

**Supplement dated January 1, 2010  
to the Statement of Additional Information  
of Pearl Mutual Funds dated May 1, 2009**

On December 4, 2009, the Board of Trustees (the “Trustees”) of Pearl Mutual Funds (the “Funds”) voted to approve a change to the administrative fee agreement between the Funds and Pearl Management Company (the “Manager”) that lowered the administrative services fee payable to the Manager by 5 basis points. In addition, the Trustees approved an amendment to the expense limitation agreement between the Funds and the Manager, raising the cap from 98 basis points to 120 basis points. The changes are effective January 1, 2010.

In light of these changes, the Funds’ Statement of Additional Information is supplemented as follows:

1. The text contained in the second paragraph on Page 23 of the Funds’ Statement of Additional Information (beginning with “The administrative fees...”) through the third from last paragraph of Page 23 of the Fund’s Statement of Additional Information (beginning with “The Manage has contractually agreed...”) is deleted in its entirety and replaced with the following:

The administrative fees each Fund pays to the Manager are accrued daily and payable monthly based on the Funds’ net assets as of the beginning of the month, at the annual rates shown below:

<u>Average Daily Net Assets</u>	<u>Rate of Fee</u>
First \$30 million	0.16%
More than \$30 million to \$100 million	0.14%
In excess of \$100 million	0.08%

The advisory and management fees and administrative services fees paid by the Funds to the Manager for the fiscal years ended December 31, 2008, 2007, and 2006, which were based on the earlier administrative fee that was five basis points higher, were as follows:

<b>Fund</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Total Return Fund	\$779,525	\$907,324	\$772,554
Aggressive Growth Fund	\$455,467	\$474,120	\$344,829

The Manager has contractually agreed to reimburse each Fund for all ordinary operating expenses (including management and administrative fees) exceeding 1.20% of a Fund’s average annual net assets. When the Manager has reimbursed a Fund for expenses in excess of this limit, the Manager may recover the reimbursed amounts, for a period that does not exceed five years, to the extent this can be done without exceeding the expense limit. The agreement to limit the Funds’ ordinary operating expenses is limited to the Funds’ direct operating expenses and, therefore, does not apply to portfolio funds’ fees and expenses (as shown in the Prospectus), which are indirect expenses incurred by the Funds through their investments in the underlying portfolio funds. The Manager may not recoup expenses previously reimbursed under the earlier 0.98% fee limitation unless recoupment can be done without exceeding the earlier expense limit.

This expense limit does not have an expiration date, and will continue unless a change is approved by the Funds' Board of Trustees.

**PLEASE RETAIN THIS SUPPLEMENT FOR FUTURE REFERENCE.**

**PEARL<sup>®</sup> MUTUAL FUNDS**

**STATEMENT OF  
ADDITIONAL INFORMATION**

**May 1, 2009**

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**PEARL TOTAL RETURN FUND<sup>SM</sup>**

**PEARL AGGRESSIVE GROWTH FUND<sup>SM</sup>**

This Statement of Additional Information (“SAI”) is not a Prospectus but provides information that should be read in conjunction with the Prospectus of **Pearl Total Return Fund** and **Pearl Aggressive Growth Fund** (each, a “Fund,” and together, the “Funds”) dated the date of this SAI and any supplement to the Prospectus. Audited financial statements, which are contained in the Funds’ December 31, 2008 Annual Report, are incorporated by reference into this SAI. You can obtain a copy of the Prospectus and Annual Report at no charge by writing, e-mailing, or telephoning us at the address or telephone number shown above. The Prospectus and Annual Report are also available at [www.pearlfunds.com](http://www.pearlfunds.com).

TABLE OF CONTENTS

	<u>Page</u>
Investment Objectives and Policies.....	2
Investment Techniques and Risks.....	2
Investment Restrictions.....	17
Performance Information.....	18
Investment Manager and Portfolio Managers.....	21
The Trust: Pearl Mutual Funds.....	24
Trustees and Officers and their Ownership of Shares of the Funds.....	25
Principal Shareholders of the Funds.....	31
Purchasing and Redeeming Shares.....	33
Anti-Money-Laundering Compliance.....	34
Proxy Voting Procedures.....	34
Disclosure of Portfolio Information.....	34
Additional Tax Information.....	35
Portfolio Transactions.....	36
Code of Ethics.....	36
Custodian.....	37
Independent Registered Public Accounting Firm.....	37
Appendix A – Description of Bond Ratings.....	A-1
Appendix B – Procedures for Voting Proxies for Pearl Mutual Fund.....	B-1

Pearl Total Return Fund (“Total Return Fund”) and Pearl Aggressive Growth Fund (“Aggressive Growth Fund”) are each a series of Pearl Mutual Funds (the “Trust”). Each Fund is an open-end, management investment company.

The discussion below supplements the description in the Prospectus of each Fund’s investment objective, policies, and restrictions.

On July 2, 2001, Mutual Selection Fund, an Iowa corporation, was reorganized into a new series of the Trust. The new series was designated Pearl Total Return Fund. Throughout this SAI, reference to “Pearl Total Return Fund” or “Total Return Fund” refers to Pearl Total Return Fund, as a series of the Trust, and to its predecessor corporation. Pearl Mutual Funds’ name was changed from Mutual Selection Trust on September 11, 2000.

### **Investment Objectives and Policies**

Total Return Fund seeks long-term total return. Aggressive Growth Fund seeks long-term aggressive growth of capital. The Funds are not designed for investors seeking primarily income rather than capital appreciation. The Funds are not, alone or together, a balanced investment program, and there can be no assurance that either of the Funds will achieve its investment objective.

The Funds use the techniques, and invest in investment companies that may use the techniques and invest in the types of securities, described below and in the Prospectus.

### **Investment Techniques and Risks**

Each Fund is a diversified fund of funds that invests in shares of mutual funds (open-end, management investment companies) registered under the Investment Company Act of 1940 (the “1940 Act”). The mutual funds in which the Funds may invest are referred to as “portfolio funds” throughout this SAI.

### **Foreign Securities**

A portfolio fund may invest up to 100% of its assets in securities of foreign issuers, which may entail a greater degree of risk than does investment in securities of domestic issuers. Investors should understand and consider carefully the risks involved in foreign investing. Investments in foreign securities, investments which are generally denominated in foreign currencies, and utilization of forward foreign currency exchange contracts involve risks and opportunities not typically associated with investing in U.S. securities. These considerations include: fluctuations in exchange rates of foreign currencies; possible imposition of exchange control regulation or currency restrictions that would prevent cash from being brought back to the United States; less public information with respect to issuers of securities; less governmental supervision of stock exchanges, securities brokers, and issuers of securities; lack of uniform accounting, auditing, and financial reporting standards; lack of uniform settlement periods and trading practices; less liquidity and frequently greater price volatility in foreign markets than in the United States; possible imposition of foreign taxes; possible investment in securities of companies in developing as well as developed countries; and sometimes less advantageous legal, operational, and financial protections applicable to foreign subcustodial arrangements. In addition, the costs of investing in foreign securities are usually higher than the costs of investing in U.S. securities.

There is the possibility of expropriation or confiscatory taxation, seizure or nationalization of foreign bank deposits or other assets, establishment of exchange controls, the adoption of foreign government restrictions, or other adverse political, social, or diplomatic developments that could affect investment in these nations. Legal remedies available to investors in certain foreign countries may be more limited than those available with respect to investments in the United States or in other foreign countries. The laws of some foreign countries may limit a portfolio fund's ability to invest in securities of certain issuers located in those countries. Moreover, individual foreign economies may differ favorably or unfavorably from the U.S. economy in such respects as growth of gross national product, inflation rate, capital reinvestment, resource self-sufficiency, and balance of payment positions.

A portfolio fund's (and accordingly the Funds') investment performance is affected by the strength or weakness of the U.S. dollar against the currencies of the foreign markets in which its securities trade or in which they are denominated. For example, if the dollar falls in value relative to the Japanese yen, the dollar value of a yen-denominated stock held by a portfolio fund will rise even though the price of the stock remains unchanged. Conversely, if the dollar rises in value relative to the yen, the dollar value of the yen-denominated stock will fall. A portfolio fund may seek to protect itself against the adverse effects of currency exchange rate fluctuations by entering into currency-forward, futures, or options contracts. Hedging transactions will not, however, always be fully effective in protecting against adverse exchange rate fluctuations and involve transaction costs and risks. (See discussion of transaction hedging and portfolio hedging under "Currency Exchange Transactions.")

Investments by a portfolio fund in emerging markets securities include special risks in addition to those generally associated with foreign investing. Many investments in emerging markets can be considered speculative, and the value of those investments can be more volatile than in more developed foreign markets. Emerging markets also have different clearance and settlement procedures, and delays in settlement could result in temporary periods when a portion of the assets is uninvested and no return is earned thereon. The inability to make intended security purchases due to settlement problems could cause a portfolio fund to miss attractive investment opportunities. Inability to dispose of portfolio securities due to settlement problems could result either in losses to a portfolio fund (and accordingly the Funds) due to subsequent declines in the value of those securities or possible liability to the purchaser. Many emerging markets have experienced substantial rates of inflation for many years, which has had and may continue to have adverse effects on the economies and securities markets of certain emerging market countries. In an attempt to control inflation, certain emerging market countries have imposed wage and price controls. Emerging market governmental issuers are among the largest debtors to commercial banks, foreign governments, international financial organizations, and other financial institutions. Debt obligations of emerging market countries may involve a high degree of risk, and may be in default or present the risk of default. Certain emerging market governmental issuers have not been able or have been unwilling to make payments of interest or principal on debt obligations as those payments have come due.

Income received by a portfolio fund from sources within foreign countries may be reduced by withholding and other taxes imposed by such countries. Tax conventions between certain countries and the United States may reduce or eliminate such taxes. Any such taxes paid by a portfolio fund will reduce the net income of the portfolio fund available for distribution to the Funds.

## Currency Exchange Transactions

The Funds may invest in portfolio funds that enter into currency exchange transactions. A currency exchange transaction may be conducted either on a spot (*i.e.*, cash) basis at the spot rate for purchasing or selling currency prevailing in the foreign exchange market or through a forward currency exchange contract (“forward contract”). A forward contract is an agreement to purchase or sell a specified currency at a specified future date (or within a specified time period) and price set at the time of the contract. Forward contracts are usually entered into with banks, foreign exchange dealers, or broker-dealers, are not exchange-traded, and are usually for less than one year, but may be renewed.

Forward currency transactions may involve currencies of the different countries in which a portfolio fund may invest, and serve as hedges against possible variations in the exchange rate between these currencies. Transaction hedging is the purchase or sale of a forward contract with respect to specific payables or receivables of a fund accruing in connection with the purchase or sale of portfolio securities. Portfolio hedging is the use of a forward contract with respect to a portfolio security position denominated or quoted in a particular currency. A portfolio fund may engage in portfolio hedging with respect to the currency of a particular country in amounts approximating actual or anticipated positions in securities denominated in that currency.

If a portfolio fund enters into a forward contract hedging an anticipated purchase of portfolio securities, assets of that portfolio fund having a value at least as great as the portfolio fund’s commitment under such forward contract will be segregated on the books of the portfolio fund while the contract is outstanding.

At the maturity of a forward contract to deliver a particular currency, a portfolio fund may either sell the portfolio security related to such contract and make delivery of the currency, or it may retain the security and either acquire the currency on the spot market or terminate its contractual obligation to deliver the currency by purchasing an offsetting contract with the same currency trader obligating it to purchase on the same maturity date the same amount of the currency.

It is impossible to forecast with absolute precision the market value of portfolio securities at the expiration of a forward contract. Accordingly, it may be necessary for a portfolio fund to purchase additional currency on the spot market (and bear the expense of such purchase) if the market value of the security is less than the amount of currency that the portfolio fund is obligated to deliver and if a decision is made to sell the security and make delivery of the currency. Conversely, it may be necessary to sell on the spot market some of the currency received upon the sale of the portfolio security if its market value exceeds the amount of currency that the portfolio fund is obligated to deliver.

