

An interview with The London Company's Stephen Goddard, CFA and Jonathan Moody on their current equity market outlook and recent portfolio changes in the equity sleeve of the Fund.

Portfolio Management Team

EQUITY SLEEVE: THE LONDON COMPANY

Stephen M. Goddard, CFA

- » President, CIO, Managing Director
- » Over 20 years of investment experience

Jonathan T. Moody

- » Director of Research
- » Over 17 years of investment experience

J. Wade Stinnette, Jr.

- » Portfolio Manager
- » Over 22 years of investment experience

Q1: Equities have rallied strongly over the last 12 months, with the S&P 500 Index total return up nearly 50% over the one-year period. What is your equity outlook in the near-term and can this pace be sustained?

The equity markets should continue to perform reasonably well over the next six to twelve months, but we should certainly not expect anything close to the past twelve months. Like all bull markets, there will be short term corrections along the way, but valuations are still reasonable, corporate balance sheets are healthy, and fundamentals are improving. Corporations have reduced costs materially, and margins have increased significantly, providing tremendous operating leverage. However, longer-term, economic growth will be subdued by an overleveraged consumer, lower job and business formations and increased taxes. As organic growth becomes more challenging, companies will increasingly utilize their excess cash balances and free cash flow generation with more aggressive stock repurchases, higher dividend increases, and hopefully, accretive acquisitions.

Q2: The end of March marked reportedly seven consecutive weeks of inflows greater than outflows in U.S. equity mutual funds and ETFs. This is the longest streak since the fourth quarter of 2004. Are you seeing volumes pick up and has that made it harder to find compelling investment opportunity?

We have seen reasonably better inflows in equity, but investors are still cautious, after experiencing the crisis in 2008. Even though equity markets have rallied over 50% during the past twelve months, valuations are still fairly reasonable, due mainly to substantial improvement in operating margins.

We are still finding attractive opportunities with many companies trading as low as 3 to 5 times EBITDA, which is a sizeable discount to the premium multiples paid for recent acquisitions. Most of the merger activity has been in small caps to date, however we are beginning to see larger mergers, as the economy recovers. A recent example would be the Berkshire/BNI deal. Both were major positions in our equity sleeve of the Fund and benefited from the merger.

Q3: Are you seeing an increase in dividend payout and is that strengthening any of the underlying equity returns that you have in your holdings?

The dividend cuts of last year have reversed and we are seeing large dividend increases, almost across the board, in the non-financial sectors, especially the larger cap "blue chips." In fact, Standard & Poors' reported that 399 companies raised dividends during the first quarter of 2010, and only 48 companies decreased them during the period. This is in stark contrast to the record 367 companies that slashed payouts during the same period a year ago. This is a byproduct of the excessive cash generation and record cash balances being generated in corporations today. Few are distributing their excess cash generation to their fullest potential and we would expect more aggressive dividend increases and buybacks over the next three years.

OVERALL  RATING
as of 3/31/10



(Investor Class)

Among 955 Moderate Allocation Funds
The Overall Morningstar Rating is based on risk adjusted returns, derived from a weighted average of the 3, 5, and 10 year (if applicable) Morningstar metrics.

Want More Information?

Contact our FBR Funds Support Desk at 888.200.4710 or visit us online at www.fbrfunds.com.

(continued on the next page)

TOP 10 FUND HOLDINGS as of 3/31/10

	% Assets
U.S. Treasury Bond	6.8%
NewMarket Corp.	5.2
U.S. Treasury Bond	5.0
Albemarle Corp.	5.0
Wells Fargo & Co.	5.0
Intel Corp.	4.3
Dominion Resources, Inc.	4.3
The Coca-Cola Co.	4.2
Microsoft Corp.	4.1
Berkshire Hathaway, Inc. - Cl. B	3.9
Total	47.8%

FUND PORTFOLIO CHARACTERISTICS as of 3/31/10

Wtd. Avg. Market Cap	\$87.0B
Wtd. Avg. P/E	18.8x
Wtd. Avg. P/B	4.2x

SECTOR ALLOCATION: EQUITY as of 3/31/10

Sector Weightings	% Equity Net Assets
Consumer Staples	23.3%
Financials	12.9
Industrials	11.4
Info. Technology	11.2
Healthcare	10.3
Materials	10.1
Energy	6.8
Utilities	6.1
Telecommunications	3.7
Consumer Discretionary	3.2
Cash	1.1

We believe most companies are being too cautious with their excess cash generation and grossly underlevered balance sheets. In our view, many companies are not optimizing their capital structure for the benefit of shareholders.

