.30% of the Average Daily Managed Assets of the Fund. "Average Daily Managed Assets" of the Fund means the average daily value of the total assets of the Fund, less all accrued liabilities of the Fund (other than the aggregate amount of any outstanding borrowings constituting financial average). The fund has not paid any advisory fees under the Investment Advisory Agreement.

### **Adviser of the Master Fund**

Ascendant is registered as an investment adviser under the Advisers Act. Ascendant was established in 1970 and is owned and controlled by Jim Lee. Ascendant serves as an investment adviser primarily for institutional and individual investors and mutual funds. Ascendant's principal office address is Four Oaks Place, 1330 Post Oak Blvd, Suite 1550, Houston, Texas 77056.

### **Participation Agreement**

Ascendant serves as the Master Fund's investment adviser pursuant to an Investment Advisory Agreement with the Master Fund and Ascendant. The Participation Agreement is not assignable and may be terminated without penalty by either Ascendant or Pyxis upon 60 days' written notice to the other, or by the Board, or by the vote of a majority of the outstanding voting securities of the Fund, on 60 days' written notice to Ascendant. The Participation Agreement provides for oversight of the investments of the Master Fund to be sure such investments continue to be appropriate for the Fund.

### **Securities Activities of Pyxis**

Securities held by the Fund also may be held by other funds or separate accounts for which Pyxis acts as an adviser. Because of different investment objectives or other factors, a particular security may be bought by Pyxis for one or more of its clients, when one or more other clients are selling the same security. If purchases or sales of securities for the Fund or other client of Pyxis arise for consideration at or about the same time, transactions in such securities will be made, insofar as feasible, for the Fund and other clients in a manner deemed equitable to all. To the extent that transactions on behalf of more than one client of Pyxis during the same period may increase the demand for securities being purchased or the supply of securities being sold, there may be an adverse effect on price.

On occasions when Pyxis (under the supervision of the Board) deems the purchase or sale of a security to be in the best interests of the Trust as well as other funds or accounts for which Pyxis acts as an adviser, it may, to the extent permitted by applicable laws and regulations, but will not be obligated to, aggregate the securities to be sold or purchased for the Trust with those to be sold or purchased for other funds or accounts in order to obtain favorable execution and low brokerage commissions. In that event, allocation of the

securities purchased or sold, as well as the expenses incurred in the transaction, will be made by Pyxis in the manner it considers to be most equitable and consistent with its fiduciary obligations to the Trust and to such other funds or accounts. In some cases this procedure may adversely affect the size the position obtainable for the Fund.

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## [Table of Contents](#)

### **Portfolio Manager - Other Accounts Managed**

The Fund's portfolio manager is Brian Mitts, and Todd Smurl is the portfolio manager of the Master Fund. The following table provides information about (i) the number of registered investment companies managed by the portfolio manager of the Fund on a day-to-day basis (excluding the Fund) and the corresponding total assets managed in such investment companies, (ii) the number of other pooled investment vehicles managed by the portfolio manager of the Fund on a day-to-day basis and the corresponding total assets managed in such pooled investment vehicles, (iii) the number of other accounts managed by the portfolio manager of the Fund on a day-to-day basis and the corresponding total assets managed in such other accounts, (iv) for each of the foregoing categories, the number of accounts and total assets in the accounts whose fees are based on performance, if any, and (v) the dollar range of the Fund's securities owned by the Fund's portfolio manager, if any. All information is provided as of September 30, 2012.

<b>Portfolio Managers</b>	<b>Other Registered Investment Companies</b>	<b>Other Pooled Investment Vehicles</b>	<b>Other Accounts</b>	<b>Dollar Range of Fund Securities Owned</b>
Brian Mitts	0	0 Pooled Investment Vehicles with \$0 in total assets managed.	0 Other Accounts with \$0 in total assets managed.	None
Todd Smurl, CFA	0	0 Pooled Investment Vehicles with \$0 in total assets managed.	9 Other Accounts with \$35 million in total assets managed.	None

### **Conflicts of Interest - Pyxis and Ascendant**

Because the portfolio managers may manage other accounts, including accounts that may pay higher fees, potential conflicts of interest exist, including potential conflicts between the investment strategy of the Fund and the investment strategy of other accounts the portfolio manager may manage and potential conflicts in the allocation of investment opportunities between the Fund and other accounts. Pyxis and Ascendant have policies and procedures in place that are reasonably designed to mitigate these conflicts of interest, which are also described below.

#### **Pyxis**

Pyxis and/or its general partner, limited partners, officers, affiliates and employees provide investment advice to other parties and manage other accounts and private investment vehicles similar to the Fund. In connection with such other investment management activities, Pyxis and/or its general partner, limited partners, officers, affiliates and employees may decide to invest the funds of one or more other accounts or recommend the investment of funds by other parties, rather than the Fund's monies, in a particular security or strategy. In addition, Pyxis and such other persons will determine the allocation of funds from the Fund and such other accounts to investment strategies and techniques on whatever basis they consider appropriate or desirable in their sole and absolute discretion.

Pyxis has built a professional working environment, a firm-wide compliance culture and compliance procedures and systems designed to protect against potential incentives that may favor one account over another. Pyxis has adopted policies and procedures that address the allocation of investment opportunities, execution of portfolio transactions, personal trading by employees and other potential conflicts of interest that are designed to ensure that all client accounts are treated equitably over time. Nevertheless, Pyxis furnishes advisory services to numerous clients in addition to the Fund, and Pyxis may, consistent with applicable law, make investment recommendations to other clients or accounts (including accounts that are hedge funds or have performance or higher fees paid to Pyxis or in which portfolio managers have a personal interest in the receipt of such fees) that may be the same as or different from those made to the Fund. In addition, Pyxis, its affiliates and any of their partners, directors, officers, stockholders or employees may or may not have an interest in the securities whose purchase and sale Pyxis recommends to the Fund. Actions with respect to securities of the same kind may be the same as or different from the action that Pyxis, or any of its affiliates, or any of their partners, directors, officers, stockholders or employees or any member of their families may take with respect to the same securities. Moreover, Pyxis may refrain from rendering any advice or services concerning securities of companies of which any of Pyxis's (or its affiliates') partners, directors, officers or employees are directors or officers, or companies as to which Pyxis or any of its affiliates or partners, directors, officers and

employees of any of them has any substantial economic interest or possesses material non-public information. In addition to its various policies and procedures designed to address these issues, Pyxis includes disclosure regarding these matters to its clients in both its Form ADV and investment advisory agreements.

Pyxis, its affiliates or their partners, directors, officers or employees similarly serve or may serve other entities that operate in the same or related lines of business. Accordingly, these individuals may have obligations to investors in those entities or funds or to other clients, the fulfillment of which might not be in the best interests of the Fund. As a result, Pyxis will face conflicts in the allocation of investment opportunities to the Fund and other funds and clients. In order to enable such affiliates to fulfill their fiduciary duties to each of the clients for which they have responsibility, Pyxis will endeavor to allocate investment opportunities in a fair and equitable manner which may, subject to applicable regulatory constraints, involve pro rata co-investment by the Fund and such other clients or may involve a rotation of opportunities among the Fund and such other clients.



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## **Table of Contents**

While Pyxis does not believe there will be frequent conflicts of interest, if any, Pyxis and its affiliates have both subjective and objective procedures and policies in place designed to manage the potential conflicts of interest between Pyxis' s fiduciary obligations to the Fund and their similar fiduciary obligations to other clients so that, for example, investment opportunities are allocated in a fair and equitable manner among the Fund and such other clients. An investment opportunity that is suitable for multiple clients of Pyxis and its affiliates may not be capable of being shared among some or all of such clients due to the limited scale of the opportunity or other factors, including regulatory restrictions imposed by the 1940 Act. There can be no assurance that Pyxis' s or its affiliates' efforts to allocate any particular investment opportunity fairly among all clients for whom such opportunity is appropriate will result in an allocation of all or part of such opportunity to the Fund. Not all conflicts of interest can be expected to be resolved in favor of the Fund.

### **Ascendant**

Ascendant may manage numerous accounts for multiple clients. These accounts may include registered investment companies, other types of pooled accounts (e.g. collective investment funds), and separate accounts (i.e., accounts managed on behalf of individuals or public or private institutions). Ascendant makes investment decisions for each account based on the investment objectives and policies and other relevant investment considerations applicable to that account.

When Ascendant has responsibility for managing more than one account, potential conflicts of interest may arise. Those conflicts could include preferential treatment of one account over others in terms of allocation of resources or of investment opportunities. For instance, Ascendant may receive fees from certain accounts that are higher than the fee it receives from the Fund, or it may receive a performance-based fee on certain accounts. In those instances, the portfolio manager may have an incentive to favor the higher and/or performance-based fee accounts over the Fund.

When allocating investments among client accounts, Ascendant has the fiduciary obligation to treat each client equally, regardless of account size or fees paid. All clients at the same custodian (or trading desk) receive the same average price for each transaction. When multiple trading desks or custodians are used to execute transactions, the portfolio managers execute the trades in such a fashion as to ensure no client grouping consistently received preferential treatment. When trades in the same security must be executed over multiple days, the portfolio managers execute the trades in a random order to ensure no client grouping consistently receives preferential treatment.

### **Portfolio Manager - Compensation**

Set forth below is a description of the structure of, and methods used to determine, portfolio manager compensation.

### **Pyxis**

Pyxis' s financial arrangements with its portfolio managers, its competitive compensation and its career path emphasis at all levels reflect the value senior management places on key resources. Compensation may include a variety of components and may vary from year to year based on a number of factors, including the pre-tax relative performance of a portfolio manager' s underlying account, the pre-tax combined performance of the portfolio manager' s underlying accounts, and the pre-tax relative performance of the portfolio manager' s underlying accounts measured against other employees. The principal components of compensation include a base salary, a discretionary bonus, various retirement benefits and one or more of the incentive compensation programs established by Pyxis, such as its "Short-Term Incentive Plan" and its "Long-Term Incentive Plan," described below.

*Base compensation.* Generally, portfolio managers receive base compensation based on their seniority and/or their position with Pyxis, which may include the amount of assets supervised and other management roles within Pyxis. Base compensation is determined by taking into account current industry norms and market data to ensure that Pyxis pays a competitive base compensation.

*Discretionary compensation.* In addition to base compensation, portfolio managers may receive discretionary compensation, which can be a substantial portion of total compensation. Discretionary compensation can include a discretionary cash bonus paid to recognize specific business contributions and to ensure that the total level of compensation is competitive with the market, as well as participation in incentive plans, including one or more of the following:

Short-Term Incentive Plan–The purpose of this plan is to attract and retain the highest quality employees for positions of substantial responsibility, and to provide additional incentives to a select group of management or highly-compensated employees of Pyxis in order to promote the success of Pyxis.

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## Table of Contents

Long-Term Incentive Plan—The purpose of this plan is to create positive morale and teamwork, to attract and retain key talent and to encourage the achievement of common goals. This plan seeks to reward participating employees based on the increased value of Pyxis.

Because each person's compensation is based on his or her individual performance, Pyxis does not have a typical percentage split among base salary, bonus and other compensation. Senior portfolio managers who perform additional management functions may receive additional compensation in these other capacities. Compensation is structured such that key professionals benefit from remaining with Pyxis.

### **Ascendant**

The Master Fund's portfolio manager receives a salary and may be eligible for a bonus based on the performance of the Ascendant. Mr. Smurl is also an equity owner of Ascendant, and therefore may share in Ascendant's profits.

### **Proxy Voting Policy and Procedures**

The Board has delegated the responsibility for voting proxies to Pyxis, in accordance with Pyxis's proxy voting policies and procedures ("Proxy Policy").

Pyxis proxy voting policies and procedures will be presented to the Board annually. Pyxis will notify the Board of any material change to its policy at the next regular Board meeting after the material change occurs.

Pyxis's proxy voting policy is attached as Appendix B.

### **Shareholder Servicing and Distribution Plan**

The Shareholder Servicing and Distribution Plan (the "Plan") requires the payment of a monthly service fee and distribution fee to Foreside Funds Distributors, LLC. (the "Distributor") at the rates set forth below for the Fund:

	<u>Distribution Fee</u>		<u>Service Fee</u>	
Class A	0.10	%	0.25	%*
Class C	0.75	%	0.25	%*
Class R	0.25	%	0.25	%*
Class Y	none		none	

\* The amounts paid under the Rule 12b-1 service fee plan may be used for distribution and/or shareholder service expenses. During the fiscal year ended September 30, 2012, the Fund did not pay any amounts for distribution and shareholder servicing. For the fiscal year ended September 30, 2012, the Fund did not pay any amounts under its 12b-1 Plan.

The Distributor may pay all or a portion of these fees to Financial Advisors whose clients own shares of the Fund. The Trustees of the Fund have concluded, in the exercise of their reasonable business judgment and in light of their fiduciary duties, that there is a reasonable likelihood that the Plan will benefit the Fund and its shareholders. For instance, asset growth resulting from the Plan can be expected to benefit the Fund's shareholders through the realization of economies of scale and potentially lower expense levels.

The Distributor may pay certain Financial Advisors whose clients own shares of the Fund monthly distribution or service fees with respect to a given share class at a rate greater than that set forth above, so long as the total payments paid by the Fund to the Distributor for each share class under the Plan for distribution or service fees do not exceed the stated percentages. In the event that there are insufficient assets in the Plan to make a contractually required payment to a Financial Advisor, the Adviser has agreed to pay such Financial Advisor at its own expense out of its own financial resources. See "Distribution and Service Fees" in the Prospectus for additional information on "revenue sharing" payments. The Distributor and the Adviser will agree not to make distribution payments to Financial Advisors from assets of the Plan in an amount exceeding the rates set forth above. Any shareholder purchasing shares of the Fund through a Financial Advisor should check with the Financial Advisor to determine the distribution fees it is receiving.

Under the Plan, the Trust pays the Distributor, with respect to the Fund: (1) for shareholder servicing (and for Class A and Class R shares – distribution services) provided to Class A, Class C and Class R shares of the Fund, an annual fee of 0.25% of the value of the average daily net assets attributed to Class A, Class C and Class R shares of the Fund, respectively; (2) for distribution services provided to Class A Shares of the Fund, an annual fee of 0.10% of the value of the average daily net assets of the Fund; (3) for distribution services provided to Class C shares of the Fund an annual fee of 0.75% of the value of the average daily net assets of the Fund; and (4) for

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## **Table of Contents**

distribution services provided to Class R shares of the Fund, an annual fee of 0.25% of the value of the average daily net assets attributed to the Class R shares of the Fund. These distribution and service fees may be voluntarily reduced on a temporary basis for certain share classes, and may return to their stated levels, at any time, without prior notice.

Under its terms, the Plan continues from year to year, provided its continuance is approved annually by vote of the Trust's Board, as well as by a majority of the Trustees who are not interested persons of the Trust and who have no direct or indirect financial interest in the operation of the Plan or in any agreements related to it (the "Independent Trustees"). The Plans may not be amended to increase materially the amount of the fees paid under the Plan with respect to the Fund without approval of shareholders of the Fund. In addition, all material amendments of the Plan must be approved by the Trustees and Independent Trustees in the manner described above. The Plan may be terminated with respect to the Fund at any time, without penalty, by vote of a majority of the Independent Trustees or by a vote of a majority of the outstanding voting securities of the Fund (as defined in the 1940 Act).

In addition, Pyxis and its affiliates, at their own expense and out of their own legitimate profits or other resources, pay additional compensation to certain authorized broker-dealers, investment advisers, financial advisers, retirement plan administrators, insurance companies, or other financial intermediaries that have entered into a distribution agreement, service agreement or other type of arrangement with Pyxis, the Distributor or the Fund ("Financial Advisors") for selling or servicing one or more class of Fund shares. Financial Advisors that receive these payments may be affiliated with Pyxis. Payments may relate to selling and/or servicing activities, such as: access to an Financial Advisors' customers or network; recordkeeping services; aggregating, netting and transmission of orders; generation of sales and other informational materials; individual or broad-based marketing and sales activities; wholesaling activities; conferences; retention of assets; new sales of Fund shares, and a wide range of other activities. Compensation amounts generally vary, and can include various initial and on-going payments. Additional compensation may also be paid to broker-dealers who offer the Fund as part of a special preferred-list or other preferred treatment program. Additional compensation creates a potential conflict of interest in the form of an additional financial incentive to a registered representative of a Financial Advisors to recommend the purchase of the Fund over another mutual fund or another investment option.

Pyxis does not direct the Fund's portfolio securities transactions, or provide any brokerage-related remuneration to, broker-dealers for promoting or selling Fund shares.