Hedging against a decline in the value of a currency does not eliminate fluctuations in the prices of portfolio securities or prevent losses if the prices of such securities decline. Such transactions also preclude the opportunity for gain if the value of the hedged currency should rise. Moreover, it may not be possible for a portfolio fund to hedge against a devaluation that is so generally anticipated that the portfolio fund is not able to contract to sell the currency at a price above the devaluation level it anticipates. The cost to a portfolio fund of engaging in currency exchange transactions varies with such factors as the currency involved, the length of the contract period,

and prevailing market conditions. Since currency exchange transactions are usually conducted on a principal basis, no fees or commissions are involved.

### **Calculation of Net Asset Value**

Foreign securities in which the portfolio funds may invest may be listed primarily on foreign stock exchanges that may trade on days, and at times, when the New York Stock Exchange is not open for business. Accordingly, the net asset value of a portfolio fund (and correspondingly a Fund) may be significantly affected by such trading on days when neither Pearl Management Company, the Funds' investment adviser and manager ("Management" or the "Manager"), nor the Funds' shareholders have access to the portfolio funds and the Funds.

### **Options and Futures**

A portfolio fund may purchase and write both call options and put options on securities and on indexes, and enter into interest rate and index futures contracts, and may purchase or sell options on such futures contracts ("futures options") in order to provide additional revenue, or to hedge against changes in security prices or interest rates. A portfolio fund may also use other types of options, futures contracts, and futures options currently traded or subsequently developed and traded, provided that the portfolio fund's board determines that their use is consistent with the portfolio fund's investment objective.

**Options.** An option on a security (or index) is a contract that gives the purchaser (holder) of the option, in return for a premium, the right to buy from (call) or sell to (put) the seller (writer) of the option the security underlying the option (or the cash value of the index) at a specified exercise price at any time during the term of the option (normally not exceeding nine months). The writer of an option on an individual security or on a foreign currency has the obligation upon exercise of the option to deliver the underlying security or foreign currency upon payment of the exercise price or to pay the exercise price upon delivery of the underlying security or foreign currency. Upon exercise, the writer of an option on an index is obligated to pay the difference between the cash value of the index and the exercise price multiplied by the specified multiplier for the index option. An index is designed to reflect specified facets of a particular financial or securities market, a specific group of financial instruments or securities, or certain economic indicators.

A portfolio fund will write call options and put options only if they are "covered." For example, in the case of a call option on a security, the option is "covered" if a portfolio fund owns the security underlying the call or has an absolute and immediate right to acquire that security without additional consideration (or, if additional consideration is required, assets having a value at least equal to that amount are segregated on the books of the portfolio fund) upon conversion or exchange of other securities held in its portfolio.

Prior to the earlier of exercise or expiration, an option may be closed out by an offsetting purchase or sale of an option of the same series (type, exchange, underlying security or index, exercise price and expiration). There can be no assurance, however, that a closing purchase or sale transaction can be effected when a portfolio fund desires.

A put or call option purchased by a portfolio fund is an asset of that portfolio fund, valued initially at the premium paid for the option. The premium received for an option written by a portfolio fund is recorded as a deferred credit. The value of an option purchased or written is marked-to-market daily and is valued at the closing price on the exchange on which it is traded or, if not traded on an exchange or if no closing price is available, at the mean between the last bid and asked prices.

**OTC Derivatives.** A portfolio fund may buy and sell over-the-counter (“OTC”) derivatives. Unlike exchange-traded derivatives, which are standardized with respect to the underlying instrument, expiration date, contract size, and strike price, the terms of OTC derivatives (derivatives not traded on exchanges) generally are established through negotiation with the other party to the contract. While this type of arrangement allows a portfolio fund greater flexibility to tailor an instrument to its needs, OTC derivatives generally involve greater credit risk than exchange-traded derivatives, which are guaranteed by the clearing organization of the exchanges where they are traded. See “Illiquid and Restricted Securities” below for more information on the risks associated with investing in OTC derivatives.

**Risks Associated with Options.** There are several risks associated with transactions in options. For example, there are significant differences between the securities markets, the currency markets, and the options markets that could result in an imperfect correlation between these markets, causing a given transaction not to achieve its objectives. A decision as to whether, when, and how to use options involves the exercise of skill and judgment, and even a well-conceived transaction may be unsuccessful to some degree because of market behavior or unexpected events.

There can be no assurance that a liquid market will exist when a portfolio fund seeks to close out an option position. If a portfolio fund were unable to close out an option that it had purchased on a security, it would have to exercise the option in order to realize any profit or the option would expire and become worthless. If a portfolio fund were unable to close out a covered call option that it had written on a security, it would not be able to sell the underlying security until the option expired. As the writer of a covered call option on a security, a portfolio fund foregoes, during the option’s life, the opportunity to profit from increases in the market value of the security covering the call option above the sum of the premium and the exercise price of the call. As the writer of a covered call option on a foreign currency, a portfolio fund foregoes, during the option’s life, the opportunity to profit from currency appreciation.

If trading were suspended in an option purchased or written by one of the portfolio funds, that portfolio fund would not be able to close out the option. If restrictions on exercise were imposed, the portfolio fund might be unable to exercise an option it has purchased.

**Futures Contracts and Options on Futures Contracts.** A portfolio fund may use interest rate futures contracts and index futures contracts. An interest rate or index futures contract provides for the future sale by one party and purchase by another party of a specified quantity of a

financial instrument or the cash value of an index <sup>1</sup> at a specified price and time. A public market exists in futures contracts covering various indexes (including, but not limited to: Standard & Poor's 500 Index; Value Line Composite Index; Russell 2000 Index; and New York Stock Exchange Composite Index) as well as financial instruments (including, but not limited to: U.S. Treasury bonds; U.S. Treasury notes; Eurodollar certificates of deposit; and foreign currencies). Other index and financial instrument futures contracts are available and it is expected that additional futures contracts will be developed and may be traded by portfolio funds.

A portfolio fund may purchase and write call and put futures options. Futures options possess many of the same characteristics as options on securities and indexes (discussed above). A futures option gives the holder the right, in return for the premium paid, to assume a long position (call) or short position (put) in a futures contract at a specified exercise price at any time during the period of the option. Upon exercise of a call option, the holder acquires a long position in the futures contract and the writer is assigned the opposite short position. In the case of a put option, the opposite is true.

A portfolio fund might use futures contracts to hedge against fluctuations in the general level of stock prices, anticipated changes in interest rates, or currency fluctuations that might adversely affect either the value of a portfolio fund's securities or the price of the securities that a portfolio fund intends to purchase. A portfolio fund's hedging may include sales of futures contracts as an offset against the effect of expected declines in stock prices or currency exchange rates or increases in interest rates and purchases of futures contracts as an offset against the effect of expected increases in stock prices or currency exchange rates or declines in interest rates. Although other techniques could be used to reduce a portfolio fund's exposure to stock price, interest rate, and currency fluctuations, a portfolio fund may be able to hedge its exposure more effectively and perhaps at a lower cost by using futures contracts and futures options.

The success of any hedging technique depends on the ability of a portfolio fund's investment adviser correctly to predict changes in the level and direction of stock prices, interest rates, currency exchange rates, and other factors. Should those predictions be incorrect, a portfolio fund's return might have been better had hedging not been attempted. However, in the absence of the ability to hedge, the investment adviser might have taken portfolio actions in anticipation of the same market movements with similar investment results but, presumably, at greater transaction costs.

When a purchase or sale of a futures contract is made by a portfolio fund, that portfolio fund is required to deposit with its custodian or broker a specified amount of cash or U.S. government securities or other securities acceptable to the broker ("initial margin"). The margin required for a futures contract is generally set by the exchange on which the contract is traded. However, the margin requirement may be modified during the term of the contract, and the portfolio fund's broker may require margin deposits in excess of the minimum required by the exchange. The

<sup>1</sup> A futures contract on an index is an agreement pursuant to which two parties agree to take or make delivery of an amount of cash equal to the difference between the value of the index at the close of the last trading day of the contract and the price at which the index contract was originally written. Although the value of a securities index is a function of the value of certain specified securities, no physical delivery of those securities is made.

initial margin is in the nature of a performance bond or good faith deposit on the futures contract, which is returned to the portfolio fund upon termination of the contract, assuming all contractual obligations have been satisfied. The portfolio funds expect to earn interest income on their initial margin deposits. A futures contract held by a portfolio fund is valued daily at the official settlement price of the exchange on which it is traded. Each day the portfolio fund pays or receives cash, called “variation margin,” equal to the daily change in value of the futures contract. This process is known as “marking-to-market.” Variation margin paid or received by a portfolio fund does not represent a borrowing or loan by the portfolio fund but is instead settlement between that portfolio fund and the broker of the amount one would owe the other if the futures contract had expired at the close of the previous day. In computing daily net asset value (“NAV”), the portfolio funds will mark-to-market their open futures positions. The portfolio funds are also required to deposit and maintain margin with respect to put and call options on futures contracts they write. Such margin deposits will vary depending on the nature of the underlying futures contract (and the related initial margin requirements), the current market value of the option, and other futures positions held by the portfolio funds.

Although some futures contracts call for making or taking delivery of the underlying securities, usually these obligations are closed out prior to delivery by offsetting purchases or sales of matching futures contracts (same exchange, underlying security or index, and delivery month). If an offsetting purchase price is less than the original sale price, the portfolio funds realize a capital gain, or if it is more, the portfolio funds realize a capital loss. Conversely, if an offsetting sale price is more than the original purchase price, the portfolio fund engaging in the transaction realizes a capital gain, or if it is less, the portfolio fund realizes a capital loss. The transaction costs must also be included in these calculations.

**Risks Associated with Futures.** There are several risks associated with the use of futures contracts and futures options as hedging techniques. A purchase or sale of a futures contract may result in losses in excess of the amount invested in the futures contract. There can be no guarantee that there will be a correlation between price movements in the hedging vehicle and in the portfolio securities being hedged. In addition, there are significant differences between the securities and futures markets that could result in an imperfect correlation between the markets, causing a given hedge not to achieve its objectives. The degree of imperfection of correlation depends on circumstances such as: variations in speculative market demand for futures, futures options, and the related securities, including technical influences in futures and futures options trading and differences between a portfolio fund’s investments being hedged and the securities underlying the standard contracts available for trading. For example, in the case of index futures contracts, the composition of the index, including the issuers and the weighting of each issue, may differ from the composition of a portfolio fund’s portfolio, and, in the case of interest rate futures contracts, the interest rate levels, maturities, and creditworthiness of the issues underlying the futures contract may differ from the financial instruments held in a portfolio fund’s portfolio. A decision as to whether, when, and how to hedge involves the exercise of skill and judgment, and even a well-conceived hedge may be unsuccessful to some degree because of market behavior or unexpected stock price or interest rate trends.

Futures exchanges may limit the amount of fluctuation permitted in certain futures contract prices during a single trading day. The daily limit establishes the maximum amount that the price of a futures contract may vary either up or down from the previous day’s settlement price at the end of the current trading session. Once the daily limit has been reached in a futures contract

subject to the limit, no more trades may be made on that day at a price beyond that limit. The daily limit governs only price movements during a particular trading day and therefore does not limit potential losses because the limit may work to prevent the liquidation of unfavorable positions. For example, futures prices have occasionally moved to the daily limit for several consecutive trading days with little or no trading, thereby preventing prompt liquidation of positions and subjecting some holders of futures contracts to substantial losses. Stock index futures contracts are not normally subject to such daily price change limitations.

There can be no assurance that a liquid market will exist at a time when a portfolio fund seeks to close out a futures or futures option position. The portfolio fund would be exposed to possible loss on the position during the interval of inability to close, and would continue to be required to meet margin requirements until the position is closed. In addition, many of the contracts discussed above are relatively new instruments without a significant trading history. As a result, there can be no assurance that an active secondary market will develop or continue to exist.

**Swap Agreements.** A swap agreement is generally individually negotiated and structured to include exposure to one or more of a variety of different types of investments or market factors. Depending on its structure, a swap agreement may increase or decrease a portfolio fund's exposure to changes in the value of an index of securities in which the portfolio fund might invest, the value of a particular security or group of securities, or foreign currency values. Swap agreements can take many different forms and are known by a variety of names.

