



ANNUAL REPORT AUGUST 31, 2011

Evolution Managed Bond Fund  
Evolution All-Cap Equity Fund  
Evolution Market Leaders Fund  
Evolution Alternative Investment Fund

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Dear Shareholders,

This Annual Report for the Evolution Funds covers the period from September 1, 2010 to August 31, 2011 (the "Annual Period"). This report covers the Evolution Managed Bond Fund, Evolution All-Cap Equity Fund, Evolution Market Leaders Fund and Evolution Alternative Investment Fund. Flexible Plan Investments, Ltd. serves as the sub-advisor to the Evolution Funds. During the Annual Period, the equity markets continued a bull rally until mid-February, 2011. Since then, concerns over the sovereign debt situation in Europe have deepened; especially during the last two months of the Annual Period, where the S&P fell as much as 17.45%. U.S. Treasuries rallied substantially over the period in a flight to safety and away from Europe; even as U.S. debt received its first downgrade in history by S&P. Concerns over U.S. debt and low interest rates drove the U.S. Dollar lower. Gold and silver soared to new highs due to fear and a weak dollar; while oil rallied to over \$110 per barrel, then fell to finish the period at \$89. Other commodities such as grains and livestock have been volatile due to draught and other natural disasters.

**Equities:**

The Annual Period was marked by strong equity returns on the back of an improving global economic outlook. Equities were levied by strong earnings and future growth prospects driven, in part, by cheap corporate lending rates and large cash asset positions. Equities suffered late in the fiscal year due to increased volatility, driven by a sputtering global economy. As global investors look for safe haven investments, active managers started to take money off the table and looked to cash and sovereign debt assets for safety.

**Fixed Income:**

Interest rates in the developed world remain at record lows. As the global economic outlook improved, investors turned their attention to risky fixed income assets, hoping to generate some yield in their portfolios. In the US, the Federal Reserve signaled to the global economy interest rates would remain depressed for an extended period of time. This in turn has forced yield hungry investors to look at riskier fixed income assets like high yield and bank loans. It was a tough year for fixed income portfolio managers as the yield curve continued to flatten limiting their options for producing outsized returns over their benchmarks.

**The Evolution Managed Bond Fund** is benchmarked to the Barclays Capital U.S. Aggregate Bond Index. The fund returned 1.36% during the Annual Period, as compared to the benchmark return of 4.62%. The Fund did well through August, although suffered dramatically in the last month of the year. At one point during the year the Fund was up over 12%, while the benchmark was down more than 5%. This outperformance can be attributed to strategic allocation to higher yielding credit. The portfolio suffered in the last month due to being under-exposed to higher yielding credit as central banks around the globe signaled that an extended period of low interest rates would be necessary to keep the global recovery from stalling.

**The Evolution All-Cap Equity Fund** is benchmarked to the S&P 500 Index. The Fund returned 15.45% during the Annual Period, underperforming the benchmark index by 3.05%. The All-Cap Fund strives to take advantage of strategic allocations to different areas of the market capitalization structure. Generally, the managers strive to take advantage of cyclical rotations in equities from micro-cap stocks to mega-cap stocks. The relatively strong performance in the Fund during the Annual Period can be attributed in large part to investments in high beta small-cap names that rallied above and beyond the index during the first nine months of the year. The management of the Fund employs a tactical hedging mechanism that has helped the Fund maintain a strong track record by being short broad-market futures at times when they feel the market is overbought.

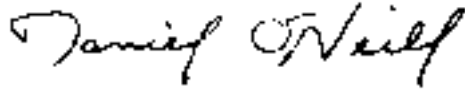
**The Evolution Market Leaders Fund** is benchmarked to the Wilshire 5000 Total Market Index. The Fund returned 8.04% during the Annual Period, as compared to benchmark return of 19.06%. The Fund's underperformance against its benchmark was due to a large allocation to fixed income securities throughout the year. The Fund managed to remain positive throughout the year and post strong returns, although the Fund suffered in the last month, as the portfolio management team was highly exposed to equities at what has now proven to be the wrong time. While the Fund does hedge the equity portion of the portfolio, the hedge was not enough to stem the extreme sell off in equities.