Q4: Can you talk about this past quarter and discuss the factors that worked in favor of the portfolio and those that presented challenges?

In general terms, sector allocation was the main detractor to our overall performance. Our discipline does not focus on sector allocation, but rather individual stock selection. Sector allocations and their relative over/under performance will shift from quarter to quarter. We are not overly concerned with short-term quarterly metrics. Our investment horizon is three to five years, focusing on our best, undervalued, investment opportunities, based on facts, and not speculating on sector or macroeconomic forecasts. The process is long-term-oriented, with a goal of delivering excess, low risk returns over full market cycles.

We added a new position, Hershey, to our sleeve of the portfolio primarily because of its dominant, highly profitable franchise in the North American confectionary market. It has basically been forgotten by analysts, due to an ongoing feud between management and the Hershey Trust, that has curtailed the company from maximizing shareholder value. It currently trades at a significant discount to its private market value and we believe the takeover probability has increased with the recent mergers of some of its main competitors. The company has had several premium offers over the past decade, and we would not be surprised if another offer surfaces over the next few years and is successful, due to the limited options remaining to fill the void in the company franchise international distribution.

Q5: Your approach seeks companies with strong balance sheets, high cash flow and positive return on equity. Despite that high quality composition, what type of risk management strategies are you applying to protect the portfolio in the event of an unexpected downturn?

From a general perspective, our firm thinks that risk control is as important as stock selection. There are two primary mechanisms that we use to control our risk and are likely to motivate us to reduce exposure:

1. A soft stop-loss trigger. Any position that negatively impacts the portfolio by more than one percent on a cost basis triggers a finite review of investment thesis. We likely will begin an exit strategy or reduce exposure to mitigate against any further damage to portfolio return.
2. A significant spike in insider selling. If one of the top 5 key insiders sells 25 percent or more of their company stock, we view that as an indication that they know way more about their company prospects. They have made a meaningful decision and we want to use that information to best protect our investors.

We also assume little to no implied growth in our security analysis, which reduces speculation and risk and helps to provide downside protection. From a portfolio management perspective, if we look at the portfolio on a normal bell curve we are going to have some positions that are in the right tail that will substantially outperform and lead the portfolio. And then, invariably, with thirty or more positions, we are going to have our

(continued on the next page)

share of underperforming positions, with a few gradually migrating to the left tail. The risk control mechanisms are designed to get the grossly underperforming stocks out of the portfolio before they begin to significantly dilute the overall portfolio performance. If we are successful at limiting that excess standard deviation, then the portfolio should offer our shareholders attractive, risk-adjusted returns over time. As Peter Lynch used to say, we don't want to "water the weeds and clip the roses". Our process seeks to avoid this common investment mistake.

In summary, we are more focused on not losing money, having a longer term investment horizon, and to provide consistent low risk, above average returns over a full market cycle.

An interview with Financial Counselor, Inc.'s Gary Cloud, CFA on the current economic landscape, his near-term fixed income outlook, and strategic positioning in the Fund's fixed income portfolio sleeve.

FIXED INCOME SLEEVE: FINANCIAL COUNSELORS, INC.

Gary Cloud, CFA

- » Senior Vice President & Portfolio Manager
- » Over 23 years of investment experience

Peter G. Greig, CFA

- » Senior Vice President & Portfolio Manager
- » Over 20 years of investment experience

Q1: Corporate debt has been strongly outperforming Treasury debt. Can you discuss the private and public sectors, and your near-term outlook?

Late last year there was heightened concern for the impending impact that a cessation of quantitative easing would have on the market, and particularly on mortgage and agency securities. As it turns out, it was a non-event. In 2010, the 10-year risk free rate has traded in a relatively comfortable band and mortgage spreads remain tight. In any recovery, it is typical to see the private sector strengthen as the public sector weakens. Corporate America has strengthened its balance sheet, core inflation has been contained, and domestic GDP posted 3-4% growth in the first quarter and is likely to continue apace into the second. Consumer demand, however, has been largely supported by the top 25% of wage earners, many of whom face the risk of rising tax levels next year and may find it increasingly difficult to sustain their current pace of consumption. State and local governments struggle with the challenge of falling tax revenues and higher expenditures, and the Federal budget picture continues to worsen. First-time unemployment claim levels in the high 400,000s are an improvement from last year, but will need to fall further, along with stronger monthly payrolls, in order to support sustainable economic growth in both the private and public sectors.