A swap agreement tends to shift a portfolio fund's investment exposure from one type of investment to another. For example, if a portfolio fund agrees to exchange payments in dollars at a fixed rate for payments in a foreign currency the amount of which is determined by movements of a foreign securities index, the swap agreement would tend to increase that portfolio fund's exposure to foreign stock market movements and foreign currencies. Depending on how it is used, a swap agreement may increase or decrease the overall volatility of a portfolio fund's investments and its net asset value, which accordingly may increase or decrease the overall volatility of a Fund's investments and its net asset value.

The performance of a swap agreement is determined by the change in the specific currency, market index, security, or other factors that determine the amounts of payments due to and from a portfolio fund. If a swap agreement calls for payments by a portfolio fund, that portfolio fund must be prepared to make such payments when due. If the counterparty's creditworthiness declines, the value of a swap agreement would be likely to decline, potentially resulting in a loss.

A portfolio fund will segregate assets to cover its current obligations under a swap agreement. If a portfolio fund enters into a swap agreement on a net basis, it will segregate assets with a daily value at least equal to the excess, if any, of that portfolio fund's accumulated obligations under the swap agreement over the accumulated amount the portfolio fund is entitled to receive under the agreement. If a portfolio fund enters into a swap agreement on other than a net basis, it will segregate assets with a value equal to the full amount of that portfolio fund's accumulated obligations under the agreement.

## **Short Sales and Short Sales against the Box**

A portfolio fund may sell securities short. In a short sale the portfolio fund sells stock it does not own and makes delivery with securities “borrowed” from a broker. The portfolio fund then becomes obligated to replace the security borrowed by purchasing it at the market price at the time of replacement. This price may be more or less than the price at which the security was sold by the portfolio fund. Until the security is replaced, the portfolio fund is obligated to pay to the lender any dividends or interest accruing during the period of the loan. In order to borrow the security, the portfolio fund may be required to pay a premium that would increase the cost of the security sold. The proceeds of the short sale will be retained by the broker, to the extent necessary to meet margin requirements, until the short position is closed out.

When it engages in short sales, a portfolio fund must also deposit in a segregated account an amount of cash or U.S. Government securities equal to the difference between (1) the market value of the securities sold short at the time they were sold short and (2) the value of the collateral deposited with the broker in connection with the short sale (not including the proceeds from the short sale). A portfolio fund will incur a loss as a result of a short sale if the price of the security increases between the date of the short sale and the date on which the portfolio fund replaces the borrowed security. The portfolio fund will realize a gain if the security declines in price between such dates. The amount of any gain will be decreased and the amount of any loss increased by the amount of any premium, dividends or interest the portfolio fund may be required to pay in connection with a short sale.

A short sale is “against the box” if at all times when the short position is open the portfolio fund owns an equal amount of the securities or securities convertible into, or exchangeable without further consideration for, securities of the same issue as the securities sold short.

## **Debt Securities**

A portfolio fund may invest in debt securities, including lower-rated securities (*i.e.*, securities rated BB or lower by Standard & Poor’s Corporation, a division of The McGraw Hill Companies (“S&P”) or Ba or lower by Moody’s Investor Services, Inc. (“Moody’s”), commonly called “junk bonds”), and securities that are not rated. A portfolio fund may or may not have restrictions as to the ratings of debt securities acquired by it or the portion of its assets that may be invested in debt securities in a particular ratings category.

Securities rated BBB or Baa are considered to be medium grade and to have speculative characteristics. Lower-rated debt securities are predominantly speculative with respect to the issuer’s capacity to pay interest and repay principal. Investment in medium- or lower-quality debt securities involves greater investment risk, including the possibility of issuer default or bankruptcy. An economic downturn could severely disrupt the market for such securities and adversely affect the value of such securities. In addition, lower-quality bonds are less sensitive to interest rate changes than higher-quality instruments and generally are more sensitive to adverse economic changes or individual corporate developments. During a period of adverse economic changes, including a period of rising interest rates, the junk bond market may be severely disrupted, and issuers of such bonds may experience difficulty in servicing their principal and interest payment obligations.

Medium- and lower-quality debt securities may be less marketable than higher-quality debt securities because the market for them is less broad. The market for unrated debt securities is even narrower. During periods of thin trading in these markets, the spread between bid and asked prices is likely to increase significantly, and a portfolio fund may have greater difficulty selling its portfolio securities. See “Purchasing and Redeeming Shares – Net Asset Value.” The market value of these securities and their liquidity may be affected by adverse publicity and investor perceptions.

Low and below investment grade securities may be structured as fixed-, variable-, or floating-rate obligations or as zero-coupon, pay-in-kind, or step-coupon securities and may be privately placed or publicly offered.

The debt securities held by a portfolio fund may have redemption or call provisions. If an issuer exercises these provisions in a declining interest rate market, the portfolio fund would have to replace the security with a lower yielding security, resulting in a decreased return for the investors in the portfolio fund, including a Fund. Conversely, a high yield, high risk security’s value will decrease in a rising interest rate market, as will the value of the portfolio fund’s assets.

Special tax considerations are associated with investing in debt securities structured as zero coupon or pay-in-kind securities. A portfolio fund will report the interest on these securities as income even though it receives no cash interest until the security’s maturity or payment date.

Credit ratings evaluate the safety of principal and interest payments, not the market value risk of debt securities. Rating agencies may fail to change the credit ratings in a timely manner to reflect subsequent events. To the extent that a portfolio fund invests in medium- and lower-quality debt securities, the achievement of a portfolio fund’s investment objective may be more dependent on the portfolio fund’s own credit analysis than is the case for higher quality bonds. A more complete description of the characteristics of bonds in each ratings category is included in the appendix to this SAI.

Many lower-rated securities are not registered for offer and sale to the public under the 1933 Act. Restricted securities may be less liquid than other lower-rated securities, potentially making it difficult for portfolio funds to value or sell them.

## **Warrants**

A portfolio fund may invest in warrants. Warrants are options to purchase equity securities at specific prices valid for a specified period of time. The prices do not necessarily move in parallel to the prices of the underlying securities. Warrants have no voting rights, receive no dividends and have no rights with respect to the assets of the issuer. If a warrant is not exercised within the specified time period, it becomes worthless and the portfolio fund loses the purchase price and the right to purchase the underlying security.

## **Leverage**

A portfolio fund may borrow on an unsecured basis from banks to increase its holdings of portfolio securities. Under the Investment Company Act of 1940 (the “1940 Act”), the fund is required to maintain continuous asset coverage of 300% with respect to such borrowings and to

sell (within three days) sufficient portfolio holdings in order to restore coverage if it should decline to less than 300% due to market fluctuation or otherwise. That sale must occur even if it is disadvantageous from an investment point of view. Leveraging aggregates the effect of any increase or decrease in the value of portfolio securities on the portfolio fund's net asset value. In addition, money borrowed is subject to interest costs (which may include commitment fees and the cost of maintaining minimum average balances) which may or may not exceed the interest and option premiums received from the securities purchased with borrowed funds.

### **Master Demand Notes**

A portfolio fund (particularly a money market fund) may invest up to 100% of its assets in master demand notes. These are unsecured obligations of U.S. corporations redeemable upon notice that permit investment by a mutual fund of fluctuating amounts at varying rates of interest pursuant to direct arrangements between the mutual fund and the issuing corporation. Because master demand notes are direct arrangements between the mutual fund and the issuing corporation, there is no secondary market for the notes. The notes are, however, redeemable at face value plus accrued interest at any time.

### **Asset-Backed Securities**

A portfolio fund may invest in mortgage pass-through securities, which are securities representing interests in pools of mortgage loans secured by residential or commercial real property in which payments of both interest and principal on the securities are generally made monthly, in effect passing through monthly payments made by individual borrowers on mortgage loans which underlie the securities (net of fees paid to the issuer or guarantor of the securities). Early repayment of principal on some mortgage-related securities (arising from prepayments of principal due to sale of the underlying property, refinancing, or foreclosure, net of fees and costs which may be incurred) may expose a portfolio fund to a lower rate of return upon reinvestment of principal. Also, if a security subject to prepayment has been purchased at a premium, the value of the premium would be lost in the event of prepayment.

Like other fixed-income securities, when interest rates rise, the value of a mortgage-related security generally will decline. However, when interest rates are declining, the value of mortgage-related securities with prepayment features may not increase as much as other fixed income securities.

A portfolio fund may invest in collateralized mortgage obligations ("CMOs"), which are hybrid mortgage-related instruments. Similar to a bond, interest and pre-paid principal on a CMO are paid, in most cases, semiannually. CMOs are collateralized by portfolios of mortgage pass-through securities and are structured into multiple classes with different stated maturities. Monthly payments of principal, including prepayments, are first returned to investors holding the shortest maturity class; investors holding the longer maturity classes receive principal only after the first class has been retired.

Other mortgage-related securities in which a portfolio fund may invest include other securities that directly or indirectly represent a participation in, or are secured by and payable from, mortgage loans on real property, such as CMO residuals or stripped mortgage-backed securities, and may be structured in classes with rights to receive varying proportions of principal and

interest. In addition, a portfolio fund may invest in other asset-backed securities that have been offered to investors or will be offered to investors in the future.

Several types of asset-backed securities have already been offered to investors, including certificates for automobile receivables, which represent undivided fractional interests in a trust whose assets consist of a pool of motor vehicle retail installment sales contracts and security interest in the vehicles securing the contracts.

Mortgage-backed and asset-backed securities may be structured as fixed-, variable-, or floating-rate obligations or as zero-coupon, pay-in-kind, or step-coupon securities and may be privately placed or publicly offered.

Mortgage-backed securities may be issued or guaranteed by the GNMA (also known as Ginnie Mae), FNMA (also known as Fannie Mae), or FHLMC (also known as Freddie Mac), but also may be issued or guaranteed by other issuers, including private companies. GNMA is a government-owned corporation that is an agency of the U.S. Department of Housing and Urban Development. It guarantees, with the full faith and credit of the United States, full and timely payment of all monthly principal and interest on its mortgage-backed securities. Until recently, FNMA and FHLMC were government-sponsored corporations owned entirely by private stockholders. Both issue mortgage-related securities that contain guarantees as to timely payment of interest and principal but that are not backed by the full faith and credit of the U.S. Government. The value of the companies' securities fell sharply in 2008 due to concerns that the firms did not have sufficient capital to offset losses. In mid-2008, the U.S. Treasury was authorized to increase the size of home loans that FNMA and FHLMC could purchase in certain residential areas and, until 2009, to lend FNMA and FHLMC emergency funds and to purchase the companies' stock. More recently, in September 2008, the U.S. Treasury announced that FNMA and FHLMC had been placed in conservatorship by the Federal Housing Finance Agency (FHFA), a newly created independent regulator. In addition to placing the companies in conservatorship, the U.S. Treasury announced three additional steps that it intended to take with respect to FNMA and FHLMC. First, the U.S. Treasury has entered into "Preferred Stock Purchase Agreements" (PSPAs) under which, if the FHFA determines that FNMA's or FHLMC's liabilities have exceeded its assets under generally accepted accounting principles, the U.S. Treasury will contribute cash capital to the company in an amount equal to the difference between liabilities and assets. The PSPAs are designed to provide protection to the senior and subordinated debt and the mortgage-backed securities issued by FNMA and FHLMC. Second, the U.S. Treasury established a new secured lending credit facility that is available to FNMA and FHLMC until December 2009. Third, the U.S. Treasury initiated a temporary program to purchase FNMA and FHLMC mortgage-backed securities, which is expected to continue until December 2009. No assurance can be given that the U.S. Treasury initiatives discussed above with respect to the debt and mortgage-backed securities issued by FNMA and FHLMC will be successful.

Credit risk is increased for mortgage-backed securities that are backed by mortgages to so-called subprime borrowers (who may pose a greater risk of defaulting on their loans) or that are subordinated to another security (i.e., if the holder of a mortgage-backed security is entitled to receive payments only after payment obligations to holders of the other security are satisfied).

## **Illiquid and Restricted Securities**

A portfolio fund may invest up to 15% of its net assets in illiquid securities. An illiquid security generally is one that cannot be sold in the ordinary course of business within seven days at substantially the value assigned to it in calculations of a portfolio fund's net asset value. Repurchase agreements maturing in more than seven days, OTC derivatives, and restricted securities are generally illiquid. Other types of investments may also be illiquid from time to time. If, through the appreciation of illiquid securities or the depreciation of liquid securities, a portfolio fund should be in a position where more than 15% of the value of its net assets are invested in illiquid assets, that portfolio fund will take appropriate steps to protect liquidity. Illiquid securities are priced at a fair value determined in good faith by the Board of Directors or Trustees of the portfolio fund or their delegate. A portfolio fund may be unable to realize a favorable price upon sale of the securities, or in some cases may not be able to sell the securities.