Pyxis and its affiliates also may pay financial consultants for products and/or services such as: (i) performance analytical software, (ii) attendance at, or sponsorship of, professional conferences, (iii) product evaluations and other types of investment consulting and (iv) asset/liability studies and other types of retirement plan consulting. Pyxis and its affiliates may also provide non-cash compensation to financial consultants, including occasional gifts, meals, or other entertainment. These activities may create, or could be viewed as creating, an incentive for such consultants or their employees or associated persons to recommend or sell shares of the Fund to their client investors. Firms and consultants that receive these various types of payments (including those affiliated with Pyxis) may have a conflict of interest in selling the Fund rather than other mutual funds to their client investors, particularly if these payments exceed the amounts paid by other mutual funds.

### **Custodian**

State Street Bank and Trust Company ("State Street"), located at 200 Clarendon Street, 16th Floor Boston, MA 02116, is the custodian for the Fund. State Street is responsible for holding all securities, other investments and cash, receiving and paying for securities purchased, delivering against payment securities sold, receiving and collecting income from investments, making all payments covering expenses and performing other administrative duties, all as directed by authorized persons. State Street does not exercise any supervisory function in such matters as purchase and sale of portfolio securities, payment of dividends or payment of expenses.

### **Administrator**

Pyxis will provide administration services, executive and other personnel necessary to administer the Fund and will furnish office space to the Fund. Pyxis will receive a monthly administration fee from the Fund, computed and accrued daily, at an annual rate of

0.20% of the Fund' s Average Daily Managed Assets. The Fund pays all expenses other than those paid by Pyxis, including but not limited to printing and postage charges and securities registration and custodian fees.

**Transfer Agent and Dividend Paying Agent**

Boston Financial Data Services Inc. (“BFDS”), located at 2000 Crown Colony Drive Quincy, Massachusetts 02169-09534, serves as the transfer agent of the Fund' s investments. As transfer agent, BFDS is responsible for processing purchase and redemption requests and crediting dividends to the accounts of shareholders of the Fund. For its services, BFDS receives monthly fees charged to the Fund, plus certain charges for securities transactions.

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## **Table of Contents**

### **Underwriter**

Foreside Funds Distributors, LLC., located at 400 Berwyn Park, 899 Cassatt Road, Berwyn, PA 19312, serves as the Fund's statutory underwriter and facilitates the distribution of the Fund's shares. The Underwriter will use all reasonable efforts in connection with distribution of shares of the Fund.

### **Certain Affiliations**

The Fund and Pyxis are currently affiliated with NexBank Securities, Inc. ("NexBank"), a FINRA member broker-dealer that is indirectly controlled by the principals of Pyxis. Absent an exemption from the SEC or other regulatory relief, the Fund is generally precluded from effecting certain principal transactions with affiliated brokers. The Fund may utilize affiliated brokers for agency transactions, subject to compliance with policies and procedures adopted pursuant to a 1940 Act rule. These policies and procedures are designed to provide that commissions, fees or other remuneration received by any affiliated broker or its affiliates for agency transactions are reasonable and fair compared to the remuneration received by other brokers in comparable transactions.

In addition to the affiliation with NexBank, the Fund and Pyxis are currently affiliated with Barrier Advisors, Inc. ("Barrier"), a restructuring and financial advisor, and Governance Re Ltd. ("Governance Re"), an insurance company, both of which are indirectly controlled by the principals of Pyxis. NexBank, Barrier and Governance Re may offer certain services to portfolio companies whose securities, including loans, are owned by one or more registered investment companies advised by Pyxis (the "Portfolio Companies"). For example, NexBank may provide agent services for Portfolio Companies under credit agreements pursuant to which the Fund may be a lender; Barrier may offer strategic, financial and operational advisory services to Portfolio Companies; and Governance Re may offer insurance services to the Portfolio Companies. NexBank, Barrier, Governance Re and other affiliated service providers may receive fees from Portfolio Companies or other parties for services provided.

With respect to the Fund, the Board will, in accordance with specific procedures and policies adopted by the Board, review any investment or operational decisions that are brought to the attention of the Board and that may present potential conflicts of interest between Pyxis and the Fund.

## **PROGRAMS FOR REDUCING OR ELIMINATING SALES CHARGES**

**Class A Shares.** Class A shares are sold at NAV per share plus a maximum initial sales charge imposed at the time of purchase as discussed in the Prospectus.

The following information supplements the discussion of methods for reducing or eliminating sales charges in the Prospectus.

### **Right of Accumulation**

Reduced sales charges on Class A shares of the Fund can be obtained by combining a current purchase with prior purchases of all classes of any Participating Funds (as defined in the Prospectus). The applicable sales charge is based on the combined total of:

1. the current purchase; and
2. the value at the public offering price at the close of business on the previous day of the Fund's and any Participating Fund's Class A shares held by the shareholder, the shareholder's spouse or the shareholder's minor children.

The Fund and the shareholder's Financial Advisor must be promptly notified of each purchase that entitles a shareholder to a reduced sales charge. Such reduced sales charge will be applied upon confirmation of the shareholder's holdings by the Transfer Agent. The Fund may terminate or amend this Right of Accumulation at any time without notice.

### **Letter of Intent**

Any person may qualify for reduced sales charges on purchases of Class A shares of the Fund made within a 13-month period pursuant to a Letter of Intent ("Letter"). A shareholder may include, as an accumulation credit toward the completion of such Letter, the

value of all shares (of any class) of any Participating Funds held by the shareholder on the date of the Letter. The value is determined at the public offering price on the date of the Letter. Purchases made through reinvestment of distributions do not count toward satisfaction of the Letter. Upon request, a Letter may reflect purchases within the previous 90 days.

During the term of a Letter, the Transfer Agent will hold shares in escrow to secure payment of the higher sales charge applicable to Class A shares actually purchased if the terms of the Letter are not satisfied. Dividends and capital gains will be paid on all escrowed shares, and these shares will be released (upon satisfaction of any amount owed for sales charges if the terms of the Letter are not satisfied) when the amount indicated has been purchased or at the end of the period covered by the Letter, whichever occurs first. A Letter does not obligate the investor to buy or the Fund to sell the amount specified in the Letter.



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## **Table of Contents**

If a shareholder exceeds the amount specified in the Letter and reaches an amount that would qualify for a further quantity discount, a retroactive price adjustment will be made at the time of expiration of the Letter. The resulting difference in offering price will purchase additional shares for the shareholder's account at the applicable offering price. As a part of this adjustment, the shareholder's Financial Advisor shall return to the Fund the excess commission previously paid to the Financial Advisor during the 13-month period.

If the amount specified in the Letter is not purchased, the shareholder shall remit to the Fund an amount equal to the difference between the sales charge paid and the sales charge that should have been paid. If the shareholder fails within 20 days after a written request to pay such a difference in sales charge, the Transfer Agent will redeem that number of escrowed Class A shares to equal such difference. The additional amount of Financial Advisor discount from the applicable offering price shall be remitted by the Fund to the shareholder's Financial Advisor of record.

Additional information about, and the terms of, Letters of Intent are available from your Financial Advisor, or from the Transfer Agent at (877) 665-1287.

### **Reinstatement Privilege**

A shareholder who has redeemed Class A or Class C shares of the Fund may, upon request, reinstate within one year a portion or all of the proceeds of such sale in Class A shares or Class C shares, respectively, of the Fund or another Participating Fund at the NAV next determined after receipt by such shareholder's Financial Advisor or the Transfer Agent of a reinstatement request and payment. The Fund will not pay your Financial Advisor a commission on any reinvested amount. Any contingent deferred sales charges ("CDSC") paid at the time of the redemption will be credited to the shareholder upon reinstatement. The period between the redemption and the reinstatement will not be counted in aging the reinstated shares for purposes of calculating any CDSC or conversion date. Shareholders who desire to exercise this privilege should contact their Financial Advisor or the Transfer Agent. Shareholders may exercise this privilege an unlimited number of times. Exercise of this privilege does not alter the U.S. federal income tax treatment of any capital gains realized on the prior sale of Fund shares, but to the extent any such shares were sold at a loss, some or all of the loss may be disallowed for tax purposes. Please consult your tax advisor.

### **Privileges of Financial Advisors**

Class A shares of the Fund may be sold at NAV, without a sales charge, to registered representatives and employees of Financial Advisors (including their affiliates) and such persons' families and their beneficial accounts.

### **Sponsored Arrangements**

Class A shares of the Fund may be purchased at reduced or no sales charge pursuant to sponsored arrangements, which include programs under which an organization makes recommendations to, or permits group solicitation of, its employees, members or participants in connection with the purchase of shares of the Fund on an individual basis. The amount of the sales charge reduction will reflect the anticipated reduction in sales expense associated with sponsored arrangements. The reduction in sales expense, and therefore the reduction in sales charge, will vary depending on factors such as the size and stability of the organization's group, the term of the organization's existence and certain characteristics of the members of its group. The Fund reserves the right to revise the terms of or to suspend or discontinue sales pursuant to sponsored plans at any time.

Class A shares may also be purchased at a reduced or zero sales charge by (i) clients of Financial Advisors that have entered into agreements with the Distributor or the Fund pursuant to which the Fund is included as an investment option in programs involving fee-based compensation arrangements; (ii) clients of Financial Advisors that have entered into agreements with the Underwriter pursuant to which such Financial Advisor offers Fund shares through self-directed investment brokerage accounts that do not charge transaction fees to its clients; and (iii) participants in certain retirement plans.

**Class C Shares.** Class C shares will be offered at their net asset value per share next determined after a purchase order is received, without imposition of an initial sales charge. Class C shares are sold subject to a maximum 1.00% CDSC applicable for one year after purchase as disclosed in the Prospectus.

The CDSC is calculated by multiplying the CDSC percentage by the lesser of the share class' net asset value of the block of shares being redeemed at the time of their purchase or its net asset value at the time of redemption. To ensure that you pay the lowest CDSC possible, the Fund uses the shares with the lowest CSDC to fill your redemption requests.

Class C shares do not convert to Class A shares after a specified period of time.

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## **Table of Contents**

Trail commissions of up to 1.00% may be paid to Financial Advisors that provide on-going services with respect to Class C shares.

**Class R Shares.** Class R shares will be offered at their net asset value per share next determined after a purchase order is received, without the imposition of an initial sales charge or CDSC. Trail commissions of up to 0.50% may be paid to Financial Advisors that provide on-going services with respect to Class R shares.

**Class Y Shares.** Class Y shares will be offered without the imposition of a sales charge, CDSC, or a distribution and service fee (Rule 12b-1 fee).

### ***Purchases Through Financial Advisors***

Class A, Class C, Class R and Class Y shares of the Fund are currently available to clients and customers of Financial Advisors as provided above. Certain features of the Fund, such as initial and subsequent investment minimums, redemption fees and certain operational procedures, may be modified or waived subject to agreement with or among the Trust, Pyxis or the Distributor and such Financial Advisors. Financial Advisors may impose transaction or administrative charges or other direct fees, which charges or fees would not be imposed if Fund shares are purchased or redeemed directly from the Trust or the Distributor. Therefore, a client or customer should contact their investment adviser and/or Financial Advisors acting on his or her behalf concerning the fees (if any) charged in connection with a purchase or redemption of Fund shares and should read the Prospectus in light of the terms governing his or her account with the Financial Advisor. Financial Advisors will be responsible for promptly reporting client or customer purchase and redemption orders to the Trust in accordance with their agreements with their clients or customers and their agreements with or among the Trust, Pyxis or the Distributor.

### **CDSCs**

A CDSC payable to the Fund is imposed on certain redemptions of Class A and Class C shares of the Fund, however effected. Class A and Class C shares that are redeemed will not be subject to a CDSC to the extent that the value of such shares represents (1) shares that were purchased more than a fixed number of years prior to the redemptions, (2) reinvestment of dividends or capital gains distributions, or (3) capital appreciation of shares redeemed. The amount of any applicable CDSC will be calculated by multiplying the applicable percentage charge by the lesser of (1) the net asset value of the Class A or Class C shares at the time of purchase or (2) the net asset value of the Class A or Class C shares at the time of redemption. The CDSC on Class A and Class C shares is 1% for redemptions only during the first year after purchase and Class A and Class C shares have no automatic conversion feature.

In determining the applicability and rate of any CDSC to a redemption of shares of the Fund, the Fund will assume that a redemption is made first of shares representing reinvestment of dividends and capital gain distributions and then of other shares held by the shareholder for the longest period of time. This assumption will result in the CDSC, if any, being imposed at the lowest possible rate.

### **Waiver of CDSCs**

CDSCs may be waived on redemptions in the following situations with the proper documentation:

1. **Death.** CDSCs may be waived on redemptions within one year following the death of (i) the sole shareholder on an individual account, (ii) a joint tenant where the surviving joint tenant is the deceased' s spouse or (iii) the beneficiary of a Uniform Gifts to Minors Act ("UGMA"), Uniform Transfers to Minors Act ("UTMA") or other custodial account. If, upon the occurrence of one of the foregoing, the account is transferred to an account registered in the name of the deceased' s estate, the CDSC will be waived on any redemption from the estate account occurring within one year after the death. If Class C Shares are not redeemed within one year of the death, they will remain subject to the applicable CDSC when redeemed from the transferee' s account. If the account is transferred to a new registration and then a redemption is requested, the applicable CDSC will be charged.
2. **Disability.** CDSCs may be waived on redemptions occurring within one year after the sole shareholder on an individual account or a joint tenant on a spousal joint tenant account becomes disabled (as defined in Section 72(m)(7) of the Code. To

be eligible for such waiver, (i) the disability must arise *after* the purchase of shares, (ii) the disabled shareholder must have been under age 65 at the time of the initial determination of disability, and (iii) a letter must be produced from a physician signed under penalty of perjury stating the nature of the disability. If the account is transferred to a new registration and then a redemption is requested, the applicable CDSC will be charged.

3. Death of a trustee. CDSCs may be waived on redemptions occurring upon dissolution of a revocable living or grantor trust following the death of the sole trustee where (i) the grantor of the trust is the sole trustee and the sole life beneficiary, (ii) death

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## Table of Contents

occurs following the purchase, and (iii) the trust document provides for dissolution of the trust upon the trustee's death. If the account is transferred to a new registration (including that of a successor trustee), the applicable CDSC will be charged upon any subsequent redemption.

4. Returns of excess contributions. CDSCs may be waived on redemptions required to return excess contributions made to retirement plans or individual retirement accounts, so long as the Financial Advisor agrees to return all or the agreed-upon portion of the commission received on the shares being redeemed.
5. Qualified Retirement Plans. CDSCs may be waived on redemptions required to make distributions from qualified retirement plans following normal retirement age (as stated in the document).

The CDSC also may be waived if the Financial Advisor agrees to return all or an agreed-upon portion of the commission received on the sale of the shares being redeemed.

### **DIVIDENDS AND DISTRIBUTIONS**

Dividends paid by the Fund to a shareholder that are derived from net investment income or net realized long- and short-term capital gains will be automatically reinvested in additional shares of the same Class of the Fund and deposited in the shareholder's account, unless the shareholder instructs the Trust, in writing or by telephone, to pay all dividends and distributions in cash. Shareholders may contact the Trust for details concerning this election. However, if it is determined that the U.S. Postal Service cannot properly deliver Fund mailings to a shareholder, the Fund may terminate the shareholder's election to receive dividends and other distributions in cash. Thereafter, the shareholder's subsequent dividends and other distributions will be automatically reinvested in additional shares of the Fund until the shareholder notifies the Fund in writing of his or her correct address and requests in writing that the election to receive dividends and other distributions in cash be reinstated. No interest will accrue on amounts represented by uncashed dividend, distribution or redemption checks.

The Fund intends to declare and pay dividends attributable to any net investment income and any net realized long-term and short-term capital gains earned by the Fund annually.

The Fund is subject to a 4% excise tax on net investment income and net capital gains that are not distributed on a calendar-year basis. To avoid this tax or Fund-level U.S. federal income taxes, the Fund may pay dividends of net investment income and net capital gains more frequently than annually. See "Income Tax Considerations" below.

### **INCOME TAX CONSIDERATIONS**

The following discussion of U.S. federal income tax consequences of investment in the Fund is based on the Code, U.S. Treasury regulations, and other applicable authority, as of the date of this SAI. These authorities are subject to change by legislative, administrative, or judicial action, possibly with retroactive effect. The following discussion is only a summary of some of the important U.S. federal tax considerations generally applicable to investments in the Fund. There may be other tax considerations applicable to particular shareholders. Shareholders should consult their own tax advisers regarding their particular situation and the possible application of U.S. federal, state, local, foreign and other tax laws.

