



DAVID RAINEY, CFA
Co-Portfolio Manager



BRIAN MACAULEY, CFA
Co-Portfolio Manager



IRA ROTHBERG, CFA
Co-Portfolio Manager

- » These three industry veterans have more than 24 years of collective experience working on the Fund
- » In addition the Team brings a total of 42 years of Investment & Capital Markets experience

Want More Information?

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

Q1: The stock market is up substantially over the past year. Do you still think there is a good investment opportunity in stocks today?

The economy experienced major trauma in 2008 and the first quarter of 2009. At that time, there was legitimate concern that the financial system was irreparably broken, and an economic depression was around the corner. Stock prices reflected that concern, and they have rallied strongly as the economy has pulled back from the precipice and appears on the mend.

We think it is futile to try to predict the market's direction over the short term (anything less than three years). But there are some measures of long term market value – market capitalization to GDP, price to trailing ten year earnings, corporate profits as a percentage of GDP – that we think have merit. When we look at these measures today, they show that the market is reasonably valued relative to long term history, so neither substantially overvalued nor undervalued.

It is obviously more difficult to identify compelling ideas now than twelve months ago, but as a “focus fund”, we only need to find two dozen good ideas from among the nearly 10,000 available opportunities. We continue to like the outlook for the companies in the fund, and we are finding select opportunities to upgrade the portfolio. We believe today is a much more normal investment environment than that seen over the past three years.

For example, during the first quarter we added shares to our position in Dynamex at a price of only 11x our estimate of earnings. Dynamex is a transportation logistics company with a unique nationwide franchise in the same day delivery field. The company has a strong competitive position with seasoned management and the potential to be 3 to 5 times larger over the next decade. We are delighted to buy businesses like this at such a reasonable valuation, and we are seeing other select opportunities in existing holdings and new prospects.

Q2: Please explain how you research potential investments?

We typically hold an investment for many years, so we conduct our research with an eye toward understanding the opportunity for a business over the next decade. Most of our research is focused on evaluating those things that make a difference in the long term, i.e. the competitive structure of the industry, management quality, and the sustainability of pricing and margins.

To build this knowledge, we begin by conducting industry standard research like reading annual reports, SEC filings, financial statements, attending presentations, and meeting with senior management. But to really understand a business we find it is important to dig much deeper. So we often visit company facilities, meet with field level employees, talk to customers, interview former employees, attend industry trade shows, and speak with public and private competitors.

While this is hard and time consuming work, we believe it gives us an edge over the more shallow practices common in the investment industry. It gives us an understanding of a company and its industry that often leads to unique investment insights.

Q3: Please describe the opportunity that you see in one of your largest holdings: O'Reilly Automotive?

TOP 10 HOLDINGS as of 3/31/10

	% Assets
American Tower Corp.	13.1%
99 Cents Only Stores	11.0
CarMax, Inc.	10.3
Penn National Gaming, Inc.	10.1
Markel Corp.	9.5
O'Reilly Automotive, Inc.	9.2
Bally Technologies, Inc.	8.5
Lamar Advertising Co.	8.3
AmeriCredit Corp.	6.5
Simpson Manufacturing Co., Inc.	3.0
Total	89.5%

PORTFOLIO CHARACTERISTICS as of 3/31/10

Portfolio TTM Turnover*	3%
Wtd. Avg. Market Cap	\$5.2B
Wtd. Avg. P/E	16.4x
Wtd. Avg. P/B	2.7x
Number of Equity Holdings	21
Median Market Cap	\$2.2B
Wtd. Avg. EPS Growth Rate	17.2%
Median P/B	2.0x

*unaudited as of 3/31/10

O'Reilly Automotive is the second largest distributor of aftermarket auto parts in the U.S. with 3,400 locations across 38 states. The Company sells products ranging from spark plugs, windshield wipers, and motor oil, to alternators, transmissions, and cylinder heads. O'Reilly's revenue is split about 50/50 between retail customers and professional repair shops, in contrast to its large competitors - AutoZone, Advance, NAPA, and Carquest - that are much more slanted toward one customer group or the other.

We believe O'Reilly is competitively advantaged because its distribution platform is configured to keep its inventory of auto parts closer to the end customer enabling better parts availability and faster delivery times. This is very important to commercial and heavy duty retail customers. Competitors have been unsuccessful replicating O'Reilly's distribution model, so the company enjoys a service advantage that wins customers and market share over time.

Further, as the second largest company in the industry, O'Reilly has substantial buying power compared to its many small competitors. So the company can secure parts inventory at a much better price than local and regional competitors enabling it to earn higher profit margins and good economic profits.

With just 4% market share in a huge industry, O'Reilly has a lot of room to grow the business. Revenue growth should come from buying and improving competing stores, building new stores in existing markets, and expanding geographically into the Mid Atlantic and Northeast. Profit growth should exceed revenue growth as O'Reilly harnesses its buying power and makes better use of its existing distribution and store assets.

O'Reilly is guided by honest and able management. Greg Henslee, CEO, and Ted Wise, COO, are best-in class operators with a combined 66 years experience at the company. And David O'Reilly, Chairman, is a skilled capital allocator who has successfully shepherded the company through five major acquisitions. Despite its strong track record and future prospects, the stock still trades at a very reasonable price of about 15x our forward year earnings estimate, so we think it should continue to perform well for fund shareholders.

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 non-diversified nature of the Fund may subject investors to greater volatility than other diversified funds. Investing in mid- and small-cap companies can involve risks such as less publicly available information, higher volatility and less liquidity than in the case of larger companies.

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