Restricted securities may be sold only in privately negotiated transactions or in a public offering with respect to which a registration statement is in effect under the Securities Act of 1933 (the "1933 Act"). Where registration is required, a portfolio fund may be obligated to pay all or part of the registration expenses and a considerable period may elapse between the time of the decision to sell and the time the portfolio fund may be permitted to sell a security under an effective registration statement. If, during such a period, adverse market conditions were to develop, the portfolio fund might obtain a less favorable price than prevailed when it decided to sell. Restricted securities will be priced at a fair value as determined in good faith by the Board of the portfolio fund.

Notwithstanding the above, a portfolio fund may purchase securities that have been privately placed but that are eligible for purchase and sale under Rule 144A under the 1933 Act. That rule permits certain qualified institutional buyers, such as the portfolio funds, to trade in privately placed securities that have not been registered for sale under the 1933 Act. The portfolio fund's investment adviser, under the supervision of the board of directors, will consider whether securities purchased under Rule 144A are illiquid and thus subject to a portfolio fund's restriction of investing no more than 15% of its assets in illiquid securities. Investing in Rule 144A securities could have the effect of increasing the amount of a portfolio fund's assets invested in illiquid securities if qualified institutional buyers are unwilling to purchase such securities.

The 1940 Act provides that a mutual fund whose shares are purchased by a Fund is obliged to redeem shares held by a Fund only in an amount up to 1% of the portfolio fund's outstanding securities during any period of less than 30 days. Accordingly, shares held by a Fund in excess of 1% of a portfolio fund's outstanding securities would, if the Fund had not made the election described in this paragraph, be considered illiquid securities that, together with other such securities, may not exceed 15% of that Fund's net assets. However, since each Fund has elected to reserve the right to pay redemption requests by a distribution in kind of securities from its portfolio, instead of cash, these positions may be treated as liquid. Under certain circumstances a portfolio fund may determine to make payment of a redemption by a Fund (wholly or in part) by a distribution in kind of securities from its portfolio, instead of cash. As a result, a Fund may hold securities distributed by a portfolio fund until such time as Management determines it appropriate to dispose of the securities. That disposition will impose additional costs on the Fund.

## **Repurchase Agreements**

Repurchase agreements are transactions in which a portfolio fund purchases a security from a bank or recognized securities dealer and simultaneously commits to resell that security to the bank or dealer at an agreed-upon price, date, and market rate of interest unrelated to the coupon rate or maturity of the purchased security. Repurchase agreements involve certain risks, such as default by, or insolvency of, the other party to the repurchase agreement. A portfolio fund's right to liquidate its collateral in the event of a default could involve certain costs, losses, or delays. To the extent that the proceeds from any sale upon a default in the obligation to repurchase were less than the repurchase price, the portfolio fund would suffer a loss. If the financial institution which is party to the repurchase agreement petitions for bankruptcy or otherwise becomes subject to bankruptcy or other liquidation proceedings, there may be restrictions on a portfolio fund's ability to sell the collateral and the portfolio fund could suffer a loss.

If a counterparty defaults, a portfolio fund could realize a loss on the sale of the underlying security to the extent that the proceeds of the sale are less than the resale price specified in the repurchase agreement including interest. In the event that a counterparty fails to perform because it is insolvent or subject to insolvency proceedings against it, a portfolio fund's right to take possession of the underlying securities would be subject to applicable insolvency law and procedures, including an automatic stay (which would preclude immediate enforcement of the portfolio fund's rights) and exemptions from the stay (which could permit the portfolio fund to take possession of the underlying securities or void the repurchase agreement altogether). Since it is possible that an exemption from the automatic stay would not be available, the portfolio fund might be prevented from immediately enforcing its rights against the counterparty. In such a case, the portfolio fund may incur delays in, or be prevented from, liquidating the underlying securities while the portfolio fund seeks to enforce its rights under the agreement, as well as diminished levels of income or lack of access to income during such time. A portfolio fund may also incur costs in enforcing the portfolio fund's rights. In addition, if the portfolio fund enters into a repurchase agreement with a broker that becomes insolvent, it is possible for the Securities Investor Protection Corporation (SIPC) to institute a liquidation proceeding in federal court against the broker counterparty that could lead to a foreclosure by SIPC on the underlying securities, or SIPC may stay, or preclude, the portfolio fund's ability under contract to terminate the repurchase agreement. The risks associated with counterparty and broker insolvency are significantly decreased when a portfolio fund enters into repurchase agreements with the Fixed Income Clearing Corporation (FICC).

## **When-Issued and Delayed Delivery Securities; Reverse Repurchase Agreements**

A portfolio fund may purchase securities on a when-issued or delayed delivery basis. Although the payment and interest terms of these securities are established at the time the portfolio fund enters into the commitment, the securities may be delivered and paid for a month or more after the date of purchase, when their value may have changed. A portfolio fund generally makes such commitments only with the intention of actually acquiring the securities, but may sell the securities before the settlement date if the portfolio fund's investment adviser deems it advisable for investment reasons. A portfolio fund may utilize spot and forward foreign currency exchange transactions to reduce the risk inherent in fluctuations in the exchange rate between

one currency and another when securities are purchased or sold on a when-issued or delayed delivery basis.

A portfolio fund may enter into reverse repurchase agreements with banks and securities dealers. A reverse repurchase agreement is a repurchase agreement in which the portfolio fund is the seller of, rather than the investor in, securities and agrees to repurchase them at an agreed-upon time and price. Use of a reverse repurchase agreement may be preferable to a regular sale and later repurchase of securities because it avoids certain market risks and transaction costs.

At the time a portfolio fund enters into a binding obligation to purchase securities on a when-issued basis or enters into a reverse repurchase agreement, assets of the portfolio fund having a value at least as great as the purchase price of the securities to be purchased will be segregated on the books of the portfolio fund and held by the custodian throughout the period of the obligation. The use of these investment strategies, as well as any borrowing by a portfolio fund, may increase fluctuation of a portfolio fund's net asset value (and accordingly a Fund's net asset value).

### **Loans of Portfolio Securities**

A portfolio fund may lend its portfolio securities as long as: (1) the loan is continuously secured by collateral consisting of U.S. Government securities or cash or cash equivalents maintained on a daily mark-to-market basis in an amount at least equal to the current market value of the securities loaned; (2) the portfolio fund may at any time call the loan and obtain the securities loaned; (3) the portfolio fund will receive any interest or dividends paid on the loaned securities; and (4) the aggregate market value of the securities loaned will not at any time exceed one-third of the total assets of the portfolio fund. Lending portfolio securities involves risk of delay in the recovery of the loaned securities and, in some cases, the loss of rights in the collateral if the borrower fails.

### **Industry Concentration**

A portfolio fund may concentrate its investments within one industry. The value of the shares of such a portfolio fund may be subject to greater market fluctuation than an investment in a fund that invests in a broader range of securities.

### **Temporary Strategies**

Each Fund and each portfolio fund has the flexibility to respond promptly to changes in market and economic conditions. In the interest of preserving shareholders' capital, the Funds' or the portfolio funds' investment advisers may employ a temporary defensive investment strategy if it determines such a strategy to be warranted. Pursuant to a temporary defensive strategy, each Fund or a portfolio fund may hold cash (U.S. dollars, foreign currencies, multinational currency units) and/or invest up to 100% of its assets in high quality debt securities or money market instruments of U.S. issuers, and most or all of a Fund's and a portfolio fund's investments may be made in the United States and denominated in U.S. dollars. It is impossible to predict whether, when, or for how long a Fund or a portfolio fund might employ temporary defensive strategies. However, Aggressive Growth Fund almost never takes a defensive position, as stated in the Prospectus.

In addition, pending investment of proceeds from new sales of portfolio fund shares or to meet ordinary daily cash needs, a Fund or a portfolio fund temporarily may hold cash (U.S. dollars, foreign currencies, or multinational currency units) and may invest any portion of its assets in money market instruments.

### **Portfolio Turnover**

Although the Funds and the portfolio funds do not purchase securities with a view to rapid turnover, there are no limitations on the length of time that portfolio securities must be held. Portfolio turnover can occur for many reasons such as general conditions in the securities markets, more favorable investment opportunities in other securities, or other factors relating to the desirability of holding or changing a portfolio investment. A portfolio fund's high rate of portfolio turnover, if it should occur, would result in increased transaction costs which must be borne by the portfolio fund. High portfolio turnover may also result in the realization of capital gains or losses and, to the extent net short-term capital gains are realized, any dividends resulting from such gains will be considered ordinary income for federal income tax purposes.

### **Investment Restrictions**

In pursuing its investment objective each of Total Return Fund and Aggressive Growth Fund will not:

1. With respect to 75% of its total assets, invest more than 5% (valued at time of investment) in securities of any one issuer, except in U.S. government securities and securities of other investment companies.
2. Invest more than 25% of its total assets (valued at time of investment) in securities of any one investment company. However, this restriction does not apply when the Fund reinvests dividends and distributions from an investment company in shares of that investment company.
3. Invest in a security if more than 25% of its total assets (valued at time of investment) would be invested in the securities of issuers in any particular industry, except that this restriction does not apply to securities issued or guaranteed by the U.S. Government or its agencies or instrumentalities.
4. Purchase and sell real estate or interests in real estate, although it may invest in marketable securities of enterprises, including real estate investment trusts, which invest in real estate or interests in real estate.
5. Make loans.
6. Sell securities short or maintain a short position.
7. Invest in puts, calls, straddles, spreads, or combinations thereof.
8. Purchase and sell commodities or commodity contracts.
9. Underwrite the distribution of securities of other issuers.

10. Issue any senior security except to the extent permitted under the Investment Company Act of 1940.

11. Borrow money except (a) from banks for temporary or emergency purposes in amounts not exceeding 33% of the value of the Fund's assets at the time of borrowing, and (b) for temporary purposes in an amount not exceeding 5% of the value of the Fund's total assets at the time of the borrowing.

12. Invest in issuers for the purpose of management or the exercise of control.

The above restrictions for each Fund and each Fund's investment objective are "fundamental," which means that they cannot be changed without the approval of the lesser of (a) 67% of each Fund's shares present at a meeting if more than 50% of the shares outstanding are present or (b) more than 50% of each Fund's outstanding shares.

A portfolio fund may, but need not, have the same investment policies as a Fund. In addition, although each of the Funds may from time to time invest in shares of the same portfolio funds, the percentage of each Fund's assets so invested may vary and the Fund's portfolio managers will determine that the investments are consistent with the investment objectives and policies of each Fund.

### **Performance Information**

From July 1, 1972 through July 1, 2001, Total Return Fund's shares were not registered under the Securities Act of 1933 and sales of Fund shares were made only on a private basis. The Fund began offering its shares to the public pursuant to an effective registration statement on July 2, 2001.

From time to time the Funds may quote total return figures. "Total Return" for a period is the percentage change in value during the period of an investment in shares of a Fund, including the value of shares acquired through reinvestment of all dividends (including capital gains distributions). "Average Annual Total Return" is the average annual compounded rate of change in value represented by the Total Return for the period.

The Funds may also quote after-tax total returns to show the impact of assumed federal income taxes on an investment in a Fund. A Fund's total return "after taxes on distributions" shows the effect of taxable distributions, but not any taxable gain or loss, on an investment in shares of the Fund for a specified period of time. A Fund's total return "after taxes on distributions and sale" shows the effect of both taxable distributions and any taxable gain or loss realized by the shareholder upon the sale of Fund shares at the end of a specified period. To determine these figures, all dividends (including income dividends, short-term capital gains distributions, and long-term capital gains distributions) are assumed to have been taxed at the actual historical federal maximum tax rate. Those maximum tax rates are applied to dividends prior to reinvestment and the after-tax portion is assumed to have been reinvested in the Funds. State and local taxes are ignored.

In this SAI, "dividend(s)" includes all distributions of income and capital gains, unless the context clearly indicates otherwise.