As described earlier, the Fund seeks to achieve its investment objective by investing substantially all of its assets in the Master Fund, which intends to be treated as a partnership for U.S. federal tax purposes. Accordingly, the character, timing, and amount of the Fund's income, gain, loss, deduction and other tax items generally is determined at the Master Fund level and the Fund is allocated and is required to take into account for U.S. federal income tax purposes, its share of the Master Fund's income, gain, loss, deduction, and other tax items for each taxable year substantially as though such items had been realized directly by the Fund and without regard to whether the Master Fund distributes any cash to the Fund. Accordingly, references in this "Income Tax Considerations" section to income, gains, losses, or other tax items of the Fund will generally be to income, gains, losses, or other tax items of the Master Fund and allocated to or otherwise taken into account by the Fund. See "Tax Implications of Investment in the Master Fund" below for more information.

### Taxation of the Fund

The Fund has elected to be treated as a regulated investment company (“RIC”) under Subchapter M of the Code and intends each year to qualify and to be eligible to be treated as such. In order to qualify for the special tax treatment accorded RICs and their shareholders, the Fund must, among other things:

(a) derive at least 90% of its gross income for each taxable year from (i) dividends, interest, payments with respect to certain securities loans, and gains from the sale or other disposition of stock, securities or foreign currencies, or other income (including but not limited to gains from options, futures or forward contracts) derived with respect to its business of investing in such stock, securities or currencies and (ii) net income derived from interests in “qualified publicly traded partnerships” (as described below);

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## Table of Contents

(b) diversify its holdings so that, at the end of each quarter of the Fund' s taxable year, (i) at least 50% of the market value of the Fund' s total assets consists of cash and cash items, U.S. government securities, securities of other RICs, and other securities limited in respect of any one issuer to a value not greater than 5% of the value of the Fund' s total assets and not more than 10% of the outstanding voting securities of such issuer, and (ii) not more than 25% of the value of the Fund' s total assets is invested (x) in the securities (other than those of the U.S. government or other RICs) of any one issuer or of two or more issuers that the Fund controls and that are engaged in the same, similar or related trades or businesses, or (y) in the securities of one or more qualified publicly traded partnerships (as described below); and

(c) distribute with respect to each taxable year at least 90% of the sum of its investment company taxable income (as that term is defined in the Code without regard to the deduction for dividends paid—generally taxable ordinary income and the excess, if any, of net short-term capital gains over net long-term capital losses) and net tax-exempt income, for such year.

In general, for purposes of the 90% gross income requirement described in (a) above, income derived from a partnership, such as the Master Fund, will be treated as qualifying income only to the extent such income is attributable to items of income of the partnership which would be qualifying income if realized directly by the RIC. However, 100% of the net income derived from an interest in a “qualified publicly traded partnership” (a partnership (x) the interests in which are traded on an established securities market or are readily tradable on a secondary market or the substantial equivalent thereof, and (y) that derives less than 90% of its income from the qualifying income sources described in paragraph (a)(i) above) will be treated as qualifying income. In general, such entities will be treated as partnerships for U.S. federal income tax purposes because they meet the passive income requirement under Code Section 7704(c)(2). For purposes of meeting the diversification requirement described in (b) above, term “outstanding voting securities of such issuer” will include the equity securities of a qualified publicly traded partnership. The Master Fund is not expected to be a qualified publicly traded partnership.

The Fund intends to treat itself as holding directly its share of the underlying assets of the Master Fund for purposes of the diversification test in paragraph (b) above. See “Tax Implications of Investment in the Master Fund” below. Also, for purposes of the diversification requirement described in (b) above, the identification of the issuer (or, in some cases, issuers) of a particular Fund investment can depend on the terms and conditions of that investment. In some cases, identification of the issuer (or issuers) is uncertain under current law, and an adverse determination or future guidance by the Internal Revenue Service (“IRS”) with respect to issuer identification for a particular type of investment may adversely affect the Fund' s ability to meet diversification test in (b) above.

If the Fund qualifies as a RIC that is accorded special tax treatment, that Fund will not be subject to U.S. federal income tax on income distributed in a timely manner to its shareholders in the form of dividends (including Capital Gain Dividends, as defined below).

If the Fund were to fail to meet the income, diversification or distribution test (described respectively in (a), (b) and (c) above), the Fund could in some cases cure such failure, including by paying a Fund-level tax, paying interest, making additional distributions or disposing of certain assets. If the Fund were ineligible to or otherwise did not cure such failure for any taxable year, or if the Fund were otherwise to fail to qualify as a RIC accorded special tax treatment for such year, the Fund would be subject to tax on its taxable income at corporate rates, and all distributions from earnings and profits, including any distributions of net long-term capital gains, would be taxable to shareholders as ordinary income. Some portions of such distributions might be eligible for the dividends received deduction in the case of corporate shareholders and to be treated as “qualified dividend income” and thus taxable at the lower long-term capital gain rate in the case of shareholders taxed as individuals, provided in both cases, the shareholder meets certain holding period and other requirements in respect of the Fund' s shares (as described below). In addition, the Fund could be required to recognize unrealized gains, pay substantial taxes and interest and make substantial distributions before requalifying as a RIC that is accorded special tax treatment.

The Fund intends to distribute at least annually to its shareholders all or substantially all of its investment company taxable income (computed without regard to the dividends-paid deduction) and its net capital gain. Any investment company taxable income or net capital gain retained by the Fund will be subject to Fund-level tax at regular corporate rates. If the Fund retains any net capital gain, it may designate the retained amount as undistributed capital gain in a timely notice to its shareholders who would then, in turn, be (i) required to include in income for U.S. federal income tax purposes, as long-term capital gain, their shares of such undistributed amount, and (ii) entitled to credit their proportionate shares of the tax paid by that Fund on such undistributed amount against their U.S.

federal income tax liabilities, if any, and to claim refunds on a properly-filed U.S. tax return to the extent the credit exceeds such liabilities. If the Fund makes this designation, for U.S. federal income tax purposes, the tax basis of shares owned by a shareholder of the Fund would be increased by an amount equal under current law to the difference between the amount of undistributed capital gains included in the shareholder's gross income under clause (i) of the preceding sentence and the tax deemed paid by the shareholder under clause (ii) of the preceding sentence. The Fund is not required to, and there can be no assurance the Fund will, make this designation if it retains all or a portion of its net capital gain in a taxable year.



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## Table of Contents

In determining its net capital gain, including in connection with determining the amount available to support a Capital Gain Dividend (as defined below), its taxable income and its earnings and profits, the Fund generally may elect to treat part or all of any post-October capital loss (defined as the greatest of net capital loss, net long-term capital loss or net short-term capital loss, in each case attributable to the portion of the taxable year after October 31) or late-year ordinary loss (generally, (i) net ordinary loss from the sale, exchange or other taxable disposition of property, attributable to the portion of the taxable year after October 31, plus (ii) other net ordinary loss attributable to the portion of the taxable year after December 31) as if incurred in the succeeding taxable year.

If the Fund were to fail to distribute in a calendar year at least an amount equal to the sum of 98% of its ordinary income for such year and 98.2% of its capital gain net income for the one-year period ending October 31 of such year, plus any such amounts retained from the prior year, the Fund would be subject to a nondeductible 4% excise tax on the undistributed amounts. For purposes of the required excise tax distribution, the Fund's ordinary gains and losses from the sale, exchange or other taxable disposition of property that would otherwise be taken into account after October 31 of a calendar year generally are treated as arising on January 1 of the following calendar year. Also for these purposes, the Fund will be treated as having distributed any amount on which it has been subject to corporate income tax in the taxable year ending within the calendar year. A dividend paid to shareholders in January of a year generally is deemed to have been paid by the Fund on December 31 of the preceding year, if the dividend was declared and payable to shareholders of record on a date in October, November or December of that preceding year. The Fund intends generally to make distributions sufficient to avoid imposition of the 4% excise tax, although there can be no assurance that it will be able to do so. In that event, the Fund will be liable for the excise tax only on the amount by which it does not meet the foregoing distribution requirement.

The Fund distributes its net investment income and capital gains to shareholders as dividends at least annually to the extent required to qualify as a RIC under the Code and generally to avoid U.S. federal income or excise tax. Under current law, the Fund may treat the portion of redemption proceeds paid to redeeming shareholders that represents the redeeming shareholders' portion of the undistributed investment company taxable income and capital gain of that Fund as a distribution of investment company taxable income and net capital gain on that Fund's tax return. This practice, which involves the use of equalization accounting, will reduce the amount of income and gains that the Fund is required to distribute as dividends to shareholders in order for that Fund to avoid U.S. federal income tax and excise tax, which may include reducing the amount of distributions that otherwise would be required to be paid to non-redeeming shareholders. The Fund's net asset value generally will not be reduced by the amount of any undistributed income or gains allocated to redeeming shareholders under this practice and thus the total return on a shareholder's investment generally will not be reduced as a result of this practice.

Capital losses in excess of capital gains ("net capital losses") are not permitted to be deducted against the Fund's net investment income. Instead, potentially subject to certain limitations as described below, the Fund may carry net capital losses forward to subsequent taxable years to offset capital gains, if any, realized during such subsequent taxable year. Capital loss carryforwards are reduced to the extent they offset current-year net realized capital gains, whether the Fund retains or distributes such gains. If the Fund incurs or has incurred net capital losses, those losses will be carried forward to one or more subsequent taxable years without expiration to offset capital gains realized during such subsequent taxable years; any such carryforward losses will retain their character as short-term or long-term. The Fund's ability to use net capital losses to offset gains may be limited as a result of certain (i) acquisitive reorganizations and (ii) shifts in the ownership of the Fund by a shareholder owning or treated as owning 5% or more of the stock of the Fund. The Fund's available capital loss carryforwards will be set forth in its annual shareholder report for each fiscal year.

### Fund Distributions

Distributions are taxable whether shareholders receive them in cash or reinvest them in additional shares.

The Fund will send you information after the end of each calendar year setting forth the amount and tax status of any distributions paid to you by the Fund. Ordinary income dividends and Capital Gain Dividends (defined below) may also be subject to state, local or other taxes.

For U.S. federal income tax purposes, distributions of investment income are generally taxable to shareholders as ordinary income. Taxes on distributions of capital gains are determined by how long the Fund or Master Fund, as applicable, owned the investments that

generated them, rather than how long a shareholder has owned his or her shares. In general, the Fund will recognize long-term capital gain or loss on investments owned for more than one year, and short-term capital gain or loss on investments for one year or less. Distributions of net capital gain (that is, the excess of net long-term capital gain over net short-term capital loss, in each case determined with reference to loss carryforwards) that are properly reported by the Fund as capital gain dividends (“Capital Gain Dividends”) will be taxable to shareholders as long-term capital gains includible in and at the rates applicable to net capital gain.

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## Table of Contents

Distributions of net short-term capital gain (as reduced by any net long-term capital loss for the taxable year, in each case determined with reference to loss carryforwards) will be taxable to shareholders as ordinary income. Distributions of investment income reported by the Fund as derived from “qualified dividend income” will be taxed in the hands of individuals at the rates applicable to net capital gain, provided holding period and other requirements are met at both the shareholder and Fund level.

In order for some portion of the dividends received by the Fund shareholder to be “qualified dividend income,” the Master Fund must meet holding period and other requirements with respect to some portion of the dividend-paying stocks in its portfolio and the shareholder must meet holding period and other requirements with respect to the Fund’ s shares. A dividend will not be treated as qualified dividend income (at either the Master Fund or shareholder level) (1) if the dividend is received with respect to any share of stock held for fewer than 61 days during the 121-day period beginning on the date which is 60 days before the date on which such share becomes ex-dividend with respect to such dividend (or, in the case of certain preferred stock, 91 days during the 181-day period beginning 90 days before such date), (2) to the extent that the recipient is under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property, (3) if the recipient elects to have the dividend income treated as investment income for purposes of the limitation on deductibility of investment interest, or (4) if the dividend is received from a foreign corporation that is (a) not eligible for the benefits of a comprehensive income tax treaty with the United States (with the exception of dividends paid on stock of such a foreign corporation readily tradable on an established securities market in the United States) or (b) treated as a passive foreign investment company.

In general, distributions of investment income designated by the Fund as derived from qualified dividend income will be treated as qualified dividend income by a shareholder taxed as an individual, provided the shareholder meets the holding period and other requirements described above with respect to the Fund’ s shares. If the aggregate dividends allocated to the Fund by the Master Fund during any taxable year are 95% or more of the Fund’ s gross income (excluding long-term capital gain over net short-term capital loss), then 100% of the Fund’ s dividends (other than dividends properly designated as Capital Gain Dividends) will be eligible to be treated as qualified dividend income.

Dividends of net investment income received by corporate shareholders of the Fund generally will qualify for the 70% dividends-received deduction generally available to corporations to the extent of the amount of eligible dividends received by the Master Fund from domestic corporations for the taxable year and allocated to the Fund. A dividend received by the Master Fund will not be treated as a dividend eligible for the dividends-received deduction (1) if it has been received with respect to any share of stock that the Master Fund has held for less than 46 days (91 days in the case of certain preferred stock) during the 91-day period beginning on the date which is 45 days before the date on which such share becomes ex-dividend with respect to such dividend (during the 181-day period beginning 90 days before such date in the case of certain preferred stock) or (2) to the extent that the Master Fund is under an obligation (pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property. Moreover, the dividends-received deduction may otherwise be disallowed or reduced (1) if the corporate shareholder fails to satisfy the foregoing requirements with respect to its shares of the Fund or (2) by application of the Code (for instance, the dividends-received deduction is reduced in the case of a dividend received on debt-financed portfolio stock (generally, stock acquired with borrowed funds)).

If the Master Fund receives dividends from an Underlying Fund that qualifies as a RIC and the Underlying Fund reports such dividends as qualified dividend income or as eligible for the dividends-received deduction, then the Fund is permitted in turn to report a portion of its distributions as qualified dividend income or as eligible for the dividends received deduction, as applicable, provided the Master Fund meets holding period and other requirements with respect to shares of the Underlying Fund.

Any distribution of income that is attributable to (i) income received by the Master Fund in lieu of dividends with respect to securities on loan pursuant to a securities lending transaction or (ii) dividend income received by the Master Fund on securities it temporarily purchased from a counterparty pursuant to a repurchase agreement that is treated for U.S. federal income tax purposes as a loan by the Master Fund, will not constitute qualified dividend income to individual shareholders and will not be eligible for the dividends-received deduction for corporate shareholders.

In addition, for taxable years beginning on or after January 1, 2013, Section 1411 of the Code generally imposes a 3.8% Medicare contribution tax on the net investment income of certain individuals whose income exceeds certain threshold amounts, and of certain

trusts and estates under similar rules. The details of the implementation of this tax and of the calculation of net investment income, among other issues, are currently unclear and remain subject to future guidance. For these purposes, “net investment income” generally includes, among other things, (i) distributions paid by the Fund of net investment income and capital gains as described above, and (ii) any net gain from the sale, exchange or other taxable disposition of Fund shares. Shareholders are advised to consult their tax advisors regarding the possible implications of this additional tax on their investment in the Fund.

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## Table of Contents

### Return of Capital Distributions

If the Fund makes a distribution with respect to any taxable year to a shareholder in excess of the Fund's current and accumulated earnings and profits, the excess distribution will be treated as a return of capital to the extent of such shareholder's tax basis in its shares, and thereafter as capital gain. A return of capital is not taxable, but it reduces a shareholder's tax basis in its shares, thus reducing any loss or increasing any gain on a subsequent taxable disposition by the shareholder of its shares.

Dividends and distributions on the Fund's shares are generally subject to U.S. federal income tax as described herein to the extent they do not exceed the Fund's realized income and gains, even though such dividends and distributions may economically represent a return of a particular shareholder's investment. Such distributions are likely to occur in respect of shares purchased at a time when the Fund's net asset value reflects either unrealized gains or realized but undistributed income or gains that were therefore included in the price that the shareholder paid. Such distributions may reduce the net asset value of the Fund's shares below the shareholder's cost basis in those shares. As described above, the Fund is required to distribute realized income and gains regardless of whether that Fund's net asset value also reflects unrealized losses.

### Tax Implications of Investment in the Master Fund

Special tax considerations apply to the Fund's investment in the Master Fund. Because the Fund intends to invest substantially all of its assets in the Master Fund, which intends to be treated as a partnership for U.S. federal tax purposes, the Fund's ability to satisfy the 90% gross income requirement described earlier for qualification as a RIC largely depends on the investment portfolio and related activities of the Master Fund and the ability of the Master Fund's investments to generate qualifying income for purposes of this test. Similarly, the Fund's ability to satisfy the asset diversification requirement described earlier for qualification as a RIC depends on the Fund's ability to treat the investments of the Master Fund as investments of the Fund under current law. If the Fund were unable to treat the investments of the Master Fund as investments of the Fund, the Fund would fail to qualify as a RIC and, if it were ineligible to or otherwise did not cure such failure, would be subject to Fund-level U.S. federal income taxes on its income and gains as described earlier. In order to enable the Fund and other feeder funds that are RICs to invest in the Master Fund, the Master Fund is expected to conduct its investment activities in a manner so as to independently satisfy the 90% gross income test and asset diversification test.

