

# Smart Growth

MUTUAL FUNDS

**2nd Quarter 2010 Update**  
**Hennion & Walsh Asset Management**  
**Portfolio Manager: Kevin D. Mahn**

## Investment Objectives

### **SmartGrowth® Lipper™ Optimal Conservative Index Fund (LPCAX)**

The Fund's investment objective is to track the performance of the Lipper™ Optimal Conservative Index which is a target risk benchmark consisting of a select group of ETFs and ETNs, rebalanced quarterly, and designed to maximize returns given a low degree of volatility.

### **SmartGrowth® Lipper™ Optimal Moderate Index Fund (LPMAX)**

The Fund's investment objective is to track the performance of the Lipper™ Optimal Moderate Index which is a target risk benchmark consisting of a select group of ETFs and ETNs, rebalanced quarterly, and designed to maximize returns given a moderate degree of volatility.

### **SmartGrowth® Lipper™ Optimal Growth Index Fund (LPGAX)**

The Fund's investment objective is to track the performance of the Lipper™ Optimal Growth Index which is a target risk benchmark consisting of a select group of ETFs and ETNs, rebalanced quarterly, and designed to maximize returns given a high degree of volatility.

## 2nd Quarter 2010 Review

The four quarter long bull market came to a screeching halt in the 2<sup>nd</sup> quarter of 2010 as investors grew fearful following credit default possibilities in Europe; namely Greece, and increased concerns over the pace of the economic recovery in the United States.

We believe that the catalyst for the about-face in the market may have been Greece, and potential contagion within the Euro region of a default on a significant portion of Greece's outstanding debt, but the underlying concerns about both the stock market and economic recoveries that surfaced as a result highlights true, current investor sentiment. This pessimistic sentiment has led to increased volatility in the market and heightened risk aversion among individual and institutional investors. Increased volatility and risk aversion generally lead to "flights to quality" which benefit bond holders to the detriment of holders of equities. This pattern held true during the second quarter of 2010.

In terms of domestic equity markets, during the quarter, the Dow Jones Industrial Average ("DJIA") index declined 9.36% and the S&P 500 index lost 11.43%. International equity markets fared even worse than domestic equity markets as evidenced by the MSCI EAFE (Net) index decline of 13.97% during the quarter. However, International Emerging Markets

held up better than International Developed Markets, which were plagued by the previous discussed sovereign debt concerns in the P.I.I.G.S. (i.e. Portugal, Italy, Ireland, Greece and Spain) countries as evidenced by the MSCI EM Emerging Markets (Net) index loss of “only” 8.37% during the quarter.

Fixed income markets were where the top performers for the second quarter of 2010 could be found with longer term Government and Investment Grade Corporate Bonds leading the way. For example, the Barclays Capital U.S. Government/Credit Long index increased by 8.56% over the course of the first three months of the year. Other fixed income markets did not fare as well but still posted attractive returns as evidenced by the 3.49% quarterly gain of the Barclays Capital U.S. Aggregate Bond index and the Barclays Capital Muni Bond index increase of 2.03% during the second quarter.

The SmartGrowth® Mutual Funds were able to deliver another relatively solid quarter of risk-adjusted returns. Noteworthy contributors to performance for the Funds during the quarter included iPath S&P 500 VIX Mid-Term Futures ETN (Ticker: VXZ), the ProShares UltraShort MidCap 400 ETF (Ticker: MZZ) and the iShares Barclays 20+ Year Treasury Bond ETF (Ticker: TLT).

On the flip side, detractors to Fund performance during the 2<sup>nd</sup> quarter included the Consumer Discretionary Select Sector SPDR (Ticker: XLY), the iShares Dow Jones U.S. Consumer Goods ETF (Ticker: IYK) and the iShares Dow Jones U.S. Healthcare Provider ETF (Ticker: IHF).

Overall, the SmartGrowth® Mutual Funds strive to limit the negative impact during days of heightened volatility. The chart below demonstrates this by displaying each of the Funds’ relative daily performances on the two days where the S&P 500 experienced its largest daily declines over the course of the 2nd quarter of 2010.

<b>Index/Fund Ticker</b>	<b>Daily Valuation Change 5/20/10</b>	<b>Daily Valuation Change 5/6/10</b>
S&P 500	-3.90%	-3.24%
LPGAX	-2.45%	-2.93%
LPMAX	-1.22%	-1.69%
LPCAX	-0.49%	-0.98%

*Performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than the original costs. Current performance may be lower or higher than the performance quoted. For performance data current to the most recent month end, call 1-888-465-4722 or visit the website [www.smartgrowthfunds.com](http://www.smartgrowthfunds.com).*

With all of these factors taken into consideration, the SmartGrowth® Mutual Funds, while negative overall, turned in solid relative results for the 2<sup>nd</sup> Quarter of 2010. The Growth fund (Ticker: LPGAX) returned -7.26%, the Moderate fund (Ticker: LPMAX) returned -4.14% and the Conservative fund (Ticker: LPCAX) returned -1.82% for the quarter respectively versus a return of -11.43% for the S&P 500 Index. It should be noted that throughout the 2nd quarter

of 2010, the SmartGrowth® funds exhibited a relatively low correlation to the S&P 500 Index with the Growth Fund having a correlation of approximately 88% (approximately -22% since inception), the Moderate fund having a correlation of approximately 77% (approximately -19% since inception) and the Conservative fund having a correlation of approximately 58% (approximately -21% since inception) to the S&P 500 Index respectively.