Actual after-tax returns depend on a shareholder's tax situation and may differ from those shown. After-tax returns reflect past tax effects and are not predictive of future tax effects.

The Funds may also quote tax efficiency. Tax efficiency is derived by dividing after-tax returns by pretax returns. The highest possible score would be 100%, which would apply to a Fund that had no taxable dividends. Because many interrelated factors affect tax efficiency, it is difficult to predict tax efficiency.

The Funds impose no sales loads and pay no distribution expenses. Performance figures quoted by the Funds are not necessarily indicative of future results. Each Fund's performance is a function of conditions in the securities markets, portfolio management, and operating expenses. Although information about past performance is useful in reviewing a Fund's performance and in providing some basis for comparison with other investment alternatives, it should not be used for comparison with other investments using different reinvestment assumptions or time periods.

The Funds may also measure their performance on a long-term risk-adjusted total return basis. Risk-adjusted total return compares total return and standard deviation (volatility). The Funds may also use statistics to indicate volatility or risk. The premise of each of these measures is that greater volatility connotes greater risk undertaken in achieving performance. The Funds may use and quote the following measures of volatility:

Beta. Beta is the volatility of a Fund's total return relative to the movements of a benchmark index. A beta greater than one indicates volatility greater than the index, and a beta of less than one indicates volatility less than the index.

R-squared. R-squared reflects the percentage of a Fund's price movements that are explained by movements in the benchmark index. An R-squared of 1.00 indicates that all movements of a Fund's price are completely explained by movements in the index. Generally, a higher R-squared will indicate a more reliable beta figure.

Alpha. Alpha is a measure used to discuss a Fund's relative performance. Alpha measures the actual return of a fund compared to the expected return of a Fund given its risk (as measured by beta). The expected return of a Fund is based on how historical movements of the benchmark index and historical performance of a Fund compare to the benchmark index. The expected return is computed by multiplying the advance or decline in a market represented by a Fund's beta. A positive alpha quantifies the value that a Fund's Manager has added and a negative alpha quantifies the value that a Fund's Manager has lost.

Standard deviation. Standard deviation quantifies the volatility in the returns of a Fund by measuring the amount of variation in the group of returns that make up a Fund's average return. Standard deviation is generally calculated over a three or five year period using monthly returns and modified to present an annualized standard deviation.

Sharpe ratio. A Fund's Sharpe ratio quantifies its total return in excess of the return of a guaranteed investment (90-day U.S. treasury bills), relative to its volatility as measured by its standard deviation. The higher a Fund's Sharpe ratio, the better a Fund's returns have been relative to the amount of investment risk it has taken.

Beta and R-squared are calculated by performing a least squares linear regression using three years of monthly total return figures for each portfolio and benchmark combination. Alpha is calculated by taking the difference between the average monthly portfolio return and the beta-adjusted average monthly benchmark return. The result of this calculation is then geometrically annualized.

Other measures of volatility and relative performance may be used as appropriate. All such measures will fluctuate and do not represent future results.

The Funds may note their mention or recognition in newsletters, newspapers, magazines, Websites, television programs, or other media. Biographical and other information about a Fund's portfolio managers or the Investment Committee, including information about awards received by that portfolio manager or mentions of the manager or committee in the media, may also be described or quoted in Fund advertisements or sales literature.

The information in the Prospectus on various indexes is incorporated by reference into this SAI. The information relating to the indexes referred to by the Funds will be obtained from sources which the Funds generally believe to be accurate. The Funds also may note their mention (including performance or other comparative rankings) in newspapers, magazines, Websites, television programs, or other media from time to time. However, the Funds assume no responsibility for the accuracy of such data.

The Funds may also discuss in advertising the relative performance of various types of investment instruments, such as stocks, Treasury securities, and bonds, over various time periods and covering various holding periods. Such comparisons may compare these investment categories to each other or to changes in an inflation index such as the Consumer Price Index.

A Fund may advertise examples of the effects of periodic investment plans, including the principle of dollar cost averaging. In this program, the investor invests a fixed dollar amount in a Fund at periodic intervals, thereby purchasing fewer shares when prices are high and more shares when prices are low. While this strategy does not ensure a profit or guard against loss in a declining market, the investor's average cost per share can be lower than if fixed numbers of shares had been purchased at those intervals. In evaluating such a plan, investors should consider their ability to continue purchasing shares through periods of low price levels.

Evaluations of Fund performance made by independent sources may also be used in advertisements concerning the Funds, including reprints of, or selections from, editorials or articles about the Fund. These editorials or articles may include quotations of performance from other sources such as Lipper or Morningstar.

When comparing yield, total return, and investment risk of shares of a Fund with other investments, investors should understand that certain other investments have different risk characteristics than an investment in shares of the Funds. For example, certificates of deposit may have fixed rates of return and may be insured as to principal and interest by the FDIC, while a Fund's returns will fluctuate and its share values and returns are not guaranteed. Money market accounts offered by banks also may be insured by the FDIC and may offer stability of principal. U.S. Treasury securities are guaranteed as to principal and interest by the full faith and

credit of the U.S. government. Money market mutual funds may seek to offer a fixed price per share.

The performance of the Funds is not fixed or guaranteed. Performance quotations should not be considered to be representative of the performance of a Fund for any period in the future. The performance of a Fund is a function of many factors including its earnings, expenses, and number of outstanding shares. Fluctuating market conditions, purchases and sales of portfolio funds, sales and redemptions of shares of a Fund, and changes in operating expenses are all examples of items that can increase or decrease a Fund's performance.

### **Investment Manager and Portfolio Managers**

Pearl Management Company (the "Manager"), 2610 Park Avenue, P.O. Box 209, Muscatine, IA 52761 serves as the investment adviser and manager for the Funds. The Funds are its only clients that pay for its services. As of April 1, 2009, the Manager has approximately \$89 million under management, consisting entirely of Total Return Fund and Aggressive Growth Fund plus the Manager's own investment assets. The Manager does not manage any other account.

Pearl Management Company is an Iowa corporation whose shareholders are Capital Formation Council, Free Enterprise Advocates, Investor Protection, Inc., Public Interest Committee, and Taxpayer Rights Association, each an Iowa nonprofit organization and public interest organization. Each shareholder has been in existence for more than 25 years and has supported advocacy on public policy issues. None of them has any shareholders or beneficial owners. David M. Stanley and Jean Leu Stanley, his wife, may be deemed to control the Manager because he serves as President and Director and she serves as Vice President and Director of each of the five shareholders of the Manager. Robert H. Solt serves as Chief Executive Officer and Director and Dana D. Solt, his wife, serves as a Director of the Manager.

At December 31, 2008, the Manager and its five shareholders each were shareholders of both Funds. This group beneficially owned shares of the Funds having these aggregate values:

Total Return Fund	\$1,984,341
Aggressive Growth Fund	\$986,374
Both Funds	\$2,970,715

All of these affiliated persons of the Trust and Funds are affiliated persons of the Manager:

<b><u>Name</u></b>	<b><u>Positions Held with the Trust and the Manager</u></b>
Robert H. Solt	President, Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Treasurer, and Trustee of the Trust. Chairman, President, Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Treasurer, and Director of the Manager.
David M. Stanley	Senior Counsel, Chief Legal Officer, Secretary, and Trustee of the Trust. Senior Counsel, Chief Legal Officer, Secretary, and Director of the Manager.
Richard R. Phillips	Vice President and Assistant Secretary of the Trust. Vice President, Chief Compliance Officer, and Assistant Secretary of the Manager.

The Manager furnishes continuing investment supervision to the Funds under an Investment Management Agreement (the “Agreement”) and is responsible for overall management and investment of the Funds’ assets. The Agreement may be continued from year to year only so long as its continuance is approved annually (a) by the vote of a majority of the Trustees who are not “interested persons” of the Trust or of the Manager cast in person at a meeting called for the purpose of voting on such approval, and (b) by the Board of Trustees of the Trust or by the vote of a majority (as defined in the 1940 Act) of the outstanding shares of each Fund. Any amendment to the Agreement must be approved in the same manner.

In this SAI, “independent Trustee(s)” means all Trustees who are not “interested persons,” as defined in the 1940 Act, of the Trust or of the Manager.

At a meeting of the Board of Trustees held on December 5, 2008, called in part for the purpose of voting on the renewal of the Agreement, the Agreement was renewed through January 31, 2010 by a vote of the majority of the Trustees (Mr. Solt and Mr. Stanley, the two “interested” Trustees, abstained from voting), and also by the unanimous vote of all of the five independent Trustees of the Trust. In evaluating the Agreement, the Trustees reviewed information provided by the Manager, including, among other things, information relating to the performance of the Funds, performance comparisons of the Funds and their comparison indexes, the Manager’s financial condition, the fees and fee structure, and the experience of the personnel providing services to the Funds. The Trustees also considered, among other things, the terms, provisions, and fee structure of the Agreement and the related Administrative Services Agreement; the terms, provisions, and benefits of the Expense Limit Agreement between the Manager and the Funds; the nature, extent, and quality of services provided by the Manager; the Manager’s management, personnel, and methods; the Manager’s management, organizational, and financial strength; the profitability to the Manager of its relationship with the Trust and Funds; any fall-out benefits likely to be received from that relationship; economies of scale; comparative fees and expense ratios; and the fairness and reasonableness of the total fee structure, including the fees, expense limits, and provisions contained in the three agreements. A more detailed discussion pertaining to the approval of the Agreement is included in the December 31, 2008 annual report.

The Agreement may be terminated as to a Fund without penalty by the vote of the Board of Trustees of the Trust or the shareholders of that Fund (by a majority as defined in the 1940 Act) on sixty days’ written notice to the Manager or by the Manager on one year’s notice to the Fund, and will terminate automatically in the event of its assignment. The fees payable by a Fund under the Agreement are the obligation only of that Fund and impose no liability on the other Fund.

The total advisory and management fees each Fund pays to the Manager are accrued daily and payable monthly based on the Fund’s net assets as of the beginning of the month, at the annual rates shown below:

<u>Average Daily Net Assets</u>	<u>Rate of Fee</u>
First \$30 million	0.65%
More than \$30 million to \$100 million	0.58%
In excess of \$100 million	0.40%

The Manager also provides administrative and transfer agency services to the Trust pursuant to an administrative services and transfer agency agreement for which the Manager receives a fee. The Funds pay the cost of custodial, audit, and legal services and membership in trade organizations. They also pay other expenses such as the cost of maintaining the registration of their shares under federal law, complying with state securities laws, proxy solicitations, printing and distributing notices and copies of the Prospectus and shareholder reports furnished to existing shareholders, taxes, insurance premiums, and the fees of the independent Trustees. The Manager bears all sales and promotional expenses, including the cost of Prospectuses and other materials used for sales and promotional purposes.

The administrative fees each Fund pays to the Manager are accrued daily and payable monthly based on the Funds' net assets as of the beginning of the month, at the annual rates shown below:

<u>Average Daily Net Assets</u>	<u>Rate of Fee</u>
First \$30 million	0.21%
More than \$30 million to \$100 million	0.19%
In excess of \$100 million	0.13%

The advisory and management fees and administrative services fees paid by the Funds to the Manager for the fiscal years ended December 31, 2008, 2007, and 2006 were as follows:

<b>Fund</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Total Return Fund	\$779,525	\$907,324	\$772,554
Aggressive Growth Fund	\$455,467	\$474,120	\$344,829

The Manager has contractually agreed to reimburse each Fund for all ordinary operating expenses (including management and administrative fees) exceeding these expense ratios: 0.98% of a Fund's average annual net assets up to \$100 million and 0.78% of a Fund's average annual net assets in excess of \$100 million. When the Manager has reimbursed a Fund for expenses in excess of this limit, the Manager may recover the reimbursed amounts, for a period that does not exceed five years, to the extent this can be done without exceeding the expense limit. The agreement to limit the Funds' ordinary operating expenses is limited to the Funds' direct operating expenses and, therefore, does not apply to portfolio funds' fees and expenses (as shown in the Prospectus), which are indirect expenses incurred by the Funds through their investments in the underlying portfolio funds. This expense limit does not have an expiration date, and will continue unless a change is approved by the Funds' Board of Trustees.

Robert H. Solt, David M. Stanley, and Richard R. Phillips are the portfolio managers and the Investment Committee for both Total Return Fund and Aggressive Growth Fund. Other Officers and employees of the Manager also provide research and analysis for the Investment Committee.