For U.S. federal income tax purposes, the Fund generally will be allocated its distributive share (as determined in accordance with the governing instruments of the Master Fund, as well as with the Code, the Treasury regulations thereunder, and other applicable authority) of the income, gain, loss, deduction, credit, and other tax items of the Master Fund so as to reflect the Fund's interest in the Master Fund. The Fund will be required to include in its income its share of the Master Fund's tax items, including income, gain, deduction, or loss, for any taxable year regardless of whether or not the Master Fund distributes any cash to the Fund in such year. From time to time, the Fund may be required to redeem a portion of its interest in the Master Fund (including when it may not be advantageous to do so) in order to obtain sufficient cash to satisfy its annual RIC distribution requirements (described above) and to otherwise avoid Fund-level federal income and excise taxes.

The Master Fund is a series of the Northern Lights Fund Trust, a Delaware statutory trust. As noted above, for U.S. federal tax purposes, the Master Fund is expected to be treated as a partnership and not as an association taxable as a corporation and is not expected to be a "publicly traded partnership" (as defined in Section 7704 of the Code). In this regard, in view of the treatment of its assets and liabilities under the Northern Lights Fund Trust's Amended Agreement and Declaration of Trust, Delaware statutory trust law (which contemplates separate series) and proposed Treasury Regulations, the Master Fund treats itself as a separate business entity from the other series of the Northern Lights Fund Trust, including any other series that have similarly elected to be partnerships for tax purposes, that should not be required to take into account the assets, operations or shareholders of other series of the Northern Lights Fund Trust for U.S. federal income tax purposes (e.g., for purposes of determining possible characterization as a publicly traded partnership that is taxable as a corporation). If the Master Fund's treatment as a separate partnership for tax purposes were not to be respected, the Fund may fail to qualify as a RIC or may otherwise be adversely affected by this recharacterization. This discussion assumes that the Master Fund will be classified as a partnership for U.S. federal income tax purposes that is separate from each other series of the Northern Lights Fund Trust.

See “Tax Implications of Certain Underlying Investments” below for more information about the tax implications to the Fund of its investment in the Master Fund.

The Fund’s receipt of cash distributions from the Master Fund generally will represent a nontaxable return of capital to the Fund up to the amount of the Fund’s adjusted tax basis in its interest in the Master Fund. A cash distribution in partial or complete redemption of the Fund’s interest in the Master Fund is generally taxable to the Fund as a sale or exchange only to the extent the amount of cash received by the Fund exceeds the Fund’s adjusted tax basis in its interest in the Master Fund. Any loss may be recognized by the Fund only if it redeems its entire interest in the Master Fund for cash. Any gain recognized generally will be treated by the Fund as ordinary income, rather than capital gain, to the extent the Fund’s share of the Master Fund’s “unrealized receivables” (including any accrued but

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## [Table of Contents](#)

untaxed market discount) and "substantially appreciated inventory," if any, exceeds the Fund's share of the basis in those unrealized receivables and substantially appreciated inventory. The Fund generally will not recognize gain or loss on an in-kind distribution of property from the Master Fund, including on an in-kind redemption of its Master Fund interest. However, certain exceptions to this general rule may apply.

### Tax Implications of Certain Underlying Investments

Income received by the Master Fund from sources within foreign countries may be subject to withholding and other taxes imposed by such countries. These withholding and other taxes will decrease the Master Fund's yield on the securities subject to such taxes. Tax treaties between certain countries and the U.S. may reduce or eliminate such taxes. The Fund generally does not expect to be eligible to elect to pass through to shareholders a credit or deduction for foreign taxes paid by the Master Fund.

Any equity investments by the Master Fund in certain "passive foreign investment companies" ("PFICs") could potentially subject the Fund, due to its interest in the Master Fund, to a U.S. federal income tax (including interest charges) on distributions received by the Master Fund from the PFIC or on proceeds received by the Master Fund from the disposition of its shares in the PFIC. This tax cannot be eliminated by making distributions to Fund shareholders. However, the Master Fund may elect to avoid the imposition of that tax. For example, the Master Fund may elect to treat a PFIC as a "qualified electing fund" (i.e., make a "QEF election"), in which case the Master Fund will be required to include its share of the PFIC's income and net capital gains annually, regardless of whether it receives any distribution from the PFIC. If a particular PFIC's shares are "marketable stock," the Master Fund also may make an election to mark the gains (and to a limited extent losses) in such holdings "to the market" as though it had sold and repurchased its holdings in those PFICs on the last day of the Master Fund's taxable year. Such gains and losses are treated as ordinary income and loss. The QEF and mark-to-market elections may accelerate the recognition of income (without the receipt of cash) and increase the amount required to be distributed by the Fund to avoid taxation. Dividends paid by PFICs will not be eligible to be treated as "qualified dividend income." Because it is not always possible to identify a foreign corporation as a PFIC, the Fund may incur the tax and interest charges described above in some instances.

The Master Fund's investments in futures, options and other derivatives, as well as any hedging, straddle and short sale transactions, generally are subject to one or more special tax rules (including, for instance, notional principal contract, mark-to-market, constructive sale, straddle, wash sale and short sale rules). These rules may affect whether gains and losses recognized by the Fund are treated as ordinary or capital and/or as short-term or long-term, accelerate the recognition of income or gains to the Fund, defer losses to the Fund, and cause adjustments in the holding periods of the Fund's securities. These rules could therefore affect the amount, timing and/or character of distributions to shareholders.

In addition, certain of the Master Fund's derivatives transactions and investments in foreign currency-denominated debt instruments, as well as any of its transactions in foreign currencies or hedging activities, are likely to produce a difference between the Fund's book income and the sum of its taxable income and net tax-exempt income (if any). If the Fund's book income exceeds the sum of its taxable income (including net realized capital gains) and net tax-exempt income (if any), the distribution (if any) of such excess generally will be treated as (i) a dividend to the extent of that Fund's remaining earnings and profits (including earnings and profits arising from tax-exempt income), (ii) thereafter, as a return of capital to the extent of the recipient's basis in its shares, and (iii) thereafter, as gain from the sale or exchange of a capital asset. If the Fund's book income is less than the sum of its taxable income and net tax-exempt income (if any), the Fund could be required to make distributions exceeding book income to qualify as a RIC that is accorded special tax treatment.

The Master Fund's transactions in foreign currencies, foreign currency-denominated debt obligations and certain foreign currency options, futures contracts or forward contracts (or similar instruments) may give rise to ordinary income or loss to the extent such income or loss results from fluctuations in the value of the foreign currency concerned. Such ordinary income treatment may accelerate Fund distributions to shareholders and increase the distributions taxed to shareholders as ordinary income. Any net ordinary losses so created cannot be carried forward by the Fund to offset income or gains earned in subsequent years.

Some debt obligations with a fixed maturity date of more than one year from the date of issuance (and zero-coupon debt obligations with a fixed maturity date of more than one year from the date of issuance) that are acquired by the Master Fund will be treated as debt obligations that are issued originally at a discount. Generally, the amount of the original issue discount (“OID”) is treated as interest income and is included in the Fund’s income (and required to be distributed by the Fund) over the term of the debt security, even though payment of that amount is not received until a later time, upon partial or full repayment or disposition of the debt security.

Some debt obligations with a fixed maturity date of more than one year from the date of issuance that are acquired by the Master Fund in the secondary market may be treated as having market discount. Very generally, market discount is the excess of the stated redemption price of a debt obligation (or in the case of an obligation issued with OID, its “revised issue price”) over the purchase price of



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## Table of Contents

such obligation. Generally, any gain recognized on the disposition of, and any partial payment of principal on, a debt security having market discount is treated as ordinary income to the extent the gain, or principal payment, does not exceed the “accrued market discount” on such debt security. Alternatively, the Master Fund may elect to accrue market discount currently and thus distribute it over the term of the debt security, even though the payment of that amount is not received until a later time, upon partial or full repayment or disposition of the debt security. The rate at which the market discount accrues, and thus is included in the Fund’ s income, will depend upon which of the permitted accrual methods the Master Fund elects.

Some debt obligations with a fixed maturity date of one year or less from the date of issuance that are acquired by the Master Fund may be treated as having OID or “acquisition discount” (very generally, the excess of the stated redemption price over the purchase price). Generally, the Fund will be required to include the OID or acquisition discount in income (as ordinary income) over the term of the debt security, even though payment of that amount is not received until a later time, upon partial or full repayment or disposition of the debt security. The rate at which OID or acquisition discount accrues, and thus is included in the Fund’ s income, will depend upon which of the permitted accrual methods the Master Fund elects.

Some preferred securities may include provisions that permit the issuer, at its discretion, to defer the payment of distributions for a stated period without any adverse consequences to the issuer. If the Master Fund owns a preferred security that is deferring the payment of its distributions, the Fund may be required to report income for U.S. federal income tax purposes to the extent of any such deferred distribution even though the Master Fund has not yet actually received the cash distribution.

If the Master Fund holds the foregoing kinds of securities, the Fund may be required to pay out as an income distribution each year an amount which is greater than the total amount of cash interest that the Master Fund actually received.

Investments by the Master Fund in high-yield debt obligations or other distressed debt obligations that are at risk of or in default present special tax issues for the Fund. Tax rules are not entirely clear about issues such as whether or to what extent the Fund should recognize market discount on a debt obligation, when the Fund may cease to accrue interest, OID or market discount, when and to what extent the Fund may take deductions for bad debts or worthless securities and how the Fund should allocate payments received on obligations in default between principal and income. These and other related issues will be addressed by the Fund as necessary, in order to seek to ensure that it distributes sufficient income to preserve its status as a RIC and does not become subject to U.S. federal income or excise tax.

Any investment by the Master Fund in equity securities of REITs may result in the Master Fund’ s receipt of cash in excess of the REIT’ s earnings; if the Fund distributes these amounts, these distributions could constitute a return of capital to Fund shareholders for U.S. federal income tax purposes. Investments in REIT equity securities also may require the Fund to accrue and distribute income not yet received. Dividends received by the Master Fund from a REIT will not qualify for the corporate dividends-received deduction and generally will not constitute qualified dividend income.

The Master Fund may invest directly or indirectly (through its investments in REITs) in residual interests in real estate mortgage investment conduits (“REMICs”) (including by investing in residual interests in CMOs with respect to which an election to be treated as a REMIC is in effect) or equity interests in taxable mortgage pools (“TMPs”). Under a notice issued by the IRS in October 2006 and Treasury regulations that have yet to be issued but may apply retroactively, a portion of the Fund’ s income (including income allocated the Fund by the Master Fund from the Master Fund’ s investment in a REIT or other pass-through entity) that is attributable to a residual interest in a REMIC or an equity interest in a TMP (referred to in the Code as an “excess inclusion”) will be subject to U.S. federal income tax in all events. This notice also provides, and the regulations are expected to provide, that excess inclusion income of a RIC will be allocated to shareholder of the RIC in proportion to the dividends received by such shareholders, with the same consequences as if the shareholders held the related interest directly. As a result, the Fund may not be a suitable investment for charitable remainder trusts to the extent the Master Fund invests directly or indirectly in residual interests in REMICs or equity interests in TMPs. See “Tax-Exempt Shareholders” below.

In general, excess inclusion income allocated to shareholders (i) cannot be offset by net operating losses (subject to a limited exception for certain thrift institutions), (ii) will constitute unrelated business taxable income (“UBTI”) to entities (including a qualified

pension plan, an individual retirement account, a 401(k) plan, a Keogh plan or other tax-exempt entity) subject to tax on UBTI, thereby potentially requiring such an entity that is allocated excess inclusion income, and otherwise might not be required to file a tax return, to file a tax return and pay tax on such income, and (iii) in the case of a non-U.S. shareholder, will not qualify for any reduction in U.S. federal withholding tax. A shareholder will be subject to U.S. federal income tax on such inclusions notwithstanding any exemption from such income tax otherwise available under the Code.

To the extent the Master Fund participates in short sales by contracting for the sale of securities it does not own and later purchasing securities necessary to close the sale, the character of the gain or loss realized on such a short sale is determined by reference

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## Table of Contents

to the property used to close the short sale and is thus generally short-term. Because net short-term capital gain (after reduction by any long-term capital loss) is generally taxed at ordinary income rates, the Master Fund's short sale transactions can increase the percentage of the Fund's gains that are taxable to shareholders as ordinary income.

To the extent the Master Fund invests in natural resource-related ETFs, certain of these ETFs may qualify as qualified publicly traded partnerships. The net income derived from such investments will constitute qualifying income for purposes of the 90% gross income requirement described earlier for RIC qualification. If, however, such a vehicle were to fail to qualify as a qualified publicly traded partnership in a particular year, all or a portion of the gross income derived from it in such year could constitute non-qualifying income to the Fund for purposes of the 90% gross income requirement and thus could adversely affect the Fund's ability to qualify as a RIC for a particular year. In addition, the diversification requirement described above for RIC qualification will limit the Master Fund's investments in one or more vehicles that are qualified publicly traded partnerships to 25% of the Master Fund's total assets as of the close of each quarter of the Master Fund's taxable year.

MLPs, if any, in which the Master Fund invests may qualify as qualified publicly traded partnerships, subject to the special RIC-related rules described in the immediately preceding paragraph, or, instead, may be treated as "regular" partnerships. To the extent an MLP is a regular (non-QPTP) partnership, the MLP's income and gains allocated to the Master Fund will constitute qualifying income to the Fund for purposes of the 90% gross income requirement only to the extent such items of income and gain would be qualifying income if earned directly by the Fund. Thus, all or a portion of any income and gains from the Master Fund's investment in an MLP that is a regular (non-QPTP) partnership could constitute non-qualifying income to the Fund for purposes of the 90% gross income requirement described earlier. In such cases, the Master Fund's investments in such entities could bear on or be limited by its intention to satisfy the RIC 90% gross income requirement as described under "Tax Implications of Investment in the Master Fund" above.

To the extent an MLP is a partnership (whether or not a qualified publicly traded partnership), some amounts received by the Master Fund with respect to an investment in MLPs will likely be treated as a return of capital for U.S. federal income tax purposes because of accelerated deductions available with respect to the activities of such MLPs. Further, because of these accelerated deductions, the Master Fund will likely realize taxable income in excess of economic gain on the disposition of interests in an MLP (or if the Master Fund does not dispose of the MLP, the Master Fund will likely realize taxable income in excess of cash flow with respect to the MLP in a later period), and the Master Fund must allocate such income to the Fund and the Fund, in turn, must take such income into account in determining whether the Fund has satisfied its distribution requirements. As a result, the Fund may be required to redeem a portion of its interest in the Master Fund (including when not advantageous to do so) in order to obtain sufficient cash to satisfy the annual distribution requirements and to otherwise avoid Fund-level federal taxes. In addition, any gain recognized, either upon the sale of the Master Fund's MLP interest or sale by the MLP of property held by it, including in excess of economic gain thereon, treated as so-called "recapture income," will be treated as ordinary income. Therefore, to the extent the Master Fund invests in MLPs, Fund shareholders might receive greater amounts of distributions from the Fund taxable as ordinary income than they otherwise would in the absence of such MLP investments.

Although MLPs are generally expected to be treated as partnerships for U.S. federal income tax purposes, some MLPs may be treated as corporations for U.S. federal tax purposes, including in some cases as PFICs or so-called "controlled foreign corporations." The treatment of particular MLPs for U.S. federal income tax purposes will affect the extent to which the Master Fund can invest in such MLPs, due to its intention to satisfy the requirements for RIC qualification as described under "Tax Implications of Investment in the Master Fund" above.

Finally, shareholders should note that the tax rules applicable to certain of the Fund's and Master Fund's permitted investments, including the Fund's investment in the Master Fund, as well as any investment by the Master Fund in certain derivative instruments and ETNs, are uncertain under current law, including under Subchapter M of the Code. Accordingly, while the Fund intends to account for such investments in a manner it deems to be appropriate, an adverse determination or future guidance by the IRS with respect to one or more of these rules (which determination or guidance could be retroactive) may adversely affect the Fund's ability to meet one or more of the relevant requirements to maintain its qualification as a RIC, as well as to avoid Fund-level taxes.

## Backup Withholding

The Fund (or if Fund shares are purchased through an intermediary, the intermediary) generally is required to withhold and remit to the U.S. Treasury 28% of the taxable distributions and redemption proceeds paid to any individual shareholder who fails to properly furnish the Fund (or intermediary) with a correct taxpayer identification number (“TIN”), who has under-reported dividend or interest income, or who fails to certify to the Fund (or intermediary) that he or she is not subject to such withholding. The backup withholding Rules may also apply to distributions that are properly reported as exempt-interest dividends. Backup withholding is not an additional tax. Any amounts withheld may be credited against the shareholder’s U.S. federal income tax liability, provided the appropriate information is furnished to the IRS.