The Funds are currently classified in the Lipper™ Multi-Cap Core Funds classification which experienced a return of -11.00% for the second quarter of 2010.

### **Rebalancing/Repositioning**

The quarterly rebalancing process instituted by Lipper™ on their Optimal Indices took place at the end of June and produced some very interesting results. The indices changed in terms of the type and quantity ETPs within each portfolio. The number of ETPs contained in each portfolio over the last five quarters is shown below:

<b>Fund</b>	<b>No. of ETPs Q3 2009</b>	<b>No. of ETPs Q4 2009</b>	<b>No. of ETPs Q1 2010</b>	<b>No. of ETPs Q2 2010</b>	<b>No. of ETPs Q3 2010</b>
LPGAX	14	12	8	6	4
LPMAX	21	16	18	9	14
LPCAX	24	19	23	14	18

### **Outlook**

Leading into the 3rd Quarter of 2010, the SmartGrowth® Lipper Mutual Fund allocations seem to be signaling that the next three months may be a bumpy road for the equities market marked by periods of increased volatility as investors question the pace of the economic recovery and search for the catalyst for the next leg of this stalling bull market.

Overall, for the next three months, the SmartGrowth® Mutual Funds contain only long allocations. Put differently, for the first time in recent memory, the SmartGrowth® Funds do not contain any allocations to short Exchange-traded products this quarter. Drawing from the Lipper Optimal Indices post-mean variance optimized (MVO) pool of 41 Exchange-traded products (ETPs), the Conservative fund (LPCAX) will contain 18 ETPs, the Moderate fund (LPMAX) will contain 14 ETPs and the Growth fund (LPGAX) will contain 4 ETPs during the 3<sup>rd</sup> quarter. There are over 1,700 securities underlying the ETPs in the portfolios this quarter.

- In terms of equities allocations, the Growth, Moderate and Conservative funds have essentially decreased their allocations to equities from the previous quarter rather significantly to approximately 21%, 22% and 18% respectively.
  - The majority of the equity allocations are focused on the Industrials and U.S. Media sectors.

- In terms of fixed income allocations, the Growth, Moderate and Conservative funds have increased their allocations rather significantly from the previous quarter to approximately 22%, 46% and 56% respectively. The bond-oriented strategies utilized this quarter to satisfy the bulk of these fixed income allocations are focused on short-intermediate term U.S. Treasury and Municipal Bond oriented strategies.
- In terms of alternative asset allocations, the Growth, Moderate and Conservative funds have also increased their allocations from the previous quarter to 57%, 33% and 26% respectively with current weightings aligned with the same currency ETF focused on the Chinese Yuan that was in the portfolio the previous quarter, a US Real Estate oriented strategy and an ETF that tracks the S&P 500 VIX index (i.e. stock market volatility index). The VIX tracking strategy is the single largest holding in all three of the Funds this quarter.

Following the themes underlying the SmartGrowth® fund allocations for the 3rd quarter of 2010, it would seem that if the economy and market continue to struggle to find their respective legs, and an ensuing flight to quality occurs as a result of heightened volatility and increasing investor fear and pessimism, the Funds seem positioned to perform well. In my opinion, the Funds also stand to benefit from the performance of certain sectors of the U.S. economy during the third quarter such as Industrials, Media and Real Estate. Conversely, if a catalyst does emerge to provide the spark for the next leg of this bull market during the 3<sup>rd</sup> quarter, the funds could then lag overall market performance.

	Index/Fund % Allocations – Fixed Income		
	Conservative	Moderate	Growth
3 <sup>rd</sup> Quarter 2010	56	45	22
2 <sup>nd</sup> Quarter 2010	32	32	19
1 <sup>st</sup> Quarter 2010	13	16	24
4 <sup>th</sup> Quarter 2009	9	9	10
3 <sup>rd</sup> Quarter 2009	25	26	25

	Index/Fund % Allocations – Alternative Assets		
	Conservative	Moderate	Growth
3 <sup>rd</sup> Quarter 2010	26	33	57
2 <sup>nd</sup> Quarter 2010	10	3	0
1 <sup>st</sup> Quarter 2010	24	23	7
4 <sup>th</sup> Quarter 2009	6	8	9
3 <sup>rd</sup> Quarter 2009	20	17	3

	Index/Fund % Allocations – Equities		
	Conservative	Moderate	Growth
3 <sup>rd</sup> Quarter 2010	18	22	21
2 <sup>nd</sup> Quarter 2010	58	65	81
1 <sup>st</sup> Quarter 2010	63	61	69
4 <sup>th</sup> Quarter 2009	85	83	81
3 <sup>rd</sup> Quarter 2009	55	57	72

