FBR MUTUAL FUNDS

Q&A WITH THE MANAGEMENT TEAMS OF THE FBR BALANCED FUND

[Comments and Opinions] July 2010

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.

OVERALL MORNINGSTAR® RATING
as of 6/30//10

★★★★★

(Investor Class)

Among 963 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.

RISK METRICS as of 6/30/10
(Investor Class)

cat: Moderate Allocation	3 Year	5 Year
Morningstar Risk	-Avg	-Avg
Morningstar Return	+Avg	High
Standard Deviation		
FBR Balanced Fund	12.48	10.27
cat: Moderate Allocation Funds Avg.	15.00	12.08

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*

Want More Information?

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

Q1: Corporate balance sheets are flush with cash. Do you foresee companies reinstating or increasing their dividend payout?

Companies have the ability and confidence to pay out dividends as excess cash remains on average at 50-year highs. Just two years ago, companies were slashing dividends to conserve cash during a very uncertain economic period. As the economy started to show improvement, albeit modest at best, many companies managed expenses and grew cash reserves, nearly to the point that they became severely under-levered. As a result, balance sheet strength improved dramatically. While we would have expected to see more aggressive acquisition activity given relative valuations and large cash positions, we are seeing companies once again increase their dividend payouts and shareholder buyback programs. In fact, Standard & Poor's reported that 44% of the publicly-traded companies tracked by the index provider increased their dividend payouts in the second quarter versus their year-ago levels.

Q2: The equity market, as measured by the S&P 500, fell approximately 11% in Q2 after several consecutive quarters of positive returns. Where do you see the market headed?

Media noise surrounding concerns of a double dip recession have grown in volume, however, we do not foresee that as a likely outcome. We believe that the economy is on a recovery path, but that it is moving at an unfortunately slow and unpredictable pace. Housing continues to be problematic, although the steady market value decline seems to have turned the corner. Companies have increased their bottom line by primarily reducing expenses and improving operating margin. We do not see companies aggressively increasing payrolls and expect that higher relative unemployment levels will continue until payrolls improve. Given this sluggish backdrop, we anticipate organic growth will be slower. From a market perspective, we believe that the market will perform reasonably well, but certainly not at the levels of 2009.

Q3: The equity sleeve faired reasonably well over the past quarter outperforming the S&P 500? What factors contributed to the stronger relative performance?

The equity sleeve's outperformance was attributed primarily to sector allocation. Utilities, telecom, and staples all performed well and the Fund had an overweighing in staples. Conversely, financials and energy performed poorly. Fortunately, the equity sleeve was underweighted in the energy sector.

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TOP 10 FUND HOLDINGS as of 6/30/10

	% Assets
U.S. Treasury Bond	8.4%
U.S. Treasury Bond	3.7
IShares Trust Iboxx High Yield Corp. Bond	3.1
SPDR Barclays Capital High Yield Bond	3.0
Freddie Mac Gold	2.9
Fannie Mae	2.7
U.S. Treasury Bond	2.7
Fannie Mae	2.1
Chase Issuance Trust	2.1
The Coca-Cola Co.	1.7
Total	32.4%

Q4: How do you rate the attractiveness of equities versus bonds?

The earnings yield on equities less the 10 year Treasury yield of approximately 3% is much higher than normal. Given the historic low interest rate environment, we believe that bonds have limited appreciation potential. Equities, on the other hand, are relatively more attractive. Equities are still at levels substantially below their 2007 highs, corporate profits are strong and top line growth should improve as the economy strengthens. We believe this environment bodes well for stock investors.

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: 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 concerns 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

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SECTOR ALLOCATION: FIXED INCOME as of 6/30/10

Sector Weightings	% of Bond Net Assets
Corporate Bonds	66.8%
Financials	36.9
Industrials	28.7
Utilities	1.1
U.S. Treasuries	19.5
Pass-Through Obligations	10.3
Asset-Backed Obligations	2.4
Agencies	1.0

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.

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.

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 5 stars for the five year period and 4 stars for the three year and 10 year periods ended 6/30/10 among 807, 963 and 436 moderate allocation funds, respectively. The 10-year rating for the Investor Class is based on the adjusted historical performance of Class I.

Morningstar Risk scores for a given time period (three, five, or 10 years) reflect the Fund's Morningstar risk score plotted on a bell curve: Monthly calculations are based on whether the Fund scores in the top 10% of its category, its risk score is considered High; if it falls in the next 22.5% Above Average; a place in the middle 35% is Average; those lower still, in the next 22.5%, are Below Average and the bottom Low. Overall Morningstar risk score is a weighted average of the available three, five, and 10 year Morningstar risk scores. Investments with less than three years of performance history are not rated.