**The performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate and an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance data quoted.**

**The Evolution Alternative Investment Fund** is benchmarked to the S&P 500 Index. The Fund returned 0.92% during the Annual Period, dramatically underperforming the S&P 500 by over 17%. The Fund had difficulty managing the higher volatility towards the end of Annual Period as evidenced by its performance. The Fund invests heavily in sector-based ETFs to take advantage of strategic sector rotation which hindered performance in the volatile market environment. The Fund has been long the U.S. Dollar at an inopportune time, as the U.S. dollar depreciated severely against many of the large global currencies during the Annual Period.

As always, we thank you for using the Direxion Funds and we look forward to our mutual success.

Best Regards,



Daniel O'Neill  
*Direxion Funds*



Jerry Wagner  
*Flexible Plan Investments, Ltd.*

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**The views in this report were those of the Adviser as of August 31, 2011 and may not reflect their views on the date this report is first published or anytime thereafter. These views are intended to assist shareholders of the Fund in understanding their investments in the Fund and do not constitute investment advice.**

**To obtain performance data current to the most recent month-end, please call, toll-free, 1-800-851-0511 or visit [www.direxionfunds.com](http://www.direxionfunds.com).**

**The total annual fund operating expense ratio of the Managed Bond Fund, All-Cap Equity Fund, Market Leaders Fund and the Alternative Investment Fund is 2.14%, 1.98%, 2.20% and 2.80% respectively, net of any fee, waivers or expense reimbursements.**

**The total annual fund operating expense ratios include Acquired Fund Fees and Expenses, indirect fees and expenses that the Funds incur that are required to be disclosed. Without Acquired Fund Fees and Expenses, total annual operating expense ratio would be 1.90% for the Managed Bond Fund, All-Cap Equity Fund, Market Leaders Fund and the Alternative Investment Fund.**

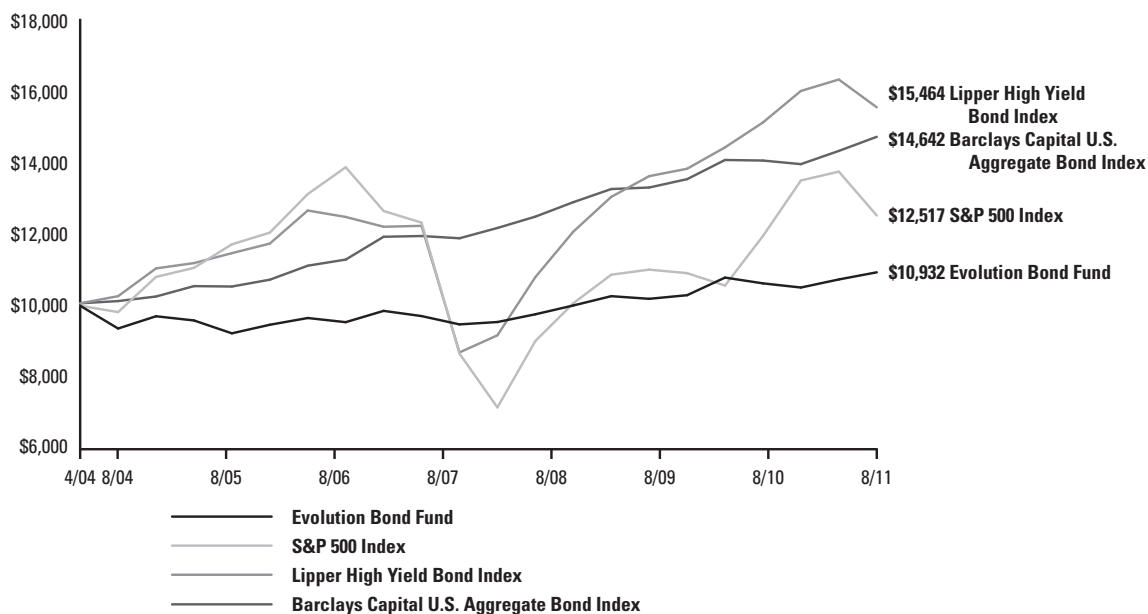
**An investment in any of the Direxion Funds is subject to a number of risks that could affect the value of its shares. It is important that investors closely review and understand these risks before making an investment. An investor should consider the investment objectives, risks, charges and expenses of the Direxion Funds carefully before investing. The prospectus contains this and other information about the Direxion Funds. To obtain a prospectus, please call the Direxion Funds at 1-800-851-0511 or visit [www.direxionfunds.com](http://www.direxionfunds.com). The prospectus should be read carefully before investing.**