Pearl Management Company, Mr. Solt, Mr. Stanley, and Mr. Phillips do not manage any other registered investment companies, pooled investment vehicles, or other investment accounts other than the Funds, except that Mr. Stanley manages for himself and his wife two personal brokerage accounts with assets of less than \$200,000 as of December 31, 2008. One or more of the portfolio managers give limited and occasional investment advice to various organizations (most

are non-profit and most are shareholders of the Funds), but the recipients do not pay for these services. The Manager receives compensation only from the Funds.

The advisory fee and all fees received by the Manager in connection with management of the Funds are not based on the performance of the Funds. However, the performance of the Funds is a significant factor in the Board of Trustees' annual review and decision on the Agreement between the Manager and the Funds.

Material conflicts of interest are not anticipated in connection with the management of the Funds' investments because cross-trades between the Funds are not permitted, and no allocation of aggregated trades is done as a regular trading practice.

The portfolio managers receive all of their compensation from the Manager in the form of a fixed salary, employee benefits, and the possibility of a year-end bonus. Salaries and bonuses (if any) are determined by the Manager's Chief Executive Officer and Senior Counsel, taking into account all factors which they believe are relevant. Employee performance and achievements, employee responsibilities, the Manager's income, the Funds' performance, and the Funds' growth and net assets are among the many factors that may affect the decisions on portfolio managers' compensation. However, there is no formula, agreement, or policy regarding any relationship between the portfolio managers' compensation and the Funds' performance, growth, or net assets. The portfolio managers do not receive any other compensation with respect to managing the Funds or any other accounts.

The Manager strongly encourages all portfolio managers and all Officers and employees of the Manager to own shares of the Funds. The Manager believes this ownership will ensure that all of these persons have a shared interest with all shareholders of the Funds and a strong incentive to make the Fund's performance their high priority.

At December 31, 2008, each portfolio manager beneficially owned (as determined pursuant to Rule 16a-1(a)(2) under the 1934 Act) shares of the respective Funds having values within the indicated dollar ranges.

	<u>Total Return Fund</u>	<u>Aggressive Growth Fund</u>
Robert H. Solt	\$50,001 to \$100,000	\$100,001 to \$500,000
David M. Stanley	over \$1,000,000	\$500,001 to \$1,000,000
Richard R. Phillips	\$10,001 to \$50,000	\$50,001 to \$100,000

### **The Trust: Pearl Mutual Funds**

The Trust (formerly Mutual Selection Trust) is a Massachusetts business trust organized under an Amended and Restated Declaration of Trust dated September 11, 2000 (the "Declaration of Trust"). The Declaration of Trust may be amended by a vote of either the Trust's shareholders or, in certain circumstances, by its Trustees without shareholder consent. The Trust may issue an unlimited number of shares, in one or more series as the Board of Trustees may authorize. Any series of shares may be further divided, without shareholder approval, into two or more classes of shares having such preferences or special or relative rights or privileges as the Trustees may determine. The shares of the Funds are not currently divided into classes. Total Return Fund

and Aggressive Growth Fund are the only series of the Trust currently being offered. The Board of Trustees may authorize the issuance of additional series if deemed advisable, each with its own investment objective, policies, and restrictions. All shares issued will be fully paid and non-assessable and will have no preemptive or conversion rights.

Under Massachusetts law, the shareholders of the Trust may, under certain circumstances believed to be remote, be held personally liable for the Trust's obligations. However, the Declaration of Trust disclaims liability of shareholders and the Trust's Trustees and Officers for acts or obligations of the Trust and requires that notice of such disclaimer be given in each agreement, obligation, or contract entered into or executed by the Trust or the Board of Trustees. The Declaration of Trust provides for indemnification out of the assets of the Trust of all losses and expenses of any shareholder held personally liable for the obligations of the Trust. Thus, the risk of a shareholder incurring financial loss on account of shareholder liability is remote, since it is limited to circumstances in which the disclaimer is inoperative and the Trust itself is unable to meet its obligations.

On any matter submitted to a vote of shareholders, shares are voted in the aggregate and not by individual series except that shares are voted by individual series when required by the 1940 Act or other applicable law, or when the Board of Trustees determines that the matter affects only the interests of one series, in which case shareholders of the unaffected series are not entitled to vote on that matter. All shares of the Trust are voted together in the election of Trustees.

### **Trustees and Officers and Their Ownership of Shares of the Funds**

The Board of Trustees has overall responsibility for the Trust's and the Funds' affairs. Each Trustee serves for an indefinite term of unlimited duration until the next meeting of shareholders called for the purpose of considering the election or re-election of such Trustee or a successor, and until the election and qualification of his or her successor. The Trustees may fill any vacancy provided that at least two-thirds of the Trustees, after such appointment, have been elected by the Fund's shareholders. A Trustee may be removed, with or without cause, at any time by a vote of at least two-thirds of the Funds' outstanding shares or by written instrument signed by at least two-thirds of the remaining Trustees.

The Board of Trustees elects or appoints the Officers of the Funds annually. Each Officer serves until the election and qualification of his or her successor, or until he or she sooner dies, resigns, or is removed or disqualified. The Board of Trustees may remove any Officer, with or without cause, at any time.

The names and ages of the Trustees and Officers of the Trust and Funds, the date each was first elected or appointed to office, and their principal business occupations and other public company directorships they have held during at least the last five years, are shown below. Each Trustee and Officer serves in that capacity for each of the two series of the Trust.

<b>Name and Age at April 1, 2009</b>	<b>Positions Held with the Trust and Funds</b>	<b>Date First Elected or Appointed to Office **</b>	<b>Principal Occupations during Past 5 Years</b>	<b>Other Public Company Directorships</b>
<b>Trustees who are “Interested Persons” of the Funds: *</b>				
Robert H. Solt, 41	President, Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Treasurer, and Trustee	Feb. 2001	Pearl Management Company: Director since Feb. 2001; Chairman, President and Chief Executive Officer since May 2006; Chief Operating Officer, Chief Financial Officer, and Treasurer since June 2001; Chief Compliance Officer, Sept. 2004 to April 2006; Executive Vice President and Secretary, June 2001 to April 2006.	None.
David M. Stanley, 80	Senior Counsel, Chief Legal Officer, Secretary, and Trustee	July 1972	Pearl Management Company: Director since July 1972; Senior Counsel and Secretary since May 2006; Chief Legal Officer since Sept. 2004; Chairman, President, and Chief Executive Officer, July 1972 to April 2006. Midwest Management Corporation (private investment company): Chairman and Director.	None.
<b>Trustees who are not “Interested Persons” of the Funds:</b>				
John W. Axel, 67	Trustee	Dec. 1974	Owner and Chief Executive Officer, Iowa Companies, Inc. (holding company engaged in waste hauling, recycling and manufacturing). President, Environmental Services Inc. (waste hauling firm). President, Perfect Pallet Co. (pallet manufacturer). President, Earthcare Recycling, LLC since 2005.	None.
Douglas B. Coder, 73	Trustee	Dec. 1974	Owner, Coder Co. (purchaser and seller of existing mortgages). Owner, DBC Realty (investments firm). Director, Chata Biosystems, Inc. (manufacturer of pharmaceutical solutions).	Former Chairman and Director, Catalyst International, Inc. (software) (1996-2004).
Dr. David N. DeJong, 45	Trustee	Dec. 1998	Professor of Economics, University of Pittsburgh, since Sept. 1989.	None.

<b>Name and Age at April 1, 2009</b>	<b>Positions Held with the Trust and Funds</b>	<b>Date First Elected or Appointed to Office **</b>	<b>Principal Occupations during Past 5 Years</b>	<b>Other Public Company Directorships</b>
David L. Evans, 67	Trustee and Vice Chairman of the Board	June 1977	Owner and Chief Executive Officer, Evanwood Corporation (consulting firm). Director, John Deere Receivables, Inc. (asset-backed securities firm). Chief Executive Officer, Rose Creek Ridge, LLC (farming company).	None.
Dr. James P. Stein, 58	Trustee and Chairman of the Board	Oct. 2003	Chairman of Board of Directors and Director, Central Bancshares, Inc., and Director, subsidiary banks of Central Bancshares, Inc. Doctor of Veterinary Medicine. Private investor.	None.
<b>Other Officers of Pearl Mutual Funds:</b>				
Karen M. Brookhart, 37	Portfolio Management Associate	March 2002	Pearl Management Company: Portfolio Management Associate since Sept. 2004; Assistant Secretary, March 2002 to Sept. 2004; Administrative Assistant, Sept. 2001 to Sept. 2004.	None.
Peggy A. Cherrier, 56	Compliance Associate, Transfer Agent Representative, Assistant Secretary and Transfer Agent	March 2001	Pearl Management Company: Compliance Associate since Sept. 2004; Transfer Agent Representative since March 2009; Assistant Secretary since Feb. 2001; Administrative Assistant, Aug. 2000 to Sept. 2004.	None.
Christopher S. Ingstad, 28	Shareholder Services Director	Aug. 2006	Pearl Management Company: Shareholder Services Director since Aug. 2006. Allsteel (office furniture company): Financial Analyst, March 2005 to Aug. 2006; Credit Analyst, April 2004 to March 2005.	None.
Renata R. LaMar, 44	Controller and Assistant Treasurer	March 2001	Pearl Management Company: Controller since Sept. 2004; Assistant Treasurer since Feb. 2001; Financial Administrator, Feb. 2001 to Sept. 2004.	None.

<b>Name and Age at April 1, 2009</b>	<b>Positions Held with the Trust and Funds</b>	<b>Date First Elected or Appointed to Office **</b>	<b>Principal Occupations during Past 5 Years</b>	<b>Other Public Company Directorships</b>
Richard R. Phillips, 56	Vice President and Assistant Secretary	Sept. 2005	Pearl Management Company: Vice President since Aug. 2005; Chief Compliance Officer since May 2006; Consultant, Nov. 2004 to July 2005. Vice President, Secretary, General Counsel, Reynolds Engineering & Equipment, Inc. (industrial equipment firm). Owner, Phillips Law Office, April 1998 to July 2006.	None.
Anthony J. Toohill, 32	Chief Compliance Officer	Aug. 2004	Pearl Mutual Funds: Chief Compliance Officer since Aug. 2004. Senior Associate, Stinnett & Associates (risk management firm), Sept. 2004 to Dec. 2007; Accounting Supervisor, Financial and Operational Principal, and Internal Control Committee Co-Chair, Modern Woodmen of America (insurance and securities firm), Jan. 2003 to Aug. 2004.	None.

\* Mr. Solt is an “interested person” of the Trust and the Funds, as defined in the 1940 Act, because he is an Executive Officer and a Director of the Manager. Mr. Stanley is an “interested person” of the Trust and the Funds because he is an Executive Officer and a Director of the Manager.

\*\* Dates prior to June 2001 correspond to the date first elected or appointed as a Director or Officer of Mutual Selection Fund, Inc., the Funds’ predecessor.

The address of the Trustees and Officers is: Pearl Mutual Funds, 2610 Park Avenue, PO Box 209, Muscatine, Iowa 52761.

Messrs. Evans (Chairman) and Coder and Dr. Stein serve as members of the Audit Committee. This Committee makes recommendations to the Board of Trustees regarding the selection of auditors and confers with the auditors regarding the scope and results of the audit. The Audit Committee met two times during the year 2008.

Messrs. Axel (Chairman) and Dr. DeJong serve as members of the Nominating and Governance Committee. This Committee makes recommendations to the Board of Trustees regarding Board committees and committee assignments, the composition of the Board of Trustees, any candidate for appointment as the independent Chairman of the Board of Trustees, any candidates for election as independent Trustees, and compensation of independent Trustees, and oversees the process for evaluating the functioning of the Board of Trustees. The Nominating and Governance Committee will consider recommendations by shareholders regarding candidates for election as Trustee. However, if such a recommendation is received at a time when the Committee is not considering prospective candidates for nomination as independent Trustees, the Committee in its discretion may defer consideration until an appropriate time. The Nominating and Governance Committee met two times during the year 2008.