During the quarter, most investment grade corporate credits traded in tighter spread levels in the secondary markets. In a rare secular move to a higher implied risk rate in the public sector versus the private, some AA-rated corporate credits traded at yields below Treasury levels. Accordingly, on a long-term basis we continue to prefer corporate high quality credit exposure, as many of those companies have little-to-no net debt and continue to deleverage their balance sheets.

Q2: The Fed Funds rate can not stay at zero forever. What are you doing in the portfolio to protect against rising interest rates?

A change in the forward-looking statement contained within the minutes of the Federal Reserve may be the single biggest market driver to occur over the balance

(continued on the next page)

SECTOR ALLOCATION: FIXED INCOME
as of 3/31/10

Sector Weightings	% of Bond Net Assets
Corporate Bonds	68.0%
Financials	34.8
Industrials	32.1
Utilities	1.1
U.S. Treasuries	20.7
Pass-Through Obligations	5.8
Agencies	3.2
Asset-Backed Obligations	2.3

of this year. Treasury securities have traded in a tight band year-to-date, and we expect the market to have a negative bias when the Fed begins to tighten monetary policy. We have found greater yield in high quality, intermediate-term corporate bonds, and have been overweight in the 3-year and 5-year range. The portfolio has roughly 70% of its holdings in high quality corporate credit, which includes a slight 8% exposure in high-yield exchange-traded funds and preferred securities. This yield-focused and generally high quality blended corporate mix provides additional interest income that can help provide incremental return in a potentially rising rate environment.

Q3: There was concern late last year that foreign sponsorship for monthly debt auctions would decline and threaten to weaken Treasury support levels. Has that occurred and can you discuss your thoughts on the global bond market?

Economic concern for other countries around the globe has overshadowed any near-term market concern regarding our public sector and its steepening fiscal problems. Greece's total debt as a percent of GDP in excess of 100%, for example, poses risk for a wider systemic negative feedback loop for other European countries. Signs of collateral damage are evidenced in a weakening euro and declining demand of sovereign debt. This has created in essence a flight to safety, and a resurgence of demand for high quality dollar-denominated fixed income investments.

Q4: Discuss how your approach and portfolio is different from other intermediate-term, core bond fund managers?

We are not managers who borrow money to amplify returns. We have a well-defined investment process that emphasizes fundamental credit analysis. We employ a risk-conscious approach that aims to identify attractive opportunities with prudent risk and return, rather than exposing a portfolio to the unpredictability of short sales or currency bets. High quality, investment-grade securities that we generally own are transparent and liquid, and dollar-denominated. And despite this more conservative approach, our performance compares well against other managers who may utilize riskier tools to pursue greater yield— because long-term results show that protecting against downside risk is just as important as participating on the upside.

Important Disclosures

Investors should consider the investment objectives, risks, charges and expenses carefully before investing. This and other important information can be found in the Fund's prospectus. To obtain a free prospectus, please call 888.200.4710 or visit www.fbrfunds.com. Please read the prospectus carefully before investing.

The Advisor Class shares of the AFBA 5Star Balanced Fund were reorganized into the Investor Class shares of the FBR Balanced Fund on March 12, 2010. Performance figures shown prior to March 12, 2010 represent performance of the Advisor Class shares of the AFBA 5Star Balanced Fund.

Morningstar Proprietary Ratings reflect risk-adjusted performance as of 3/31/10. For each fund with at least a three year history, Morningstar calculates a Morningstar Rating™ based on a Morningstar risk-adjusted return measure that accounts for variation in a fund's monthly performance placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in distribution percentage. The Investor Class of the Fund received 5 stars for the five year period and 4 stars for the three year and 10 year periods ended 3/31/10 among 777, 955 and 445 moderate allocation funds, respectively. The 10-year rating for the Investor Class is based on the adjusted historical performance of Class I. ©Morningstar, Inc. All Rights Reserved.