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## Table of Contents

### Sale, Exchange or Redemption of Fund Shares

The sale, exchange or redemption of Fund shares may give rise to a gain or loss to the shareholder. In general, any gain or loss realized upon a taxable disposition of shares will be treated as long-term capital gain or loss if the shares have been held for more than 12 months. Otherwise, the gain or loss on the taxable disposition of Fund shares will be treated as short-term capital gain or loss. However, any loss realized upon a taxable disposition of shares held for six months or less will be treated as long-term, rather than short-term, to the extent of any Capital Gain Dividends received (or deemed received) by the shareholder with respect to those shares. In addition, all or a portion of any loss realized upon a taxable disposition of Fund shares will be disallowed under the “wash-sale” rule of the Code if other substantially identical shares are purchased within 30 days before or after the disposition. In such a case, the basis of the newly purchased shares will be adjusted to reflect the disallowed loss.

Shareholders may be entitled to offset their Capital Gain Dividends with capital loss from other sources. The Code contains a number of statutory provisions affecting the circumstances under which capital loss may be offset against capital gain and limiting the use of loss from certain investments and activities. Accordingly, shareholders that have capital losses are urged to consult their tax advisers.

Upon the redemption or exchange of Fund shares, the Fund or, in the case of shares purchased through an intermediary, the intermediary may be required to provide you and the IRS with cost basis and certain other related tax information about the Fund shares you redeemed or exchanged. See the Fund’s Prospectus for more information.

### Tax Shelter Reporting Regulations

Under Treasury regulations, if a shareholder recognizes a loss of \$2 million or more for an individual shareholder or \$10 million or more for a corporate shareholder, the shareholder must file with the IRS a disclosure statement on Form 8886. Direct holders of portfolio securities are in many cases excepted from this reporting requirement, but under current guidance, shareholders of a RIC are not excepted. Future guidance may extend the current exception from this reporting requirement to shareholders of most or all RICs. The fact that a loss is reportable under these regulations does not affect the legal determination of whether the taxpayer’s treatment of the loss is proper. Shareholders should consult their tax advisers to determine the applicability of these regulations in light of their individual circumstances.

### Non-U.S. Shareholders

Distributions properly reported as Capital Gain Dividends generally will not be subject to withholding of U.S. federal income tax. In general, dividends other than Capital Gain Dividends paid by the Fund to a shareholder that is not a “U.S. person” within the meaning of the Code (a “foreign shareholder”) are subject to withholding of U.S. federal income tax at a rate of 30% (or lower applicable treaty rate) even if they are funded by income or gains (such as portfolio interest, short-term capital gains, or foreign-source dividend and interest income) that, if paid to a foreign shareholder directly, would not be subject to withholding.

However, effective for any taxable year of the Fund beginning before January 1, 2014, the Fund is not required to withhold any amounts (i) with respect to distributions (other than distributions to a foreign shareholder (w) that has not provided a satisfactory statement that the beneficial owner is not a U.S. person, (x) to the extent that the dividend is attributable to certain interest on an obligation if the foreign shareholder is the issuer or was a 10% shareholder of the issuer, (y) that is within certain foreign countries that have inadequate information exchange with the United States, or (z) to the extent the dividend is attributable to interest paid by a person that is a related person of the foreign shareholder and the foreign shareholder is a controlled foreign corporation) from U.S.-source interest income of types similar to those not subject to U.S. federal income tax if earned directly by an individual foreign shareholder, to the extent such distributions are properly reported as such by the Fund in a written notice to shareholders (“interest-related dividends”), and (ii) with respect to distributions (other than (a) distributions to an individual foreign shareholder who is present in the United States for a period or periods aggregating 183 days or more during the year of the distribution and (b) distributions subject to special rules regarding the disposition of U.S. real property interests (“USRPIs” as defined below)) of net short-term capital gains in excess of net long-term capital losses to the extent such distributions are properly reported by the Fund in a written notice to shareholders (“short-term capital gain dividends”). The Fund is permitted to report such part of its dividends paid in respect of a pre-2012 taxable year as

interest-related or short-term capital gain dividends as are eligible, but is not required to do so. These exemptions will expire for distributions with respect to taxable years of the Fund beginning on or after January 1, 2014, unless Congress enacts legislation providing otherwise. In the case of shares held through an intermediary, the intermediary may withhold even if the Fund reports all or a portion of a payment in respect of a pre-2012 taxable year as an interest-related or short-term capital gain dividend to shareholders. Foreign shareholders should contact their intermediaries regarding the application of these rules to their accounts.

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## Table of Contents

A foreign shareholder is not, in general, subject to U.S. federal income tax on gains (and is not allowed a deduction for losses) realized on the sale of shares of the Fund or on Capital Gain Dividends unless (i) such gain or dividend is effectively connected with the conduct of a trade or business carried on by such holder within the United States, (ii) in the case of an individual holder, the holder is present in the United States for a period or periods aggregating 183 days or more during the year of the sale or the receipt of the Capital Gain Dividend and certain other conditions are met, or (iii) the special rules relating to gain attributable to the sale or exchange of USRPIs apply to the foreign shareholder's sale of shares of the Fund or to the Capital Gain Dividend the foreign shareholder received (as described below).

Foreign shareholders with respect to whom income from the Fund is effectively connected with a trade or business conducted by the foreign shareholder within the United States will, in general, be subject to U.S. federal income tax on the income derived from the Fund at the graduated rates applicable to U.S. citizens, residents or domestic corporations, whether such income is received in cash or reinvested in shares of the Fund and, in the case of a foreign corporation, may also be subject to a branch profits tax. If a foreign shareholder is eligible for the benefits of a tax treaty, any effectively connected income or gain will generally be subject to U.S. federal income tax on a net basis only if it is also attributable to a permanent establishment maintained by the shareholder in the United States. More generally, foreign shareholders who are residents in a country with an income tax treaty with the United States may obtain different tax results than those described herein and are urged to consult their tax advisors.

Special rules would apply if the Fund were either a "U.S. real property holding corporation" ("USRPHC") or would be a USRPHC but for the operation of certain exceptions to the definition thereof. Very generally, a USRPHC is a domestic corporation that holds USRPIs the fair market value of which equals or exceeds 50% of the sum of the fair market values of the corporation's USRPIs, interests in real property located outside the United States, and other trade or business assets. USRPIs are generally defined as any interest in U.S. real property and any interest (other than solely as a creditor) in a USRPHC or former USRPHC.

Under a special "look-through" rule, if the Fund were a USRPHC or would be a USRPHC but for the exceptions referred to above, any distributions by the Fund to a foreign shareholder (including, in certain cases, distributions made by the Fund in redemption of its shares) attributable to (i) distributions received by the Master Fund from a lower-tier REIT that the Fund is required to treat as USRPI gain in its hands or (ii) prior to January 1, 2012, (a) gains realized by the Fund on the disposition of USRPIs or (b) distributions directly or indirectly received by the Master Fund from a lower-tier RIC that the Fund is required to treat as USRPI gain in its hands, generally would be subject to U.S. tax withholding. In addition, such distributions could result in the foreign shareholder being required to file a U.S. tax return and pay tax on the distributions at regular U.S. federal income tax rates. The consequences to a foreign shareholder, including the rate of such withholding and character of such distributions (e.g., as ordinary income or USRPI gain), would vary depending upon the extent of the foreign shareholder's current and past ownership of the Fund. On and after January 1, 2012, the special "look-through" rule described above for distributions by the Fund (which treatment applies only if the Fund is either a USRPHC or would be a USRPHC but for the operation of the exceptions referred to above) applies only to those distributions that, in turn, are attributable to distributions directly or indirectly received by the Master Fund from a lower-tier REIT (see clause (i) above), unless Congress enacts legislation providing otherwise. It is currently unclear whether Congress will extend the expiring "look-through" provisions described in clause (ii) above to distributions made on or after January 1, 2012, and what the terms of any such extension would be, including whether any such extension would have retroactive effect to January 1, 2012.

In addition, if the Fund were a USRPHC or former USRPHC, it could be required to withhold U.S. tax on the proceeds of a share redemption by a greater-than-5% foreign shareholder, in which case such foreign shareholder generally would also be required to file U.S. tax returns and pay any additional taxes due in connection with the redemption.

Foreign shareholders should consult their tax advisers and, if holding shares through intermediaries, their intermediaries, concerning the application of these rules to their investment in the Fund.

In order to qualify for any exemption from withholding described above (to the extent applicable) or for lower withholding tax rates under applicable income tax treaties, or to establish an exemption from backup withholding, a foreign shareholder must comply with applicable certification requirements relating to its non-U.S. status (including, in general, furnishing an IRS Form W-8BEN or substitute form). Foreign shareholders should contact their tax advisers in this regard.

A foreign shareholder may be subject to state and local tax and to the U.S. federal estate tax in addition to the U.S. federal tax on income referred to above.

#### Tax-Exempt Shareholders

Under current law, the Fund serves to “block” (that is, prevent the attribution to shareholders of) unrelated business taxable income (“UBTI”) from being realized by tax-exempt shareholders. Notwithstanding this “blocking” effect, a tax-exempt shareholder could realize UBTI by virtue of its investment in the Fund if shares in that Fund constitute debt-financed property in the hands of the tax-exempt shareholder within the meaning of Code Section 514(b).



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## Table of Contents

A tax-exempt shareholder may also recognize UBTI if the Fund recognizes excess inclusion income derived from direct or indirect investments in residual interests in REMICS or equity interests in TMPs if the amount of such income recognized by the Fund exceeds the Fund's investment company taxable income (after taking into account deductions for dividends paid by the Fund).

In addition, special tax consequences apply to charitable remainder trusts ("CRTs") that invest in RICs that invest directly or indirectly in residual interests in REMICs or equity interests in TMPs. Under legislation enacted in December 2006, a CRT (as defined in section 664 of the Code) that realizes any UBTI for a taxable year must pay an excise tax annually of an amount equal to such UBTI. Under IRS guidance issued in October 2006, a CRT will not recognize UBTI as a result of investing in the Fund to the extent it recognizes "excess inclusion income." Rather, if at any time during any taxable year a CRT (or one of certain other tax-exempt shareholders, such as the United States, a state or political subdivision, or an agency or instrumentality thereof, and certain energy cooperatives) is a record holder of the Fund and the Fund is allocated "excess inclusion income" from the Master Fund, then the Fund will be subject to a tax on that portion of its "excess inclusion income" for the taxable year that is allocable to such shareholders at the highest federal corporate income tax rate. The extent to which this IRS guidance remains applicable in light of the December 2006 legislation is unclear. To the extent permitted under the 1940 Act, the Fund may elect to specially allocate any such tax to the applicable CRT, or other shareholder, and thus reduce such shareholder's distributions for the year by the amount of the tax that relates to such shareholder's interest in the Fund.

CRTs and other tax-exempt investors are urged to consult their tax advisers concerning the consequences of investing in the Fund.

### Shareholder Reporting Obligations With Respect to Foreign Bank and Financial Accounts

Shareholders that are U.S. persons and own, directly or indirectly, more than 50% of the Fund or Master Fund could be required to report annually their "financial interest" in the Fund's or Master Fund's "foreign financial accounts," if any, on Treasury Department Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts (FBAR). Shareholders should consult a tax advisor, and persons investing in the Fund through an intermediary should contact their intermediary, regarding the applicability to them of this reporting requirement.

### Other Reporting and Withholding Requirements

Rules enacted in March 2010 known as the "Foreign Account Tax Compliance Act" ("FATCA") require the reporting to the IRS of direct and indirect ownership of foreign financial accounts and foreign entities by U.S. persons. Failure to provide this required information can result in a 30% withholding tax on certain payments of U.S. source income ("withholdable payments"), this withholding tax will be phased in beginning with certain withholdable payments made on January 1, 2014. Specifically, withholdable payments subject to this 30% withholding tax include payments of U.S.-source dividends or interest and payments of gross proceeds from the sale or other disposal of property that can produce U.S.-source dividends or interest.

The IRS has issued preliminary guidance with respect to these rules; this guidance is potentially subject to material change. Pursuant to this guidance, distributions (other than exempt-interest dividends) made by the Fund to a shareholder subject to the phase in noted above, including a distribution in redemption of shares and a distribution of income or gains otherwise exempt from withholding under the rules applicable to foreign shareholders described above (e.g., Capital Gain Dividends and short-term capital gain and interest-related dividends, as described above), will be withholdable payments subject to withholding. Payments to shareholders will generally not be subject to withholding so long as such shareholders provide the Fund with such certifications, waivers or other documentation as the Fund requires to comply with these rules, including, to the extent required, with regard to their direct and indirect owners. In general, it is expected that a shareholder that is a U.S. person or non-U.S. individual will be able to avoid being withheld upon by timely providing the Fund with a valid IRS Form W-9 or W-8, respectively. Subject to any applicable intergovernmental agreement, payments to a shareholder that is a "foreign financial institution" (as defined under these rules) will generally be subject to withholding unless such shareholder (i)(a) enters into, a valid agreement with the IRS to, among other requirements, report required information about certain direct and indirect U.S. investors or accounts, or (b) qualifies for an exception from entering into such an agreement and (ii) provides the Fund with appropriate certifications or other documentation concerning its status.

The Fund may disclose the information that it receives from its shareholders to the IRS, non-U.S. taxing authorities or other parties as necessary to comply with FATCA, including current or future Treasury regulations or IRS guidance issued thereunder, in each case as modified by any applicable intergovernmental agreement between the United States and a non-U.S. government to implement FATCA and improve international tax compliance.

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## Table of Contents

Each prospective investor is urged to consult its tax adviser regarding the applicability of FATCA and any other reporting requirements with respect to the prospective investor's own situation. Persons investing in the Fund through an intermediary should contact their intermediary regarding the application of this reporting and withholding regime to their investments in the Fund.

### Shares Purchased Through Tax Qualified Plans

Special tax rules apply to investments through defined contribution plans and other tax-qualified plans. Shareholders should consult their tax advisers to determine the suitability of shares of the Trust as an investment through such plans and the precise effect of an investment on their particular tax situation.

### General Considerations

The U.S. federal income tax discussion set forth above is for general information only. Prospective investors should consult their tax advisers regarding the specific U.S. federal tax consequences of purchasing, holding, and disposing of shares of the Fund, as well as the effects of state, local, foreign and other tax law and any proposed tax law changes.

## **PRINCIPAL SHAREHOLDERS**

Control persons are presumed to control the Fund for purposes of voting on matters submitted to a vote of shareholders due to their beneficial ownership of 25% or more of the Fund's outstanding voting securities. As of December 31, 2012, the Fund did not have any outstanding shares or shareholders and therefore the Officers and Trustees of the Fund, as a group, owned less than 1% of any class of any Fund.

## **FUND HISTORY AND ADDITIONAL INFORMATION**

The Trust is an open-end management investment company organized as an unincorporated business trust under the laws of The Commonwealth of Massachusetts pursuant to a Declaration of Trust dated August 10, 1992, as amended from time to time (the "Declaration"). Currently, there are 19 funds in the Trust, of which 13 are publicly offered. Prior to February 22, 2011, the Trust was known as the GE Funds.

In the interest of economy and convenience, physical certificates representing shares of the Fund are not issued. Boston Financial Data Services Inc. maintains a record of each shareholder's ownership of shares of the Fund.

**Shareholder Liability.** Massachusetts law provides that shareholders of the Fund may, under certain circumstances, be held personally liable for the obligations of the Trust. The Declaration disclaims shareholder liability for acts or obligations of the Trust, however, and permits notice of the disclaimer be given in each agreement, obligation or instrument entered into or executed by the Trust or a Trustee of the Trust. The Declaration provides for indemnification from the property of the Fund for all losses and expenses of any shareholder of the Fund held personally liable for the obligations of the Fund. Thus, the risk of a shareholder of the Fund incurring financial loss on account of shareholder liability is limited to circumstances in which the Fund would be unable to meet its obligations, a possibility that the Trust's management believes is remote. Upon payment of any liability incurred by the Fund, the shareholder paying the liability will be entitled to reimbursement from the general assets of the Fund. The Trustees intend to conduct the operations of the Trust and the Fund in such a way so as to avoid, as far as practicable, ultimate liability of the shareholders for liabilities of the Fund.