**Distributed by: Rafferty Capital Markets, LLC  
Date of First Use: October 21, 2011**

## Evolution Managed Bond Fund

### April 1, 2004<sup>1</sup> - August 31, 2011 (Unaudited)

**Investment Objective:** Seeks the highest appreciation on an annual basis consistent with a high tolerance for risk.



	Average Annual Total Return <sup>2</sup>			
	1 Year	3 Years	5 Years	Since Inception
Evolution Bond Fund	1.36%	4.02%	2.91%	1.21%
S&P 500 Index	18.50%	0.54%	0.78%	3.07%
Lipper High Yield Bond Index	7.79%	8.34%	5.80%	6.05%
Barclays Capital U.S. Aggregate Bond Index	4.62%	7.23%	6.56%	5.27%

This chart illustrates the performance of a hypothetical \$10,000 investment made on the Fund's inception, and is not intended to imply any future performance. The returns shown do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. The performance of the S&P 500 Index, Lipper High Yield Bond Index and Barclays Capital U.S. Aggregate Bond Index does not reflect the deduction of fees associated with a mutual fund, such as investment management fees. Investors cannot invest directly in an index, although they can invest in its underlying securities. During the period shown, Rafferty Asset Management, LLC waived and/or reimbursed fees for various expenses. Had these waivers and/or reimbursements not been in effect, performance would have been lower.

The performance data shown represents past performance and does not guarantee future results.

### Market Exposure

Investment Type	% Net Assets
Investment Companies	97.6%
Futures Contracts	3.5%
<b>Total Exposure</b>	<b>101.1%</b>

"Market Exposure" includes the value of total investments (including the contract value of any derivatives) and excludes any short-term investments and cash equivalents divided by Net Assets.

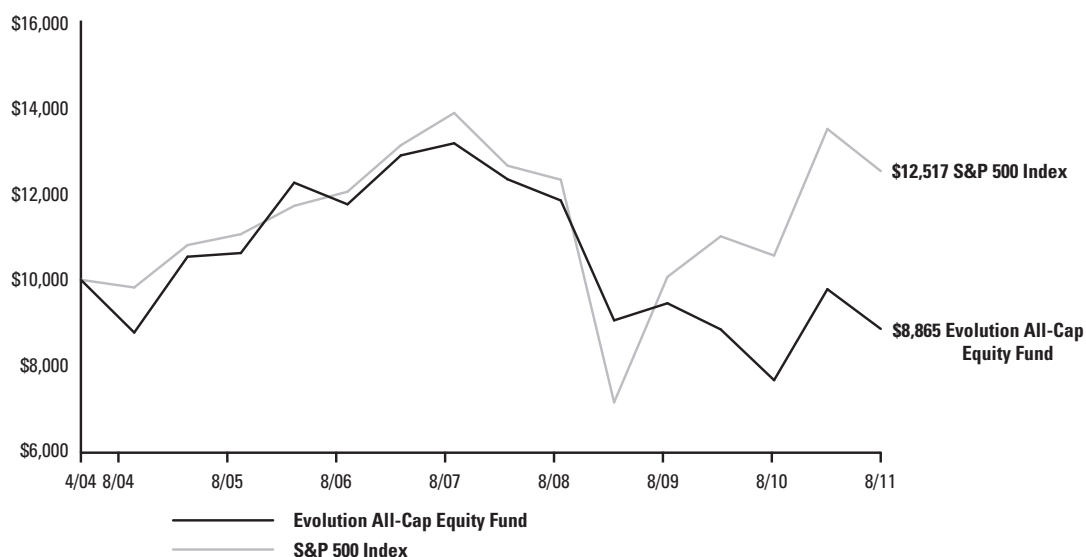
<sup>1</sup> Commencement of operations.

<sup>2</sup> As of August 31, 2011.

## Evolution All-Cap Equity Fund

### April 1, 2004<sup>1</sup> - August 31, 2011 (Unaudited)

**Investment Objective:** Seeks high appreciation on an annual basis consistent with a high tolerance for risk.



	Average Annual Total Return <sup>2</sup>			
	1 Year	3 Years	5 Years	Since Inception
Evolution All-Cap Equity Fund	15.45%	(9.18%)	(5.47%)	(1.61%)
S&P 500 Index	18.50%	0.54%	0.78%	3.07%

This chart illustrates the performance of a hypothetical \$10,000 investment made on the Fund's inception, and is not intended to imply any future performance. The returns shown do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. The performance of the S&P 500 Index does not reflect the deduction of fees associated with a mutual fund, such as investment management fees. Investors cannot invest directly in an index, although they can invest in its underlying securities. During the period shown, Rafferty Asset Management, LLC waived and/or reimbursed fees for various expenses. Had these waivers and/or reimbursements not been in effect, performance would have been lower.

