FBR MUTUAL FUNDS

Q&A WITH THE MANAGEMENT TEAM OF THE FBR CORE BOND FUND

[Comments and Opinions] July 2010

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.

MORNINGSTAR® RATING as of 6/30/10

OVERALL MORNINGSTAR® RATING

★★★

(Investor Class)

Among 1011 Intermediate Term Bond 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.

FBR Core Bond Fund Portfolio Management

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: Treasuries had a strong quarter from a performance standpoint. What were the factors behind the uptick?

Growing concern of the European sovereign debt crisis was the key driver behind a flight to safety and subsequent Treasury rally last quarter. While the crisis came to light in the fall of 2009 and simmered in Q1 2010, the immensity of the problem and the contagion effects of Greece, Portugal, Spain, and Italy brought fear and uncertainty back into focus. These countries are experiencing large budget deficits relative to their GDP and many are concerned about their ability to pay the interest and principal on their existing borrowings. Whereas in the U.S. collapse of Lehman triggered tremendous uncertainty and a quick downward economic spiral, the sovereign debt crisis became the European version of overleveraging and subprime debt. This global concern spilled over to the U. S. market and investors sought safety once again. During the quarter, Treasuries posted their best period of performance since 1995.

Q2: Considerable discussion arose earlier this year regarding the possibility of the Fed raising interest rates. Where does that discussion stand today and what is your general outlook?

There appears to be less enthusiasm for increasing interest rates today than there was a few months ago. A fragile economic state is likely to continue and though we do not foresee a double dip recession, we believe that it will be a slow recovery. We are experiencing the deleveraging of the private sector, both at the business and consumer levels, which probably has multiple years to go. Nationally, job growth is slow to take hold and unemployment remains at very high levels. The sovereign debt crisis has stabilized only to be supplanted by the uncertainty of the Gulf oil spill and its impact environmentally and financially to the region. While corporate America is reporting strong earnings growth, much is due from cost cutting measures rather than top line revenue growth. Housing seems to have turned the corner after an extended period of significant decline, but the collapse has severely impacted the balance sheet of the American consumer. Small businesses are still having difficulty in the credit market, and upcoming regulatory changes and the elimination of the Bush tax cuts at year end add to investor uncertainty. Given that backdrop, we don't anticipate a rate increase in the near-term. We believe that the market will continue to remain in a period of historic low rates for some time. In fact, rate forecasts of an increase are beginning to push into 2012, which may signal a low-rate period longer than most people expect.

(continued on the next page)

Want More Information?

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

PORTFOLIO CHARACTERISTICS as of 6/30/10

Effective Duration (Years)	4.79
Maturity (Years)	6.77

QUALITY DISTRIBUTION as of 6/30/10

	FBR Core Bond Fund	Barclays Capital US Govt/Credit Index
U.S. Treasury	19.8%	51.6%
Agency	12.5%	12.2%
Aaa/AAA	3.3%	3.3%
Aa/AA	8.7%	6.0%
A	25.3%	14.3%
Baa/BBB	28.8%	12.6%
Below Baa/BBB	1.5%	0.0%
Other	0.2%*	0.0%

*Preferred Stock/ETF holdings

Q3: How has your thoughts of a prolonged low interest rate scenario impacted your portfolio construction?

We were approximately 20% in Treasuries in the second quarter, which hurt our performance relative to the Barclays US Government/Credit Index. The index had about 50% in Treasuries, which benefited from a flight to quality rally and posted its strongest performance in nearly 15 years. We don't expect a big Treasury sell-off in the near-term, and continue to overweight the portfolio in corporate credit, particularly high-quality issues. For a smaller portion of the portfolio, we are investing in higher-rated, non-investment grade issues, such as BB rated securities, which provide attractive yields and can add incremental return in this low rate environment. To help mitigate risk, we employ extensive credit analysis to find attractive mispriced corporate issues that have a higher yield and potential for capital growth. We are a conservative investment manager by nature, and believe that it is important to protect against the downside.

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.

BarCap US Govt/Credit TR measures performance of U.S. dollar denominated U.S. Treasuries, government-related, and investment grade U.S. corporate securities that have a remaining maturity of greater than or equal to 1 year. In addition, the securities have $250 million or more of the outstanding face value, and must be fixed rate and non-convertible.

Morningstar Proprietary Ratings reflect risk-adjusted performance as of 6/30/10. 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 a 3-star rating for the 3-year period among 1011 intermediate-term bond funds, a 4-star rating for the 5-year period among 880 intermediate-term bond funds, and a 5-star rating for the 10-year period among 515 intermediate-term bond funds. The 10-year rating for the Investor Class is based on the adjusted historical performance of Class I.

Credit Quality Bond Ratings typically range from AAA/Aaa (highest) to D (lowest). The credit ratings shown are based on each portfolio security's rating as generally provided by Moody's. If a Moody's rating is not available, then the rating is provided by Standard and Poor's ("S&P"), a Nationally Recognized Statistical Rating Organization ("NRSRO"). The credit quality of the investments in the Fund's portfolio does not apply to the stability or safety of the Fund. These ratings are updated by Financial Counselors, Inc. ("FCI") quarterly and may change over time. Please note, FCI is not a NRSRO nor has the Fund itself been rated by a NRSRO.

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