**Shareholder Rights and Voting.** When issued, shares of the Fund will be fully paid and non-assessable. Shares are freely transferable and have no preemptive, subscription or conversion rights. Each Class represents an identical interest in the Fund's investment portfolio. As a result, each Class has the same rights, privileges and preferences, except with respect to: (1) the designation of each Class; (2) the sales arrangement; (3) certain expenses allocable exclusively to each Class; (4) voting rights on matters exclusively affecting a single Class; and (5) the exchange privilege of each Class. The Board does not anticipate that there will be any conflicts among the interests of the holders of the different Classes. The Board, on an ongoing basis, will consider whether any conflict exists and, if so, will take appropriate action. The Board may amend the Declaration of Trust without the vote of shareholders in order to conform the provisions to tax or regulatory requirements, or to make other changes that do not materially affect the rights of

shareholders. In addition, the Trustees may reclassify and redesignate any series or class of shares outstanding, as long as the action does not materially adversely affect the rights of the affected shareholders. The Declaration of Trust permits the Trustees to terminate the Fund, under certain circumstances, without the vote of shareholders and the Board may do so after providing appropriate notice to the Fund's shareholders.

When matters are submitted for shareholder vote, each shareholder of the Fund will have one vote for each full share held and proportionate, fractional votes for fractional shares held. In general, shares of all funds of the Trust vote as a single class on all matters except (1) matters affecting the interests of one or more of the fund or classes of a fund, in which case only shares of the affected funds

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## Table of Contents

or classes would be entitled to vote or (2) when the 1940 Act requires the vote of an individual fund. Normally, no meetings of shareholders of the funds will be held for the purpose of electing Trustees of the Trust unless and until such time as less than a majority of the Trustees holding office have been elected by shareholders of the Trust, at which time the Trustees then in office will call a shareholders' meeting for the election of Trustees. Shareholders of record of no less than a majority of the outstanding shares of the Trust may remove a Trustee for cause through a declaration in writing or by vote cast in person or by proxy at a meeting called for that purpose. A meeting will be called for the purpose of voting on the removal of a Trustee at the written request of holders of 10% of the Trust's outstanding shares. Shareholders who satisfy certain criteria will be assisted by the Trust in communicating with other shareholders in seeking the holding of the meeting.

Counsel. Ropes & Gray LLP serves as counsel for the Trust.

Independent Registered Public Accounting Firm. KPMG LLP, located at Two Financial Center, 60 South Street, Boston, MA 02111 serves as independent registered public accounting firm for the Fund. The independent registered public accounting firm audits and reports on the annual financial statements, reviews certain regulatory reports and U.S. federal income tax returns, and performs other professional accounting, auditing and tax services when engaged to do so.

### **FINANCIAL STATEMENTS**

The audited financial statements and the related report of KPMG LLP, an independent registered public accounting firm, contained in the Annual Report to Shareholders of the Fund dated September 30, 2012 are hereby incorporated by reference. No other part of the Annual Report is incorporated by reference.

The Trust will furnish, without charge, a copy of the Trust's Annual Report, upon request to the Trust at PO Box 8656, Boston, Massachusetts. 02266-8656.

**APPENDIX A**  
**DESCRIPTION OF RATINGS**

**Commercial Paper Ratings**

The rating A-1 (and any sub-categories and gradations thereof indicating relative standing) is the highest commercial paper rating assigned by S&P. Paper rated A-1 must have either the direct credit support of an issuer or guarantor that possesses excellent long-term operating and financial strength combined with strong liquidity characteristics (typically, such issuers or guarantors would display credit quality characteristics that would warrant a senior bond rating of AA or higher) or the direct credit support of an issuer or guarantor that possesses above average long-term fundamental operating and financing capabilities combined with ongoing excellent liquidity characteristics. Paper rated A-1 must have the following characteristics: liquidity ratios are adequate to meet cash requirements; long-term senior debt is rated A or better; the issuer has access to at least two additional channels of borrowing; basic earnings and cash flow have an upward trend with allowance made for unusual circumstances; typically, the issuer's industry is well established and the issuer has a strong position within the industry; and the reliability and quality of management are unquestioned. Capacity for timely payment on issues rated A-2 is satisfactory. However, the relative degree of safety is not as high as issues designated "A-1."

The rating Prime-1 is the highest commercial paper rating assigned by Moody's. Among the factors considered by Moody's in assigning ratings are the following: (a) evaluation of the management of the issuer; (b) economic evaluation of the issuer's industry or industries and an appraisal of speculative-type risks that may be inherent in certain areas; (c) evaluation of the issuer's products in relation to competition and customer acceptance; (d) liquidity; (e) amount and quality of long-term debt; (f) trend of earnings over a period of ten years; (g) financial strength of parent company and the relationships that exist with the issue; and (h) recognition by the management of obligations that may be present or may arise as a result of public interest questions and preparations to meet the obligations.

Issuers rated Prime-2 (or supporting institutions) have a strong ability for repayment of senior short-term debt obligations. This normally will be evidenced by many of the characteristics cited above, but to a lesser degree. Earnings trends and coverage ratios, while sound, may be more subject to variation. Capitalization characteristics, while still appropriate, may be more affected by external conditions. Ample alternate liquidity is maintained.

Fitch Investors Services, Inc. employs the rating F-1 (and any sub-categories and gradations thereof indicating relative standing) to indicate issues regarded as having the strongest degree of assurance of timely payment. The rating F-1 reflects an assurance of timely payment only slightly less in degree than issues rated F-1+, while the rating F-2 indicates a satisfactory degree of assurance of timely payment although the margin of safety is not as great as indicated by the F-1 categories.

Various NRSROs utilize rankings within ratings categories indicated by a plus or minus sign. The Funds, in accordance with industry practice, recognize such ratings within categories or gradations, viewing for example S&P's ratings of A-1+ and A-1 as being in S&P's highest rating category.

**Description of S&P Corporate Bond Ratings**

AAA – This is the highest rating assigned by S&P to a bond and indicates an extremely strong capacity to pay interest and repay principal.

AA – Bonds rated AA have a very strong capacity to pay interest and repay principal and differ from AAA issues only in small degree.

A – Bonds rated A have a strong capacity to pay interest and repay principal although they are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher rated categories.

BBB – Bonds rated BBB have an adequate capacity to pay interest and repay principal. Adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for bonds in this category (even though they normally exhibit adequate protection parameters) than for bonds in higher rated categories.

BB, B and CCC – Bonds rated BB and B are regarded, on balance, as predominately speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation. BB represents a lower degree of speculation than B, and CCC the highest degree of speculation. While such bonds will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.

To provide more detailed indications of credit quality, the ratings from AA to B may be modified by the addition of a plus or minus sign to show relative standing within this major rating category.

A-1

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## **Table of Contents**

### **Description of Moody' s Corporate Bond Ratings**

Aaa – Bonds that are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as “gilt edge.” Interest payments are protected by a large or exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Aa – Bonds that are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present that make the long-term risks appear somewhat larger than in Aaa securities.

A – Bonds that are rated A possess favorable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present that suggest a susceptibility to impairment sometime in the future.

Baa – Bonds that are rated Baa are considered as medium-grade obligations, that is, they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

Ba – Bonds that are rated Ba are judged to have speculative elements; their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

B – Bonds that are rated B generally lack characteristics of desirable investments. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

Caa – Bonds that are rated Caa are of poor standing. These issues may be in default, or present elements of danger may exist with respect to principal or interest.

Moody' s applies numerical modifiers (1, 2 and 3) with respect to the bonds rated Aa through B, The modifier 1 indicates that the bond being rated ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates that the bond ranks in the lower end of its generic rating category.

### **Description of S&P Municipal Bond Ratings**

AAA – Prime – These are obligations of the highest quality. They have the strongest capacity for timely payment of debt service.

General Obligation Bonds – In a period of economic stress, the issuers will suffer the smallest declines in income and will be least susceptible to autonomous decline. Debt burden is moderate. A strong revenue structure appears more than adequate to meet future expenditure requirements. Quality of management appears superior.

Revenue Bonds – Debt service coverage has been, and is expected to remain, substantial. Stability of the pledged revenues is also exceptionally strong due to the competitive position of the municipal enterprise or to the nature of the revenues. Basic security provisions (including rate covenant, earnings test for issuance of additional bonds, debt service reserve requirements) are rigorous. There is evidence of superior management.

AA – High Grade – The investment characteristics of bonds in this group are only slightly less marked than those of the prime quality issues. Bonds rated AA have the second strongest capacity for payment of debt service.

A – Good Grade – Principal and interest payments on bonds in this category are regarded as safe although the bonds are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than bonds in higher rated categories. This



rating describes the third strongest capacity for payment of debt service. The ratings differ from the two higher ratings of municipal bonds, because:

General Obligation Bonds – There is some weakness, either in the local economic base, in debt burden, in the balance between revenues and expenditures, or in quality of management. Under certain adverse circumstances, any one such weakness might impair the ability of the issuer to meet debt obligations at some future date.

Revenue Bonds – Debt service coverage is good, but not exceptional. Stability of the pledged revenues could show some variations because of increased competition or economic influences on revenues. Basic security provisions, while satisfactory, are less stringent. Management performance appears adequate.

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## **Table of Contents**

BBB – Medium Grade – Of the investment grade ratings, this is the lowest. Bonds in this group are regarded as having an adequate capacity to pay interest and repay principal. Adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for bonds in this category (even though they normally exhibit adequate protection parameters) than for bonds in higher rated categories.

General Obligation Bonds – Under certain adverse conditions, several of the above factors could contribute to a lesser capacity for payment of debt service. The difference between A and BBB ratings is that the latter shows more than one fundamental weakness, or one very substantial fundamental weakness, whereas, the former shows only one deficiency among the factors considered.

Revenue Bonds – Debt coverage is only fair. Stability of the pledged revenues could show substantial variations, with the revenue flow possibly being subject to erosion over time. Basic security provisions are no more than adequate. Management performance could be stronger.

BB, B, CCC and CC – Bonds rated BB, B, CCC and CC are regarded, on balance, as predominately speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation. BB includes the lowest degree of speculation and CC the highest degree of speculation. While these bonds will likely have some quality and protective characteristics, these characteristics are outweighed by large uncertainties or major risk exposures to adverse conditions.

C – The rating C is reserved for income bonds on which no interest is being paid.

D – Bonds rated D are in default, and payment of interest and/or repayment of principal is in arrears.

S&P' s letter ratings may be modified by the addition of a plus or a minus sign, which is used to show relative standing within the major rating categories, except in the AAA-Prime Grade category.

### **Description of S&P Municipal Note Ratings**

Municipal notes with maturities of three years or less are usually given note ratings (designated SP-1, -2 or -3) to distinguish more clearly the credit quality of notes as compared to bonds. Notes rated SP-1 have a very strong or strong capacity to pay principal and interest. Those issues determined to possess overwhelming safety characteristics are given the designation of SP-1+. Notes rated SP-2 have satisfactory capacity to pay principal and interest.

### **Description of Moody' s Municipal Bond Ratings**

Aaa – Bonds that are rated Aaa are judged to be the best quality. They carry the smallest degree of investment risk and are generally referred to as “gilt edge.” Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Aa – Bonds that are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities, or fluctuation of protective elements may be of greater amplitude, or there may be other elements present that make the long-term risks appear somewhat larger than in Aaa securities.

A – Bonds that are rated A possess many favorable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present that suggest a susceptibility to impairment sometime in the future.

Baa – Bonds that are rated Baa are considered as medium grade obligations, that is, they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

Ba – Bonds that are rated Ba are judged to have speculative elements; their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterize bonds in this class.

B – Bonds that are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

Caa – Bonds that are rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

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## **Table of Contents**

Ca – Bonds that are rated Ca represent obligations that are speculative in a high degree. Such issues are often in default or have other marked shortcomings.

C – Bonds that are rated C are the lowest rated class of bonds, and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

Moody' s applies the numerical modifiers 1, 2 and 3 in each generic rating classification from Aa through B. The modifier 1 indicates that the security ranks in the higher end of its generic ratings category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates that the issue ranks in the lower end of its generic ratings category.

### **Description of Moody' s Municipal Note Ratings**

Moody' s ratings for state and municipal notes and other short-term loans are designated Moody' s Investment Grade (MIG) and for variable rate demand obligations are designated Variable Moody' s Investment Grade (VMIG). This distinction recognizes the differences between short-term credit risk and long-term risk. Loans bearing the designation MIG 1/VMIG 1 are the best quality, enjoying strong protection from established cash flows of funds for their servicing or from established and broad-based access to the market for refinancing, or both. Loans bearing the designation MIG 2/VMIG 2 are of high quality, with margins of protection ample, although not as large as the preceding group. Loans bearing the designation MIG 3/VMIG3 are of favorable quality, with all security elements accounted for but lacking the undeniable strength of the higher grades. Market access for refinancing, in particular, is likely to be less well established. Loans bearing the designation MIG 4/VMIG 4 are of adequate quality. Protection commonly regarded as required of an investment security is present and although not distinctly or predominantly speculative, there is specific risk.

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## [Table of Contents](#)

### APPENDIX B PYXIS CAPITAL, L.P. PROXY VOTING POLICY

#### 1. Application; General Principles

1.1 This proxy voting policy (the “Policy”) applies to securities held in Client accounts (including registered investment companies and other pooled investment vehicles) as to which the above-captioned investment adviser (the “Company”) has voting authority, directly or indirectly. Indirect voting authority exists where the Company’s voting authority is implied by a general delegation of investment authority without reservation of proxy voting authority.

1.2 The Company shall vote proxies in respect of securities owned by or on behalf of a Client in the Client’s best economic interests and without regard to the interests of the Company or any other Client of the Company.

#### 2. Voting; Procedures

2.1 Monitoring. The Company has hired Broadridge as its proxy voting agent to vote proxies in respect of securities held in Client accounts for which the Company has proxy voting authority. The Company utilizes Broadridge’s ProxyEdge<sup>®</sup> internet tool to identify for Broadridge Client accounts for which the Company has proxy voting authority and Broadridge monitors the holdings in these Client accounts via automated electronic interfaces with the Company’s custodian banks and brokers for purposes of determining whether there are shareholder meetings or similar corporate actions affecting holdings in the Client accounts.

2.2 Voting. The Company has authorized Broadridge to vote proxies with respect to securities held in Client accounts for which the Company has proxy voting authority in accordance with recommendations provided by Glass, Lewis & Co. in its US 2010 Proxy Season Proxy Paper Guidelines (and, absent further action, future annual or special Proxy Paper Guidelines issued by Glass, Lewis & Co.). Glass Lewis’ s Proxy Paper Guidelines are available on the Company’s internet website and to all Clients, prospective clients, and due diligence inquiries upon request. Broadridge is responsible for ensuring proxies are voted and submitted in a timely manner in accordance with such Guidelines, provided, however, that the Company may instruct Broadridge to vote in a manner inconsistent with the Guidelines in accordance with the procedures set forth below.

The CCO or his/her designee will be responsible for creating a weekly report of all upcoming shareholder meetings or similar corporate actions affecting securities held in Client accounts for which the Company has proxy voting authority, which will include Glass Lewis’ s recommendation, if available. The report will be distributed to the relevant portfolio managers for review and approval. If warranted and determined to be in the best interest of a Client after taking into account all the relevant facts and circumstances, the portfolio manager responsible for the Client account or security can override the recommendations of Glass, Lewis & Co. and direct Broadridge to vote one or more proxies according to his or her own determination of the clients’ best interests. If the Company decides to direct Broadridge to vote a proxy in a manner that is inconsistent with the recommendations of Glass, Lewis & Co., the CCO or his/her designee shall document the reasons for these votes and for the override of the Glass Lewis recommendation.

2.3 Guidelines. In determining how to vote a particular proxy, Glass Lewis follows the principles outlined in its Proxy Paper guidelines. It conducts careful analysis on each issuer looking specifically at Board composition of an issuer, the firm’s financial reporting and integrity of those financial statement, compensation plans and governance structure. The Company has accepted the proxy voting guidelines published by Glass, Lewis & Co., and The Company’s CCO or his/her designee will annually review the Glass Lewis Guidelines to ensure they remain appropriate and relevant to the Company’s proxy voting needs.

2.4 Conflicts of Interest. If a portfolio manager determines that a potential material conflict of interest (as defined in Section 3 of this Policy) exists between the Company and a Client account with respect to voting a particular proxy, the portfolio manager(s) shall contact the Company’s compliance department prior to the proxy being voted by Broadridge. In the event of a potential material conflict of interest, the Company will (i) vote such proxy according to the Glass Lewis Guidelines; or (ii) seek instructions from the Client or request that the Client vote such proxy. All such instances shall be reported to Pyxis’ Compliance Department at least quarterly.

2.4.1. For a security held by an investment company, the Company shall disclose any potential material conflict of interest and its reasoning for voting as it did to the investment company's Board of Trustees at the next regularly scheduled quarterly meeting. In voting proxies for securities held by an investment company, the Company may consider only the interests of the Fund. It is the responsibility of the Compliance Department to document the basis for the proxy voting decision when a potential material conflict of interest exists and to furnish the documentation to the Board of Trustees.