The performance data shown represents past performance and does not guarantee future results.

### Market Exposure

Investment Type	%
Common Stock	69.9%
Investment Companies	15.2%
Futures Contracts	(41.1%)
<b>Total Exposure</b>	<b>44.0%</b>

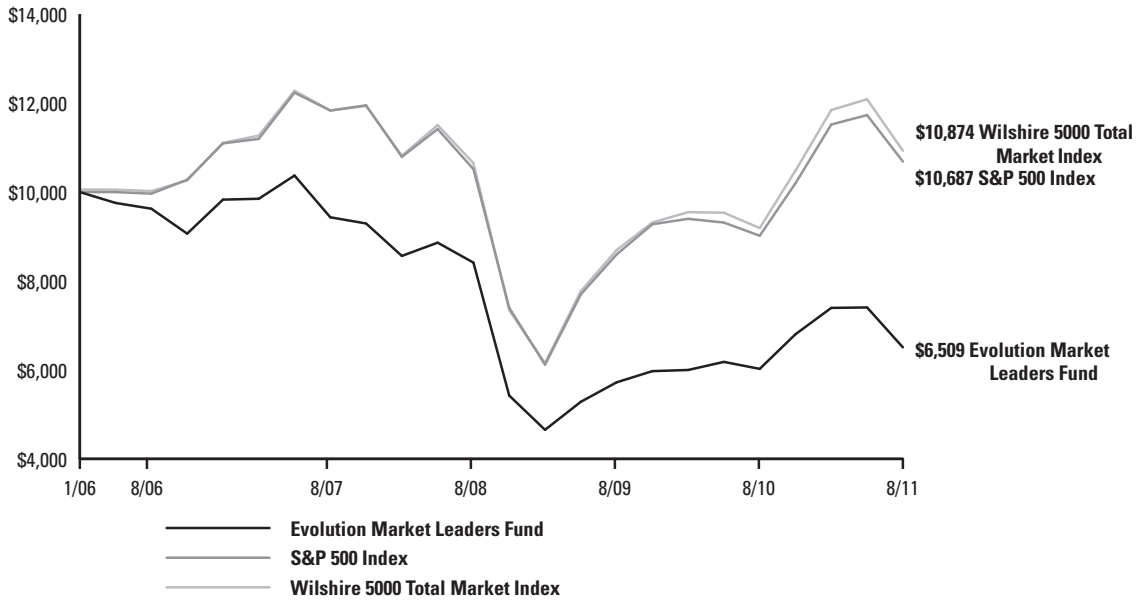
"Market Exposure" includes the value of total investments (including the contract value of any derivatives) and excludes any short-term investments and cash equivalents divided by Net Assets.

<sup>1</sup> Commencement of operations.

<sup>2</sup> As of August 31, 2011.

**Evolution Market Leaders Fund**  
**January 27, 2006<sup>1</sup> - August 31, 2011 (Unaudited)**

**Investment Objective:** Seeks high appreciation on an annual basis consistent with a high tolerance for risk.



	Average Annual Total Return <sup>2</sup>			
	1 Year	3 Years	5 Years	Since Inception
Evolution Market Leaders Fund	8.04%	(8.20%)	(6.41%)	(7.38%)
S&P 500 Index	18.50%	0.54%	0.78%	1.19%
Wilshire 5000 Total Market Index	19.06%	0.88%	1.28%	1.51%

This chart illustrates the performance of a hypothetical \$10,000 investment made on the Fund's inception, and is not intended to imply any future performance. The returns shown do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. The performance of the S&P 500 Index and the Wilshire 5000 Total Market Index does not reflect the deduction of fees associated with a mutual fund, such as investment management fees. Investors cannot invest directly in an index, although they can invest in its underlying securities. During the period shown, Rafferty Asset Management, LLC waived and/or reimbursed fees for various expenses. Had these waivers and/or reimbursements not been in effect, performance would have been lower.