## Performance Summary

Funds Inception Date: June 1, 2007

<b>FUND/Index</b>	<b>Q2 2010</b>	<b>1 Year</b>	<b>2 Year</b>	<b>3 Year</b>	<b>Annualized Inception to Date</b>
<b>LPGAX</b>	<b>-7.26%</b>	<b>4.16%</b>	<b>-9.58%</b>	<b>-4.24%</b>	<b>-4.70%</b>
<i>Lipper™Optimal Growth Index</i>	-7.07%	7.30%	-9.26%	-3.18%	-3.07%
<b>LPMAX</b>	<b>-4.14%</b>	<b>1.21%</b>	<b>-6.90%</b>	<b>-2.52%</b>	<b>-3.22%</b>
<i>Lipper™Optimal Moderate Index</i>	-3.89%	4.07%	-5.48%	-1.24%	-1.51%
<b>LPCAX</b>	<b>-1.82%</b>	<b>0.19%</b>	<b>-5.82%</b>	<b>-2.18%</b>	<b>-2.99%</b>
<i>Lipper™Optimal Conservative Index</i>	-1.63%	3.05%	-3.76%	-0.70%	-1.16%
<b>Other Notable Index</b>	<b>Q2 2010</b>	<b>1 Year</b>	<b>2 Year</b>	<b>3 Year</b>	<b>Annualized Inception to Date</b>
S&P 500	-11.43%	14.43%	-8.11%	-9.81%	-10.16%
<b>Lipper™Classification</b>	<b>Q2 2010</b>	<b>1 Year</b>	<b>2 Year</b>	<b>3 Year</b>	<b>Annualized Inception to Date</b>
Lipper™ Multi-Cap Core Funds	-11.00%	15.17%	-8.16%	-9.47%	-9.59%

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The S&P 500 Index is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. You cannot invest directly in an index. Holdings are subject to change and current and future portfolio holdings are subject to risk. Weightings as of 6/30/2010 are: iPath S&P 500 VIX Mid-Term Futures ETN [LPCAX: 2.8%]; ProShares UltraShort MidCap 400 ETF [LPGAX: 8.2%; LPMAX:11.9%; LPCAX: 12.7%] iShares Dow Jones US Health Care Providers [LPGAX: 16.2%; LPMAX: 11.0%; LPCAX: 7.9%]; iShares Barclays 20+ Year Treasury Bond ETF [LPGAX: 3.6%; LPMAX: 7.2%; LPCAX: 6.8%]; Consumer Discretionary Select Sector SPDR [LPGAX: 19.2%;

LPMAX: 14.9%; LPCAX: 11.7%]; iShares Dow Jones U.S. Consumer Goods ETF [LPGAX: 19.4%; LPMAX: 15.4%; LPCAX: 11.6%].

*Mutual fund investing involves risk, including loss of principal. There is no guarantee that a Fund will meet its objective. An investor will indirectly bear the operating expenses of the underlying ETFs in which the Funds invest. The value of an ETN may be influenced by time to maturity, level of supply and demand for the ETN, volatility and lack of liquidity in the underlying market, changes in the applicable interest rates, and changes in the issuer's credit rating and economic, legal, political or geographic events that affect the referenced market. Underlying investments of the Funds are subject to risks due to aggressive investment techniques, inverse correlations, narrowly-focused, international investing and interest rate risk. To the extent the Funds invest in ETFs that hold derivative positions, the Funds will indirectly be subject to derivative risks. Derivatives are often more volatile than other investments and an ETF invested in a derivative may lose more than originally invested. Leverage will cause the value of Enhanced ETF shares to be more volatile. Leverage tends to exaggerate the effect of any increase or decrease. Leverage may also cause an Enhanced ETF to liquidate portfolio positions when it would not be advantageous. To the extent the Fund invests in Enhanced ETFs that seek to provide investment results that match a negative multiple of the performance of an underlying index, the Fund will indirectly be subject to the risk that the performance of the Enhanced ETF will fall as the performance of the Enhanced ETF's benchmark rises. To the extent the index which the Fund tracks may be concentrated in a particular industry or group of industries, the Fund will necessarily be concentrated in that industry or group of industries. By concentrating Fund investments in a single industry or group of industries, the Fund will be indirectly subject to the risk that economic, political or other conditions that have a negative effect on that industry or group of industries will negatively impact the Fund to a greater extent than if the Fund's assets were invested in a wider variety of industries. With short sales, you risk paying more for a security than you received from its sale.*

***To determine if a Fund is an appropriate investment for you, carefully consider the Fund's investment objectives, risk factors and charges and expenses before investing. This and other information can be found in the Fund's prospectus, which may be obtained at [www.smartgrowthfunds.com](http://www.smartgrowthfunds.com) or by calling 1-888-465-5722. Please read it carefully before investing.***

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