2.5 Non-Votes. The Company may determine not to vote proxies in respect of the securities of any issuer if it determines it would be in its Client's overall best interests not to vote. Such determination may apply in respect of all Client holdings of the securities or only certain specified Clients, as the Company deems appropriate under the circumstances. As examples, the portfolio manager(s) may determine: (a) not to recall securities on loan if, in his or her judgment, the matters being voted upon are not material events affecting the

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## Table of Contents

securities and the negative consequences to Clients of disrupting the securities lending program would outweigh the benefits of voting in the particular instance or (b) not to vote certain foreign securities positions if, in its judgment, the expense and administrative inconvenience outweighs the benefits to Clients of voting the securities.

2.6 Recordkeeping. Following the submission of any proxy vote by Broadridge, a record of how proxy ballots were voted will be maintained electronically on the ProxyEdge<sup>®</sup> system, and will be continuously available for review. Broadridge will aggregate the proxy voting records of each investment company client of the Company for purposes of preparing and filing Form N-PX on such investment company' s behalf.

### 3. Conflicts of Interest

3.1 Voting the securities of an issuer where the following relationships or circumstances exist are deemed to give rise to a material conflict of interest for purposes of this Policy:

3.1.1 The issuer is a Client of the Company, or of an affiliate, accounting for more than 5% of the Company' s or affiliate' s annual revenues.

3.1.2 The issuer is an entity that reasonably could be expected to pay the Company or its affiliates more than \$1 million through the end of the Company' s next two full fiscal years.

3.1.3 The issuer is an entity in which a "Covered Person" (as defined in the Company' s Policies and Procedures Designed to Detect and Prevent Insider Trading and to Comply with Rule 17j-1 of the Investment Company Act of 1940, as amended (the "Code of Ethics")) has a beneficial interest contrary to the position held by the Company on behalf of Clients.

3.1.4 The issuer is an entity in which an officer or partner of the Company or a relative<sup>1</sup> of any such person is or was an officer, director or employee, or such person or relative otherwise has received more than \$150,000 in fees, compensation and other payment from the issuer during the Company' s last three fiscal years; provided, however, that the Compliance Department may deem such a relationship not to be a material conflict of interest if the Company representative serves as an officer or director of the issuer at the direction of the Company for purposes of seeking control over the issuer.

3.1.5 The matter under consideration could reasonably be expected to result in a material financial benefit to the Company or its affiliates through the end of the Company' s next two full fiscal years (for example, a vote to increase an investment advisory fee for a Fund advised by the Company or an affiliate).

3.1.6 Another Client or prospective Client of the Company, directly or indirectly, conditions future engagement of the Company on voting proxies in respect of any Client' s securities on a particular matter in a particular way.

3.1.7 The Company holds various classes and types of equity and debt securities of the same issuer contemporaneously in different Client portfolios.

3.1.8 Any other circumstance where the Company' s duty to serve its Clients' interests, typically referred to as its "duty of loyalty," could be compromised.

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<sup>1</sup> For the purposes of this Policy, "relative" includes the following family members: spouse, minor children or stepchildren or children or stepchildren sharing the person' s home.

3.2 Notwithstanding the foregoing, a conflict of interest described in Section 3.1 shall not be considered material for the purposes of this Policy in respect of a specific vote or circumstance if:

3.2.1 The securities in respect of which the Company has the power to vote account for less than 1% of the issuer' s outstanding voting securities, but only if: (i) the securities for which the Company has voting authority do not, in the aggregate, represent one of top 10 largest shareholders of such issuer and (ii) such securities do not represent more than 2% of the Client' s assets under management with the Company.

3.2.2 The matter to be voted on relates to a restructuring of the terms of existing securities or the issuance of new securities or a similar matter arising out of the holding of securities, other than common equity, in the context of a bankruptcy or threatened bankruptcy of the issuer.

4. Recordkeeping, Retention and Compliance Oversight

4.1 The Company shall retain records relating to the voting of proxies, including:

4.1.1 Copies of this Policy and any amendments thereto.

B-2



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## Table of Contents

4.1.2 A copy of the Glass Lewis Proxy Voting Guidelines, amended annually.

4.1.3. A copy of each proxy statement that the Company receives regarding Client securities.

4.1.4 Records of each vote cast by the Company on behalf of Clients.

4.1.5 A copy of any documents created by the Company that were material to making a decision how to vote or that memorializes the basis for that decision.

4.1.6 A copy of each written request for information on how the Company voted proxies on behalf of the Client, and a copy of any written response by the Company to any (oral or written) request for information on how the Company voted.

4.2 These records shall be maintained and preserved in an easily accessible place for a period of not less than five years from the end of the Company' s fiscal year during which the last entry was made in the records, the first two years in an appropriate office of the Company.

4.3 The Company may rely on proxy statements filed on the SEC' s EDGAR system or on proxy statements and records of votes cast by the Company maintained by Broadridge.

4.4 Records relating to the voting of proxies for securities held by investment company Clients will be reported periodically, as requested, to the investment company' s Board of Trustees and, to the SEC on an annual basis pursuant to Form N-PX.

4.5 If at any time any person is pressured or lobbied either by Company personnel or affiliates or third parties with respect to a particular shareholder vote, he or she should provide information regarding such activity to the CCO, who will keep a record of this information.

4.6 Compliance oversees the implementation of this procedure, including oversight over voting and the retention of proxy ballots voted. The CCO may review proxy voting pursuant to the firm' s compliance program.

## Table of Contents

### PART C

#### OTHER INFORMATION

##### Item 28. Exhibits

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
(a)(1)	Declaration of Trust is incorporated herein by reference to Exhibit (a)(1) to Post-Effective Amendment No. 67 to the Registration Statement, previously filed with the Commission on September 22, 2011 (Accession Number 0000950123-11-086135).
(a)(2)	Certificate of Amendment of Declaration of Trust, is incorporated herein by reference to Exhibit 1(b) to Pre-Effective Amendment No. 3 to the Registration Statement, previously filed with the Commission on December 14, 1992.
(a)(3)	Certificate of Amendment to Declaration of Trust, is incorporated herein by reference to Exhibit (a)(9) to Post-Effective Amendment No. 29 to the Registration Statement, previously filed with the Commission on September 3, 1999 (Accession Number 0000889812-99-002635).
(a)(4)	Name Change Amendment to Declaration of Trust, dated as of February 16, 2011, previously filed with the Commission on February 18, 2011 (Accession Number 0001193125-11-040501).
(a)(5)	Name Change Amendment to Declaration of Trust, dated January 9, 2012, previously filed with the Commission on January 10, 2012 (Accession Number 0000950123-12-000628).
(a)(6)	Amended and Restated Designation of Series and Classes, dated January 17, 2013, previously filed with the Commission on January 28, 2013.
(b)	Amended and Restated By-Laws, are incorporated herein by reference to Exhibit (b) to Post-Effective Amendment No. 71 to the Registration Statement, previously filed with the Commission on October 21, 2011 (Accession Number 0000950123-11-091243).
(c)	Not applicable.
(d)(1)	Form of Investment Advisory Agreements between each Pyxis Fund (formerly, Highland Funds) and Pyxis Capital, L.P. (formerly, Highland Funds Asset Management, L.P.), is incorporated herein by reference to Exhibit (d)(32) to Post-Effective Amendment No. 57 to the Registration Statement, previously filed with the Commission on February 9, 2011 (Accession Number 0001193125-11-028887).
(d)(2)	Form of Sub-Advisory Agreement between Pyxis Capital, L.P. (formerly, Highland Funds Asset Management, L.P.) and GE Asset Management Incorporated, is incorporated herein by reference to Exhibit (d)(33) to Post-Effective Amendment No. 57 to the Registration Statement, previously filed with the Commission on February 9, 2011 (Accession Number 0001193125-11-028887).
(d)(3)	Form of Sub-Advisory Agreement for Pyxis Small-Cap Equity Fund (formerly, Highland Small-Cap Equity Fund) between Pyxis Capital, L.P. (formerly, Highland Funds Asset Management, L.P.) and Palisade Capital Management, L.L.C., is incorporated herein by reference to Exhibit (d)(34) to Post-Effective Amendment No. 57 to the Registration Statement, previously filed with the Commission on February 9, 2011 (Accession Number 0001193125-11-028887).
(d)(4)	Form of Investment Advisory Agreement between Pyxis Funds II (formerly, Highland Funds II), on behalf of Pyxis Trend Following Fund (formerly, Highland Trend Following Fund), and Pyxis Capital, L.P. (formerly, Highland Funds Asset Management, L.P.) is incorporated herein by reference to Exhibit (6)(jj) to Post-Effective Amendment No. 1 to the Registration Statement on Form N-14, previously filed with the Commission on September 14, 2011 (Accession Number 0000950123-11-084448).

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## Table of Contents

- (d)(5) Form of Sub-Advisory Agreement for Pyxis Trend Following Fund (formerly, Highland Trend Following Fund) between Pyxis Capital, L.P. (formerly, Highland Funds Asset Management, L.P.) and Incline Capital, LLC is incorporated herein by reference to Exhibit (6)(kk) to Post-Effective Amendment No. 1 to the Registration Statement on Form N-14, previously filed with the Commission on September 14, 2011 (Accession Number 0000950123-11-084448).
- (d)(6) Form of Fee Waiver Agreement for Pyxis Trend Following Fund (formerly, Highland Trend Following Fund) between Pyxis Capital, L.P. (formerly, Highland Funds Asset Management, L.P.) and Pyxis Funds II (formerly, Highland Funds II), is incorporated herein by reference to Exhibit (6)(nn) to Post-Effective Amendment No. 1 to the Registration Statement on Form N-14, previously filed with the Commission on September 14, 2011 (Accession Number 0000950123-11-084448).
- (d)(7) Form of Investment Advisory Agreement between Pyxis Funds II (formerly, Highland Funds II), on behalf of Pyxis Energy MLP Fund (formerly Pyxis Energy and Materials Fund and, prior to that, Highland Energy and Materials Fund), and Pyxis Capital, L.P. (formerly, Highland Funds Asset Management, L.P.), previously filed with the Commission on October 31, 2011 (Accession Number 0000950123-11-093183).
- (d)(8) Form of Investment Advisory Agreement between Pyxis Funds II (formerly, Highland Funds II), on behalf of Pyxis Dividend Equity Fund (formerly, Highland Dividend Equity Fund), and Pyxis Capital, L.P. (formerly, Highland Funds Asset Management, L.P.), previously filed with the Commission on October 31, 2011 (Accession Number 0000950123-11-093183).
- (d)(9) Form of Sub-Advisory Agreement for Pyxis Dividend Equity Fund (formerly, Highland Dividend Equity Fund) between Pyxis Capital, L.P. (formerly, Highland Funds Asset Management, L.P.) and Brookmont Capital Management, LLC, previously filed with the Commission on October 31, 2011 (Accession Number 0000950123-11-093183).
- (d)(10) Form of Investment Advisory Agreement between Pyxis Funds II (formerly, Highland Funds II), on behalf of Pyxis Alpha Trend Strategies Fund (formerly, Highland Alpha Trend Strategies Fund), and Pyxis Capital, L.P. (formerly, Highland Funds Asset Management, L.P.), previously filed with the Commission on October 31, 2011 (Accession Number 0000950123-11-093183).
- (d)(11) Form of Sub-Advisory Agreement for Pyxis Alpha Trend Strategies Fund (formerly, Highland Alpha Trend Strategies Fund) between Pyxis Capital, L.P. (formerly, Highland Funds Asset Management, L.P.) and Anchor Capital Management Group, Inc., previously filed with the Commission on October 31, 2011 (Accession Number 0000950123-11-093183).
- (d)(12) Form of Sub-Advisory Agreement for Pyxis Energy MLP Fund (formerly Pyxis Energy and Materials Fund and, prior to that, Highland Energy and Materials Fund) between Pyxis Capital, L.P. (formerly, Highland Funds Asset Management, L.P.) and Highland Capital Management, L.P., previously filed with the Commission on November 29, 2011 (Accession Number 0000950123-11-100990).
- (d)(13) Form of Investment Advisory Agreement between Pyxis Funds II (formerly, Highland Funds II), on behalf of Pyxis Natural Resources Fund (formerly, Highland Natural Resources Fund), and Pyxis Capital, L.P. (formerly, Highland Funds Asset Management, L.P.), previously filed with the Commission on January 9, 2012 (Accession Number 0000950123-12-000445).
- (d)(14) Investment Advisory Agreement between Pyxis Funds II, on behalf of Pyxis Alternative Income Fund, and Pyxis Capital, L.P., previously filed with the Commission on January 27, 2012 (Accession Number 0001193125-12-027684).
- (d)(15) Sub-Advisory Agreement for Pyxis Alternative Income Fund between Pyxis Capital, L.P. and Anchor Capital Management Group, Inc., previously filed with the Commission on January 27, 2012 (Accession Number 0001193125-12-027684).
- (e)(1) Form of Underwriting Agreement between Foreside Funds Distributors, LLC and Pyxis Funds II, previously filed with the Commission on November 29, 2012 (Accession Number 0001193125-12-485870).

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## Table of Contents

- (f) Not applicable.
- (g)(1) Master Custodian Agreement between State Street Bank and Trust Company (“State Street”) and the series of Pyxis Funds II listed on Appendix A thereto (as Exhibit A may be amended from time to time), previously filed with the Commission on January 28, 2013.
- (g)(2) Exhibits A and B to the Transfer Agency Service Agreement between State Street and the series of Pyxis Funds II listed on Appendix A thereto (as Exhibit A may be amended from time to time), previously filed with the Commission on January 28, 2013.
- (h)(1) Form of Transfer Agency Services Agreement between Pyxis Funds II (formerly, Highland Funds II) and BNY Mellon Investment Servicing (US) Inc., previously filed with the Commission on February 18, 2011 (Accession Number 0001193125-11-040501).
- (h)(2) Form of Exhibit A to Transfer Agency Services Agreement between Pyxis Funds II (formerly, Highland Funds II) and BNY Mellon Investment Servicing (US) Inc. is incorporated herein by reference to Exhibit (13)(e) to Pre-Effective Amendment No. 2 to the Registration Statement on Form N-14, previously filed with the Commission on August 25, 2011 (Accession Number 0000950123-11-080210).
- (h)(3) Form of Exhibit A to Transfer Agency Services Agreement between BNY Mellon Investment Servicing (US) Inc. and Pyxis Funds II (formerly, Highland Funds II), previously filed with the Commission on October 31, 2011 (Accession Number 0000950123-11-093183).
- (h)(4) Form of Exhibit A to Transfer Agency Services Agreement between BNY Mellon Investment Servicing (US) Inc. and Pyxis Funds II, previously filed with the Commission on January 10, 2012 (Accession Number 0000950123-12-000628).
- (h)(5) Transfer Agency and Service Agreement between Boston Financial Data Services, Inc. and the series of Pyxis Funds II listed on Schedule A thereto (as Schedule A may be amended from time to time), previously filed with the Commission on January 28, 2013.
- (h)(6) Form of Administration Services Agreement between Pyxis Funds II (formerly, Highland Funds II) and Pyxis Capital, L.P. (formerly, Highland Funds Asset Management, L.P.) is incorporated herein by reference to Exhibit (13)(u) to Pre-Effective Amendment No. 2 to the Registration Statement on Form N-14, previously filed with the Commission on August 25, 2011 (Accession Number 0000950123-11-080210).
- (h)(7) Form of Administration Services Agreement between Pyxis Capital, L.P. (formerly, Highland Funds Asset Management, L.P.) and Pyxis Funds II (formerly, Highland Funds II), previously filed with the Commission on October 31, 2011 (Accession Number 0000950123-11-093183).
- (h)(8) Master Administration Agreement between State Street and the series of Pyxis Funds II listed on Appendix A thereto (as Exhibit A may be amended from time to time), previously filed with the Commission on January 28, 2013.
- (h)(9) Master Sub-Administration Agreement between State Street and Pyxis Capital, L.P., previously filed with the Commission on January 28, 2013.
- (h)(10) Participation Agreement by and among Pyxis Capital, L.P. (formerly, Highland Funds Asset Management, L.P., Pyxis Funds II (formerly, Highland Funds II) on behalf of Pyxis Natural Resources Fund, Ascendant Natural Resources Master Fund, and Ascendant Advisors, LLC, previously filed with the Commission on January 9, 2012 (Accession Number 0000950123-12-000445).
- (h)(11) Expense Limitation and Recoupment Agreement between Pyxis and the Registrant with respect to Dividend Equity Fund, previously filed with the Commission on January 28, 2013.
- (h)(12) Expense Limitation and Recoupment Agreement between Pyxis and the Registrant with respect to Pyxis Energy MLP Fund (formerly, Pyxis Energy and Materials Fund), previously filed with the Commission on January 28, 2013.