Dr. DeJong (Chairman), Messrs. Axel, Coder, and Evans, and Dr. Stein serve as members of the Contract Review Committee. This Committee establishes and oversees the process for the annual consideration and evaluation of the agreements between the Trust and Pearl Management Company. The Contract Review Committee met two times during the year 2008.

Dr. Stein (Chairman of the Board) and Messrs. Evans (Vice Chairman of the Board), Solt (President), and Stanley (Senior Counsel) serve as members of the Executive Committee. This Committee generally has the authority to exercise the powers of the Board of Trustees during intervals between meetings. The Executive Committee did not meet during the year 2008.

Each Trustee who is not an “interested person” of the Funds, as defined in the 1940 Act, receives from the Funds an annual Trustee’s fee (retainer) of \$9,000 except that the annual amount is \$16,000 for the Chairman of the Board of Trustees and \$13,000 for the Chairman of the Audit Committee, the Chairman of the Nominating and Governance Committee, and the Chairman of the Contract Review Committee. Each independent Trustee also receives an attendance fee of \$1,000 per day for each of these meetings, if the Trustee is present for all or substantially all of the meeting: (a) a quarterly meeting of the Board of Trustees; (b) any other meeting of the Board of Trustees; (c) a meeting of a Committee of the Board that is not held on a Board meeting day; and (d) an approved outside education experience in accordance with the Orientation and Education Program for Independent Trustees, if the Trustee presents a brief report to the Board in accordance with the Orientation and Education Program for Independent Trustees. However, the attendance fee of the Chairman of the Board is \$1,500 for each day of a Board meeting or Executive Committee meeting if he or she serves as presiding officer for all or substantially all of the meeting. Attendance and presence at Board and Committee meetings include participation by telephone or other electronic communication. However, attendance fees are not paid for a Committee meeting if it is conducted primarily by telephone conference or other electronic communication, unless the Committee determines that attendance fees should be paid and promptly requests payment. The Vice Chairman of the Board does not receive any compensation for serving in that position, except that when performing the duties and exercising the powers of the Chairman of the Board, the Vice Chairman of the Board receives the same compensation as the Chairman of the Board. All attendance fees are paid in cash, which is applied to the purchase of Fund shares. The preceding provisions are included in a revised compensation plan for independent Trustees that was approved by the Board and became effective January 1, 2008. During 2008, the Board approved an increase in independent Trustee compensation, but the Board later delayed the increase until January 1, 2010. For the fiscal year ended December 31, 2008, the Funds paid fees aggregating \$120,500 to Trustees who were not affiliated with the Manager. The Funds have no retirement or pension plans.

The following table sets forth the total compensation paid by the Trust during the fiscal year ended December 31, 2008 to each of the Trustees of the Trust:

Name of Trustee	Total Return Fund	Aggressive Growth Fund	Aggregate Compensation from the Funds
<b>Trustees who are interested persons of the Funds:</b>			
Robert H. Solt	\$0	\$0	\$0

<b>Name of Trustee</b>	<b>Total Return Fund</b>	<b>Aggressive Growth Fund</b>	<b>Aggregate Compensation from the Funds</b>
David M. Stanley	\$0	\$0	\$0

**Trustees who are independent (not interested persons of the Funds):**

John W. Axel	\$14,239	\$7,761	\$22,000
Jeffrey R. Boeyink*	\$6,033	\$3,467	\$9,500
Douglas B. Coder	\$11,651	\$6,349	\$18,000
Dr. David N. DeJong	\$14,239	\$7,761	\$22,000
David L. Evans	\$13,606	\$7,394	\$21,000
Charles W. Larson, Jr.**	\$0	\$0	\$0
Dr. James P. Stein	\$18,141	\$9,859	\$28,000

\* Effective September 17, 2008, Jeffrey R. Boeyink resigned as a Trustee for personal reasons unrelated to his service on behalf of the Trust.

\*\* Charles W. Larson, Jr. served as a Trustee throughout the year 2007. Effective January 7, 2008, he resigned as a Trustee when he became the United States Ambassador to Latvia.

The Officers and Trustees affiliated with the Manager serve without any compensation from the Trust and Funds.

As of March 31, 2009, the Trustees and Officers of the Trust as a group beneficially owned 3.39% of the outstanding shares of Total Return Fund and 4.85% of Aggressive Growth Fund.

The following table illustrates the dollar range of any equity securities “beneficially” owned (within the meaning of that term as defined in rule 16a-1(a)(2) under the Securities Exchange Act of 1934) by the Trustees of Total Return Fund and Aggressive Growth Fund. The dollar range for the securities represented in the table was determined using the net asset value of a share of the Fund as of the close of business on December 31, 2008.

<b>Name of Trustee</b>	<b>Name of Fund</b>	<b>Dollar Range of Equity Securities in each Fund</b>	<b>Aggregate Dollar Range of Equity Securities in All Registered Investment Companies Overseen by Trustee in Family of Investment Companies</b>
<b>Trustees who are interested persons of the Funds:</b>			
Robert H. Solt	Total Return Fund	\$50,001 - \$100,000	
	Aggressive Growth Fund	over \$100,000	over \$100,000
David M. Stanley	Total Return Fund	over \$100,000*	
	Aggressive Growth Fund	over \$100,000*	over \$100,000*
<b>Trustees who are independent (not interested persons of the Funds):</b>			
John W. Axel	Total Return Fund	over \$100,000	
	Aggressive Growth Fund	\$10,001 - \$50,000	over \$100,000
Douglas B. Coder	Total Return Fund	over \$100,000	
	Aggressive Growth Fund	\$10,001- \$50,000	over \$100,000
Dr. David N. DeJong	Total Return Fund	\$10,001 - \$50,000	
	Aggressive Growth Fund	\$50,001 - \$100,000	\$50,001 - \$100,000

<u>Name of Trustee</u>	<u>Name of Fund</u>	<u>Dollar Range of Equity Securities in each Fund</u>	<u>Aggregate Dollar Range of Equity Securities in All Registered Investment Companies Overseen by Trustee in Family of Investment Companies</u>
David L. Evans	Total Return Fund	over \$100,000	
	Aggressive Growth Fund	\$50,001 - \$100,000	over \$100,000
Dr. James P. Stein	Total Return Fund	\$50,001 - \$100,000	
	Aggressive Growth Fund	\$50,001 - \$100,000	over \$100,000

\* Over \$200,000

No Trustee owns, beneficially or of record, any security of the Manager or any person (other than a registered investment company) directly or indirectly controlling, controlled by, or under common control with the Manager.

The Funds' Board of Trustees and the Manager strongly encourage all Trustees, Officers, and employees of the Trust, the Funds, and the Manager, plus the Manager and all its shareholders, to own shares of the Funds. The Board of Trustees and the Manager believe this ownership will help to ensure that all of these persons and entities have a shared interest with all shareholders of the Funds and a strong incentive to make the Fund's performance their high priority.

At December 31, 2008:

1. All Trustees, Directors, Officers, and employees of the Manager and of the Trust and Funds were shareholders of one or both of the Funds. This group beneficially owned shares of the Funds having these aggregate values:

Total Return Fund	\$2,239,263
Aggressive Growth Fund	\$1,322,546
Both Funds	\$3,561,809

2. The Manager and its five shareholders each were shareholders of both Funds. This group beneficially owned shares of the Funds having these aggregate values:

Total Return Fund	\$1,984,341
Aggressive Growth Fund	\$986,374
Both Funds	\$2,970,715

3. Groups 1 and 2 together beneficially owned shares of the Funds having these aggregate values:

Total Return Fund	\$4,223,604
Aggressive Growth Fund	\$2,308,920
Both Funds	\$6,532,524

### **Principal Shareholders of the Funds**

As of March 31, 2009, Tax Education Support Organization may be deemed to control Total Return Fund by virtue of owning more than 25% of the outstanding shares of this Fund. Tax

Education Support Organization owned of record and beneficially owned directly 25.45% of the outstanding shares of Total Return Fund. This control relationship will continue to exist until such time as the share ownership described above represents 25% or less of the outstanding shares of this Fund. Through the exercise of voting rights with respect to shares of this Fund, Tax Education Support Organization may be able to determine the outcome of shareholder voting on matters on which approval of shareholders is required. Robert H. Solt may be deemed to have a controlling influence over Tax Education Support Organization because he serves as its Vice Chairman and a Director. David M. Stanley and Jean Leu Stanley, his wife, may be deemed to have a controlling influence over Tax Education Support Organization because he serves as its Chairman and a Director and she serves as a Director. Mr. Solt and Mr. and Mrs. Stanley may also have a controlling influence over some other shareholders of the Funds that are not controlling persons of the Funds.

As of March 31, 2009, the following entities owned beneficially 5% or more of the shares of Total Return Fund:

<b>Name and Address</b>	<b>Percentage Ownership</b>
Marriage Encounter Support Foundation 2610 Park Avenue Muscatine, IA 52761	8.00%
New Hope Foundation 2610 Park Avenue Muscatine, IA 52761	9.56%
Public Interest Institute Iowa Wesleyan College Mount Pleasant, IA 52641	5.07%
Tax Education Support Organization 2610 Park Avenue Muscatine, IA 52761	25.45%

At March 31, 2009, the following entities owned beneficially 5% or more of the shares of Aggressive Growth Fund:

<b>Name and Address</b>	<b>Percentage Ownership</b>
New Hope Foundation 2610 Park Avenue Muscatine, IA 52761	13.64%
Tax Education Support Organization 2610 Park Avenue Muscatine, IA 52761	21.17%

## **Purchasing and Redeeming Shares**

Purchases and redemptions are discussed in the Funds' Prospectus under the heading "How to Buy and Sell Fund Shares." All of that information is incorporated herein by reference. The Funds are intended for long-term investment and seek to prevent, and strongly discourage, any frequent trading of Fund shares. The Funds do not have any arrangements with any person to permit frequent purchases and redemptions of Fund shares. See "Policy on Trading of Fund Shares" in the Prospectus.

### **Net Asset Value**

Share purchase and redemption orders will be priced at a Fund's NAV per share next computed after these orders are received by the Trust. Each Fund's NAV is determined only on days on which the New York Stock Exchange ("NYSE") is open for trading. The NYSE is regularly closed on Saturdays and Sundays and on New Year's Day, the third Monday in January, the third Monday in February, Good Friday, the last Monday in May, Independence Day, Labor Day, Thanksgiving, and Christmas. If one of those holidays falls on a Saturday or Sunday, the NYSE will be closed on the preceding Friday or the following Monday, respectively.

Computation of NAV (and the sale and redemption of Fund shares) may be suspended or postponed during any period when (a) trading on the NYSE is restricted, as determined by the Securities and Exchange Commission, or that exchange is closed for other than customary weekend and holiday closings, (b) the Commission has by order permitted such suspension, or (c) an emergency, as determined by the Commission, exists making disposal of portfolio securities or valuation of the net assets of the Funds not reasonably practicable.

For a description of the methods used to determine the share price, see "Net Asset Value" in the Prospectus.

The Trust has elected to be governed by Rule 18f-1 under the 1940 Act pursuant to which it is obligated to redeem shares solely in cash up to the lesser of \$250,000 or 1% of the NAV of a Fund during any 90-day period for any one shareholder. Redemptions in excess of the above amounts will normally be paid in cash, but may be paid wholly or partly by a distribution in kind of securities. If a redemption is made in kind, the redeeming shareholder would bear any transaction costs incurred in selling the securities received.

## **Anti-Money-Laundering Compliance**

The Funds are required to comply with various anti-money-laundering laws and regulations. Consequently, the Funds may request additional information from you to verify your identity. If at any time the Funds believe a shareholder may be involved in suspicious activity or if certain account information matches information on government lists of suspicious persons, the Funds may choose not to establish a new account or may be required to “freeze” a shareholder’s account. The Funds also may be required to provide a governmental agency with information about transactions that have occurred in a shareholder’s account, or to transfer money received to establish a new account, transfer an existing account, or transfer the proceeds of an existing account to a governmental agency. In some circumstances, the law may not permit a Fund to inform the shareholder that it has taken the actions described above.

## **Proxy Voting Procedures**

The Trust’s proxy voting procedures are included in this SAI as Appendix B. In accordance with SEC regulations the Funds’ proxy voting record for the last twelve-month period ended June 30 has been filed with the SEC. You may obtain a copy of the Funds’ proxy voting record (1) on the Securities and Exchange Commission’s Website at [www.sec.gov](http://www.sec.gov); (2) on the Funds’ Website at [www.pearlfunds.com](http://www.pearlfunds.com); and (3) without charge, upon request, by calling 866-747-9030 (toll-free).