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## Table of Contents

- (h)(13) Expense Limitation and Recoupment Agreement between Pyxis and the Registrant with respect to Pyxis/iBoxx Senior Loan ETF, previously filed with the Commission on January 28, 2013.
- (i) None.
- (j) Consent of Independent Registered Public Accounting Firm, filed herewith.
- (k) Not applicable.
- (l)(1) Purchase Agreement, is incorporated herein by reference to Exhibit 13 to Pre-Effective Amendment No. 4 to the Registration Statement, previously filed with the Commission on January 5, 1993.
- (l)(2) Form of Purchase Agreement for GE Mid-Cap Growth Fund and GE International Income Fund, is incorporated herein by reference to Exhibit 13(c) to Post-Effective Amendment No. 12 to the Registration Statement, previously filed with the Commission on June 17, 1994.
- (l)(3) Form of Purchase Agreement for Short-Term Government Fund and International Equity Fund.\*
- (l)(4) Services Agreement, dated as of December 12, 2008 between GE Investment Distributors, Inc. and GE Asset Management Incorporated, is incorporated herein by reference to Exhibit (h)(7) to Post-Effective Amendment No. 50 to the Registration Statement, previously filed with the Commission on January 27, 2009 (Accession Number 0001193125-09-011822).
- (m)(1) Form of Amended Shareholder Servicing Plan, is incorporated herein by reference to Exhibit 15(a) to Post-Effective Amendment No. 3 to the Registration Statement, previously filed with the Commission on September 1, 1993.
- (m)(2) Form of Amended and Restated Shareholder Servicing and Distribution Plan, is incorporated herein by reference to Exhibit 15(a) to Post-Effective Amendment No. 5 to the Registration Statement, previously filed with the Commission on November 18, 1993.
- (m)(3) Form of Amended and Restated Shareholder Servicing and Distribution Plan, is incorporated herein by reference to Exhibit (m)(1) to Post-Effective Amendment No. 28 to the Registration Statement, previously filed with the Commission on July 7, 1999 (Accession Number 0000889812-99-002088).
- (m)(5) Form of Amended and Restated Shareholder Servicing and Distribution Plan, is incorporated herein by reference to Exhibit (m)(1) to Post-Effective Amendment No. 28 to the Registration Statement, previously filed with the Commission on January 27, 2003 (Accession Number 0001047469-03-002642).
- (m)(7) Form of Amended and Restated Shareholder Servicing and Distribution Plan, is incorporated herein by reference to Exhibit (m)(1) to Post-Effective Amendment No. 46 to the Registration Statement, previously filed with the Commission on January 28, 2008 (Accession Number 0001193125-08-013125).
- (m)(9) Fourth Amended and Restated Shareholder Servicing and Distribution Plan, is incorporated herein by reference to Exhibit (m)(1) to Post-Effective Amendment No. 49 to the Registration Statement, previously filed with the Commission on September 4, 2008 (Accession Number 0001193125-08-190223).
- (m)(10) Form of Shareholder Servicing and Distribution Plan for Pyxis Trend Following Fund (formerly Highland Trend Following Fund), is incorporated herein by reference to Exhibit (7)(m) to Post-Effective Amendment No. 1 to the Registration Statement on Form N-14, previously filed with the Commission on September 14, 2011 (Accession Number 0000950123-11-084448).
- (m)(11) Rule 12b-1 Distribution Plan, previously filed with the Commission on October 31, 2011 (Accession Number 0000950123-11-093183).
- (n)(1) Rule 18f-3 Plan, is incorporated herein by reference to Exhibit 4 to Post-Effective Amendment No. 16 to the Registration Statement, previously filed with the Commission on October 6, 1995.

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## Table of Contents

- (n)(2) Amended Written Plan Adopted pursuant to Rule 18f-3 under the Investment Company Act of 1940, as amended, is incorporated herein by reference to Exhibit (o) to Post-Effective Amendment No. 28 to the Registration Statement, previously filed with the Commission July 9, 1999 (Accession Number 0000889812-99-002088).
- (n)(3) Third Amended Written Plan Adopted pursuant to Rule 18f-3 under the Investment Company Act of 1940, as amended, is incorporated herein by reference to Exhibit (n) to Post-Effective Amendment No. 46 to the Registration Statement, previously filed with the Commission January 28, 2008 (Accession Number 0001193125-08-013125).
- (n)(4) Fourth Amended Written Plan Adopted pursuant to Rule 18f-3 under the Investment Company Act of 1940, as amended, is incorporated herein by reference to Exhibit (n) to Post-Effective Amendment No. 49 to the Registration Statement, previously filed with the Commission on September 4, 2008 (Accession Number 0001193125-08-190223).
- (n)(5) Form of Fifth Amended and Restated Rule 18f-3 Multiple Class Plan, is incorporated herein by reference to Exhibit (10)(n) to Post-Effective Amendment No. 1 to the Registration Statement on Form N-14, previously filed with the Commission on September 14, 2011 (Accession Number 0000950123-11-084448).
- (n)(6) Sixth Amended and Restated Rule 18f-3 Multiple Class Plan, previously filed with the Commission on October 31, 2011 (Accession Number 0000950123-11-093183).
- (o) Not applicable.
- (p)(1) GEAM Code of Ethics, is incorporated herein by reference to Exhibit p to Post-Effective Amendment No. 32 to the Registration Statement, previously filed with the Commission on April 25, 2000 (Accession Number 0000889812-00-001903).
- (p)(2) State Street Global Advisors Code of Ethics, is incorporated herein by reference to Exhibit (p)(2) to Post-Effective Amendment No. 34 to the Registration Statement, previously filed with the Commission on January 26, 2001 (Accession Number 0000912057-01-002924).
- (p)(3) Palisade Capital Management, L.L.C. Code of Ethics, is incorporated herein by reference to Exhibit (p)(3) to Post-Effective Amendment No. 36 to the Registration Statement, previously filed with the Commission on January 25, 2002 (Accession Number 0000912057-02-002638).
- (p)(4) Pyxis Capital, L.P. (formerly, Highland Funds Asset Management, L.P.) Code of Ethics Policy, previously filed with the Commission on February 18, 2011 (Accession Number 0001193125-11-040501).
- (p)(5) Brookmont Capital Management, LLC, Code of Ethics Policy, previously filed with the Commission on October 31, 2011 (Accession Number 0000950123-11-093183).
- (p)(6) Anchor Capital Management Group, Inc., Code of Ethics Policy, previously filed with the Commission on October 31, 2011 (Accession Number 0000950123-11-093183).
- (p)(7) Incline Capital, LLC Code of Ethics Policy is incorporated herein by reference to Exhibit (p)(16) to Post-Effective Amendment No. 67 to the Registration Statement, previously filed with the Commission on September 22, 2011 (Accession Number 0000950123-11-086135).
- (q)(1) Power of Attorney, previously filed with the Commission on July 13, 2011 (Accession Number 0000950123-11-065473).
- (q)(2) Secretary' s Certificate certifying resolution by the Board of Trustees of the Trust required pursuant to Rule 483 under Securities Act of 1933, as amended, previously filed with the Commission on January 28, 2013.

\* Previously filed.



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## **Table of Contents**

### **Item 29. Persons Controlled by or Under Common Control with Registrant**

See Item 31.

### **Item 30. Indemnification**

Reference is made to Article IV of the Declaration of Trust of Pyxis Funds II (“Registrant”) filed as Exhibit (a)(1) to this Registration Statement. Insofar as indemnification for liability arising under the Securities Act of 1933 as amended (the “Securities Act”), may be permitted for Trustees, officers and controlling persons of Registrant pursuant to provisions of Registrant’s Declaration of Trust, or otherwise, Registrant has been advised that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by Registrant of expenses incurred or paid by a Trustee, officer, or controlling person of Registrant in the successful defense of any action, suit or proceeding) is asserted by such Trustee, officer or controlling person in connection with the securities being registered, Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

### **Item 31. Business and Other Connections of Investment Advisers**

(a) The description of the business of Pyxis Capital, L.P. (“Pyxis”), the investment adviser, is set forth under the caption “Management of the Funds” in the Prospectus and under the caption “Management of the Trust” in the SAI, each forming part of this Registration Statement. The information as to other businesses, if any, and the directors and officers of Pyxis is set forth in its Form ADV, on file with the SEC (801-69968), and is incorporated herein by reference.

(b) The description of the business of Anchor Capital Management Group, Inc. (“Anchor”), the investment sub-adviser for Pyxis Alpha Trend Strategies Fund and Pyxis Alternative Income Fund, is set forth under the caption “Management of the Funds” in the Prospectus and under the caption “Management of the Trust” in the SAI, each forming part of this Registration Statement. The information as to other businesses, if any, and the directors and officers of Anchor is set forth in its Form ADV, on file with the SEC (801-61643), and is incorporated herein by reference.

(c) The description of the business of Highland Capital Management, L.P. (“HCMLP”), the investment sub-adviser for Pyxis Energy MLP Fund (formerly Pyxis Energy and Materials Fund), is set forth under the caption “Management of the Funds” in the Prospectus and under the caption “Management of the Trust” in the SAI, each forming part of this Registration Statement. The information as to other businesses, if any, and the directors and officers of HCMLP is set forth in its Form ADV, on file with the SEC (801-54874), and is incorporated herein by reference.

(d) The description of the business of Incline Capital, LLC (“Incline”), the investment sub-adviser for Pyxis Trend Following Fund, is set forth under the caption “Management of the Funds” in the Prospectus and under the caption “Management of the Trust” in the SAI, each forming part of this Registration Statement. The information as to other businesses, if any, and the directors and officers of Incline is set forth in its Form ADV, on file with the SEC (801-69747), and is incorporated herein by reference.

(e) The description of the business of GE Asset Management Incorporated (“GEAM”), the investment sub-adviser for Pyxis Core America Equity Fund, Pyxis Premier Growth Equity Fund, Pyxis Small-Cap Equity Fund, Pyxis Global Select Equity Fund (formerly Pyxis Global Equity Fund), Pyxis International Equity Fund, Pyxis Fixed Income Fund, Pyxis Tax-Exempt Fund and Pyxis Total Return Fund, is set forth under the caption “Management of the Funds” in the Prospectus and under the caption “Management of the Trust” in the SAI, each forming part of this Registration Statement. The information as to other businesses, if any, and the directors and officers of GEAM is set forth in its Form ADV, on file with the SEC (801-31947), and is incorporated herein by reference.

(f) The description of the business of Brookmont Capital Management, LLC (“Brookmont”), the investment sub-adviser for Pyxis Dividend Equity Fund, is set forth under the caption “Management of the Funds” in the Prospectus and under the caption “Management of the Trust” in the SAI, each forming part of this Registration Statement. The information as to other businesses, if any, and the

directors and officers of Brookmont is set forth in its Form ADV, on file with the SEC (801-68533), and is incorporated herein by reference.



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## **Table of Contents**

(g) The description of the business of Palisade Capital Management, L.L.C. (“Palisade”), an investment sub-adviser for Pyxis Small-Cap Equity Fund, is set forth under the caption “Management of the Funds” in the Prospectus and under the caption “Management of the Trust” in the SAI, each forming part of this Registration Statement. The information as to other businesses, if any, and the directors and officers of Palisade is set forth in its Form ADV, on file with the SEC (801-48401), and is incorporated herein by reference.

(h) Cummings Bay Capital Management, L.P. (“CBCM”), Acis Capital Management, L.P., Tunstall Capital Management, L.P., NexPoint Advisors, L.P. and Highland Capital Management, L.P. and Granite Bay Advisors, L.P., each with its principal place of business located at 200 Crescent Court, Suite 700, Dallas, Texas 75201, are registered investment advisers affiliated with Pyxis. The following are officers of CBCM:

- (1) James D. Dondero, President
- (2) Thomas Surgent, Chief Compliance Officer

The following is an officer of Acis Capital Management, L.P., Tunstall Capital Management, L.P., and Granite Bay Advisors, L.P.:

- (1) Thomas Surgent, Chief Compliance Officer

The following is an officer of NexPoint Advisors, L.P.:

- (1) Brian Mitts, Secretary
- (2) Alan Head, Chief Compliance Officer
- (3) Ethan Powell, President
- (4) Frank Waterhouse, Treasurer

The following is an officer of Highland Capital Management, L.P.:

- (1) Mark Okada, Chief Investment Officer
- (2) Scott Ellington, Chief Legal Officer and General Counsel
- (3) Thomas Surgent, Chief Compliance Officer
- (4) Frank Waterhouse, Chief Financial Officer

### **Item 32. Principal Underwriters**

- (a) Foreside Funds Distributors LLC (f/k/a BNY Mellon Distributors LLC) (the “Distributor”) serves as principal underwriter for the following investment companies registered under the Investment Company Act of 1940, as amended:

Aston Funds  
E.I.I. Realty Securities Trust  
FundVantage Trust  
GuideStone Funds  
Pyxis Funds I  
Pyxis Funds II  
Kalmar Pooled Investment Trust

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## Table of Contents

Matthews International Funds (d/b/a Matthews Asia Funds)  
Metropolitan West Funds  
The Motley Fool Funds Trust  
New Alternatives Fund, Inc.  
Old Westbury Funds, Inc.  
The RBB Fund, Inc.  
Stratton Multi-Cap Fund, Inc.  
Stratton Real Estate Fund, Inc.  
The Stratton Funds, Inc.  
The Torray Fund  
Versus Global Multi-Manager Real Estate Income Fund LLC

- (b) Foreside's main business address is 899 Cassatt Road, 400 Berwyn Park, Suite 110, Berwyn, PA 19312. Foreside. The following is a list of the directors and executive officers of Foreside:

<b>(1) Name and Principal Business Address*</b>	<b>(2) Positions and Offices with Underwriter</b>	<b>(3) Positions and Offices with Registrant</b>
Mark A. Fairbanks <sup>†</sup>	President and Manager	None
Richard J. Berthy <sup>†</sup>	Vice President, Treasurer and Manager	None
Bruno S. DiStefano	Vice President	None
Ronald C. Berge	Vice President	None
Susan K. Moscaritolo	Vice President and Chief Compliance Officer	None
Lisa S. Clifford <sup>†</sup>	Vice President	None
Jennifer E. Hoopes <sup>†</sup>	Secretary	None
Nishant Bhatnagar <sup>†</sup>	Assistant Secretary	None

\* The principal business address for each individual unless otherwise noted is Foreside Funds Distributors LLC, 899 Cassatt Road, 400 Berwyn Park, Suite 110, Berwyn, PA 19312

† The principal business address for this individual is Foreside Funds Distributors LLC, Three Canal Plaza, Suite 100, Portland, ME 04101

- (c) Not Applicable

### **Item 33. Location of Accounts and Records**

- (1) Boston Financial Data Services Inc., 2000 Crown Colony Drive Quincy, Massachusetts 02169-09534 (records relating to its function as transfer agent and accounting services agent).
- (2) Foreside Funds Distributors, LLC, 899 Cassatt Road, 400 Berwyn Park, Suite 110, Berwyn, PA 19312 (records relating to its function as distributor).
- (3) State Street Bank and Trust Company, 200 Clarendon Street, 16th Floor Boston, MA 02116 (records relating to its function as custodian and administrator).
- (4) Pyxis Capital, L.P., 200 Crescent Court, Suite 700, Dallas, Texas 75201 (records relating to its function as adviser and as administrator).

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## **Table of Contents**

### **Item 34. Management Services**

Not applicable.

### **Item 35. Undertakings**

Not applicable.

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## [Table of Contents](#)

### SIGNATURES

Pursuant to the requirements of the Investment Company Act of 1940, as amended, Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, duly authorized, in the City of Dallas, State of Texas on this 28th day of January, 2013.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Ethan Powell</u> <b>Ethan Powell</b>	Trustee, Executive Vice President and Secretary (Principal Executive Officer)	January 28, 2013
<u>/s/ Brian Mitts*</u> <b>Brian Mitts</b>	Treasurer (Principal Financial Officer and Principal Accounting Officer)	January 28, 2013

\* By: /s/ Ethan Powell  
Ethan Powell  
Attorney in Fact\*\*

January 28, 2013

\*\* Pursuant to power of attorney filed with the SEC on July 13, 2011 as part of Post-Effective Amendment No. 62 to the Registration Statement under the Securities Act and Amendment No. 64 to the Registration Statement under the 1940 Act.

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[Table of Contents](#)

**Exhibit Index**

**Exhibit**

**No.**

(j) Consent of Independent Registered Public Accounting Firm.

**Consent of Independent Registered Public Accounting Firm**

We hereby consent to the reference to us under the heading “Independent Registered Public Accounting Firm” in this Amendment No. 109 to the registration statement on Form N-1A (File No. 811-07142) for the Pyxis Natural Resources Fund, a series of Pyxis Funds II.

/s/ KPMG LLP

Boston, Massachusetts

January 28, 2013