## **Disclosure of Portfolio Information**

The Funds and the Manager believe frequent and uniform fair disclosure to the public of information on the portfolio holdings of the Funds is in the interest of the Funds’ shareholders and potential investors. However, this information is confidential and proprietary until uniform fair disclosure to the public is made. Selective disclosure of such information could have adverse ramifications for the Funds’ shareholders. The Manager and the Funds’ Board of Trustees have adopted and implemented a portfolio holdings disclosure policy.

The Manager publicly discloses each Fund’s month-end portfolio holdings to the public once a month, no later than the fifth day after month-end. The portfolio information is available at [www.pearlfunds.com](http://www.pearlfunds.com) and also upon request. In addition, any Executive Officer of a Fund may decide to update the portfolio information on the Website at any time when this additional public disclosure is believed to be advisable. Only the most recent portfolio information report is posted on the Website, and it remains on the Website until replaced by the next portfolio information report. The information includes the name of each portfolio security and its percentage of the Fund’s total assets. The scope of the information provided may change from time to time without prior notice.

After portfolio information has already been made public through Website disclosure or in an SEC filing, it may thereafter be disclosed to anyone and may be used in marketing literature and in communications to shareholders and others.

The Manager and the Funds will not disclose the portfolio information prior to public disclosure on the Website. The Manager and the Funds will not enter into any agreement to disclose Fund

portfolio holdings information in exchange for any form of consideration. These restrictions apply to all categories of persons, including, without limitation, individual investors, institutional investors, intermediaries, service providers, and rating and ranking organizations. Any Executive Officer of a Fund may disclose to Trustees of the Funds portfolio information prior to public disclosure on the Website, in connection with preparation for Board meetings and other instances appropriate for the operation of the Funds. Any such disclosure is made only if it is in the shareholders' interest. All personnel of the Manager and of the Funds who have access to the Funds' portfolio information prior to public disclosure are subject to the Code of Ethics described below. The Funds' Board of Trustees annually receives and evaluates a report on compliance with the Code of Ethics.

The Funds' portfolio holdings are currently disclosed to the public on the Funds' Website at **www.pearlfunds.com** and through their filings with the SEC. The Funds file their portfolio holdings with the SEC for each quarter on Form N-CSR (with respect to each annual period and semi-annual period) and Form N-Q (with respect to the first and third quarters of the year). Shareholders may obtain the Funds' Forms N-CSR and N-Q filings on the SEC's Website at **www.sec.gov**. In addition, the Funds' Forms N-CSR and N-Q filings may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. You may call the SEC at 800-SEC-0330 or 202-551-8090 for information about the SEC's Website or the Public Reference Room's operations.

### **Additional Tax Information**

The Prospectus describes generally the tax treatment of dividends by the Funds. In this SAI "dividend(s)" includes all distributions of income and capital gains, unless the context indicates otherwise. This section of the SAI includes additional information concerning federal taxes.

Each Fund has qualified and intends to qualify annually for the special tax treatment afforded a "regulated investment company" under Subchapter M of the Internal Revenue Code (the "Code") so that it does not pay federal taxes on income and capital gains distributed to shareholders. To so qualify a Fund must, among other things, (1) derive at least 90% of its gross income in each taxable year from dividends, interest, payments with respect to securities loans, gains from the sale or other disposition of stock, securities, or foreign currency, certain other income (including but not limited to gains from options, futures, and forward contracts) derived with respect to its business of investing in stock, securities, or currencies, or net income derived from interests in "qualified publicly traded partnerships," as defined in the Code for this purpose; and (2) diversify its holdings so that at the end of each quarter of its taxable year the following two conditions are met: (a) at least 50% of the value of the Fund's total assets is represented by cash, U.S. Government securities, securities of other regulated investment companies, and other securities (for this purpose such other securities will qualify only if the Fund's investment is limited in respect to any issuer to an amount not greater than 5% of the Fund's assets and 10% of the outstanding voting securities of such issuer) and (b) not more than 25% of the value of the Fund's assets is invested in securities of any one issuer (other than U.S. Government securities or securities of other regulated investment companies), two or more issuers which the Fund controls and which are engaged in the same, similar, or related trades or businesses, or the securities of one or more qualified publicly traded partnerships.

A Fund's net realized capital gains from securities transactions will be distributed only after reducing such gains by the amount of any available capital loss carryforwards. Capital losses may be carried forward to offset any capital gains for eight years, after which any undeducted capital loss remaining is lost as a deduction.

A federal excise tax at the rate of 4% will be imposed on the excess, if any, of a Fund's "required distribution" over actual dividends in any calendar year. Generally, the "required distribution" is 98% of a Fund's ordinary income for the calendar year plus 98% of its net capital gains recognized during the one-year period ending on October 31 of the calendar year plus undistributed amounts from prior years. The Funds intend to make distributions sufficient to avoid imposition of the excise tax.

A Fund is required to withhold and remit to the U.S. Treasury a percentage of dividend income on any account if the shareholder fails to (1) provide a taxpayer identification number, (2) certify that the number is correct and that he or she is not subject to backup withholding, or (3) certify that he or she is a U.S. Person (including a U.S. resident alien); or if (4) the IRS informs the Fund that the tax identification number provided is incorrect.

### **Portfolio Transactions**

The Manager is responsible for decisions to buy and sell securities for the Funds and for the placement of the Funds' portfolio business and negotiation of commissions, if any, paid on these transactions.

The Funds will seek to be included within a class of investors entitled not to pay sales loads by purchasing load fund shares under letters of intent, rights of accumulation, cumulative purchase privileges, and other quantity discount programs.

Each Fund may purchase shares of portfolio funds which charge a redemption fee (not exceeding 2%). A redemption fee is a fee imposed by a portfolio fund upon shareholders (such as a Fund) redeeming shares of the fund within a certain period of time. The fee is payable to the portfolio fund. Accordingly, if a Fund were to invest in a portfolio fund and, as a result of redeeming shares in such portfolio fund, incur a redemption fee, the redeeming Fund would bear the redemption fee. The Funds will not invest in shares of a mutual fund that is sold with a redemption fee or contingent deferred sales load exceeding 2%.

However, each Fund seeks to avoid completely all transaction costs (sales charges, commissions, and redemption fees). As of the date of this SAI, Total Return Fund has not paid any sales charge, commission, or redemption fee since 1998 and Aggressive Growth Fund has never paid any sales charge, commission, or redemption fee.

### **Code of Ethics**

The 1940 Act and rules thereunder require that the Trust and the Manager establish standards and procedures for the detection and prevention of certain conflicts of interest, including activities by which persons having knowledge of the investments and investment intentions of the Funds might take advantage of that knowledge for their own benefit. The Trust and the Manager have adopted a Code of Ethics to meet those concerns and legal requirements. Although the Code does not prohibit employees who have knowledge of the investments and

investment intentions of the Funds from engaging in personal securities investing, it does regulate such personal securities investing by these employees as a part of the effort by the Trust and the Manager to detect and prevent conflicts of interest.

### **Custodian**

First National Bank of Muscatine (“FNBM”), 300 East Second Street, Muscatine, Iowa 52761, is the custodian for the Funds. It is responsible for holding all securities and cash of the Funds, receiving and paying for securities purchased, delivering against payment securities sold, receiving and collecting income from investments, making all payments covering expenses of the Funds, and performing other administrative duties, all as directed by authorized persons of the Funds. FNBM does not exercise any supervisory function in such matters as purchase and sale of portfolio securities, payment of dividends, or payment of expenses of the Funds. The Funds have authorized FNBM to deposit certain portfolio securities of the Funds in central depository systems as permitted under federal law.

### **Independent Registered Public Accounting Firm**

Deloitte & Touche LLP, 111 South Wacker Drive, Chicago, Illinois, 60606-4301, audits and reports on the Funds’ annual financial statements and performs other authorized professional services when engaged to do so by the Funds with the Audit Committee’s approval. The financial statements of the Funds and report of the independent registered public accounting firm appearing in the Funds’ December 31, 2008 Annual Report are incorporated by reference in this SAI.

## APPENDIX A

### DESCRIPTION OF BOND RATINGS

A rating by a rating service represents the service's opinion as to the credit quality of the security being rated. However, the ratings are general and are not absolute standards of quality or guarantees as to the creditworthiness of an issuer. Consequently, the Fund's investment adviser believes that the quality of debt securities in which the Fund invests should be continuously reviewed and that individual analysts give different weightings to the various factors involved in credit analysis. A rating is not a recommendation to purchase, sell, or hold a security, because it does not take into account market value or suitability for a particular investor. When a security has received a rating from more than one service, each rating should be evaluated independently. Ratings are based on current information furnished by the issuer or obtained by the ratings services from other sources which they consider reliable. Ratings may be changed, suspended, or withdrawn as a result of changes in or unavailability of such information, or for other reasons.

The following is a description of the characteristics of rating used by Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's, a division of The McGraw-Hill Companies ("S&P").

#### **Ratings by Moody's:**

Aaa--Bonds rated Aaa are judged to be the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edged." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such bonds.

Aa--Bonds rated Aa are judged to be high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa bonds or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risk appear somewhat larger than in Aaa bonds.

A--Bonds rated A possess many favorable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment sometime in the future.

Baa--Bonds rated Baa are considered as medium grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

Ba--Bonds rated Ba are judged to have speculative elements; their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

B--Bonds rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

Caa--Bonds rated Caa are of poor standing. Such bonds may be in default or there may be present elements of danger with respect to principal or interest.

Ca--Bonds rated Ca represent obligations which are speculative in a high degree. Such bonds are often in default or have other marked shortcomings.

C--Bonds which are rated C are the lowest rated class of bonds, and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

### **S&P Ratings:**

AAA--Bonds rated AAA have the highest rating. The obligor's capacity to meet its financial commitment on the bond is extremely strong.

AA--Bonds rated AA differ from AAA bonds only in small degree. The obligor's capacity to meet its financial commitment on the bond is very strong.

A--Bonds rated A are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than bonds in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the bond is still strong.

BBB--Bonds rated BBB exhibit adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the bond.

BB, B, CCC, CC and C--Bonds rated BB, B, CCC, CC and C are regarded as having significant speculative characteristics. BB indicates the lowest degree of speculation among such bonds and C the highest degree of speculation. While such bonds will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

## APPENDIX B

### **PROCEDURES FOR VOTING PROXIES FOR PEARL MUTUAL FUNDS**

The following proxy voting procedures have been adopted by the Trust and Pearl Management Company (the "Manager").

Pursuant to Section 12(d)(1)(E)(iii) of the Investment Company Act of 1940, all proxies voted by Pearl Mutual Funds, registered either in the name of Pearl Aggressive Growth Fund or Pearl Total Return Fund (each a "Fund"), will have the following voting instructions typed on the proxy form:

Vote these shares in the same proportion as the vote of all other holders of such shares. (Pearl Aggressive Growth Fund) (Pearl Total Return Fund) is a series of Pearl Mutual Funds, a registered investment company.

Proxies will be signed on behalf of the Trust by the Chief Executive Officer of the Trust and the Manager or, in his or her absence, by another designated Officer of the Trust and the Manager.

A record of each proxy vote will be entered on Form N-PX located at account\quattro\PMF\Proxy Voting Records. A copy of each Form N-PX will be signed by the Chief Executive Officer of the Trust and the Manager and will be filed in 2499-6 PMF: Proxy Voting Records.

The Manager will track all votes cast by the Trust beginning July 1, 2003. The first Form N-PX is to be filed with the SEC by August 31, 2004 and a Form N-PX is to be filed each August 31 thereafter. Each reporting period covered by the Form N-PX runs from July 1 to June 30.

The Trust will disclose in its annual and semi-annual reports to shareholders and in its registration statement (in the SAI) filed with the SEC on or after August 31, 2004 that each Fund's proxy voting record for the most recent twelve-month period ended June 30 is available without charge upon request by calling 866-747-9030 or on Pearl Funds' Website at **www.pearlfunds.com** and is also available on the SEC's Website at **www.sec.gov**.