The performance data shown represents past performance and does not guarantee future results.

**Market Exposure**

<u>Investment Type</u>	<u>% Net Assets</u>
Common Stock	0.0%
Investment Companies	62.3%
<b>Total Exposure</b>	<b>62.3%</b>

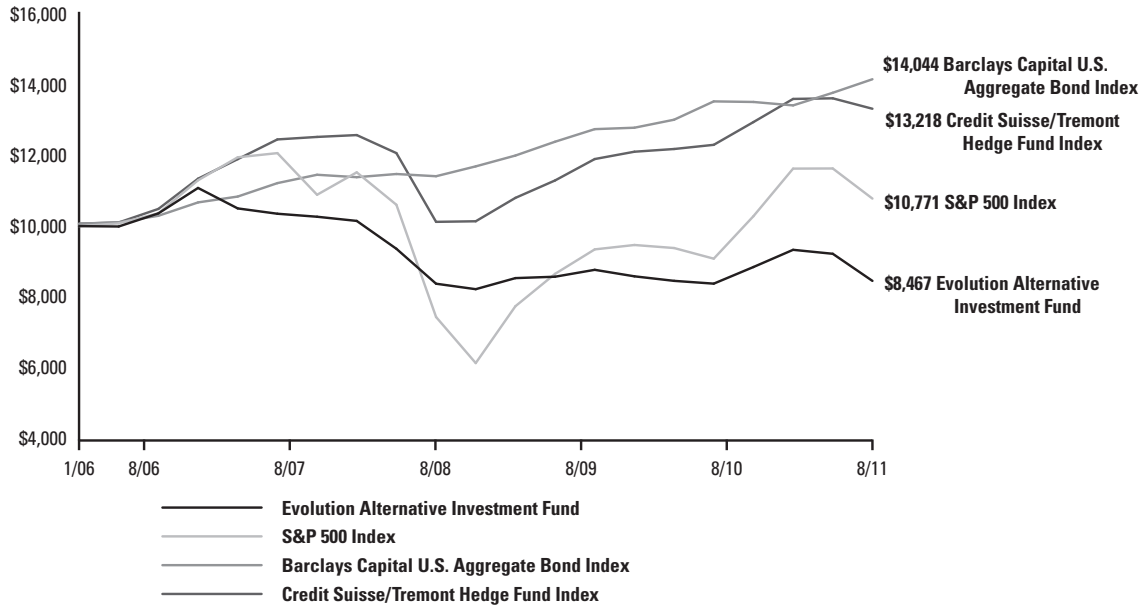
"Market Exposure" includes the value of total investments (including the contract value of any derivatives) and excludes any short-term investments and cash equivalents divided by Net Assets.

<sup>1</sup> Commencement of operations.

<sup>2</sup> As of August 31, 2011.

**Evolution Alternative Investment Fund**  
**January 26, 2006<sup>1</sup> - August 31, 2011 (Unaudited)**

**Investment Objective:** Seeks high total return on an annual basis consistent with a high tolerance for risk.



	Average Annual Total Return <sup>2</sup>			
	1 Year	3 Years	5 Years	Since Inception
Evolution Alternative Investment Fund	0.92%	(3.30%)	(3.95%)	(2.93%)
S&P 500 Index	18.50%	0.54%	0.78%	1.34%
Barclays Capital U.S. Aggregate Bond Index	4.62%	7.23%	6.56%	6.26%
Credit Suisse/Tremont Hedge Fund Index	8.27%	3.34%	4.88%	5.11%

This chart illustrates the performance of a hypothetical \$10,000 investment made on the Fund's inception, and is not intended to imply any future performance. The returns shown do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. The performance of the S&P 500 Index, the Barclays Capital U.S. Aggregate Bond Index and the Credit Suisse/Tremont Hedge Fund Index does not reflect the deduction of fees associated with a mutual fund, such as investment management fees. Investors cannot invest directly in an index, although they can invest in its underlying securities. During the period shown, Rafferty Asset Management, LLC waived and/or reimbursed fees for various expenses. Had these waivers and/or reimbursements not been in effect, performance would have been lower.

The performance data shown represents past performance and does not guarantee future results.

**Market Exposure**

Investment Type	% Net Assets
Investment Companies	30.9%
Futures Contracts	(8.4%)
<b>Total Exposure</b>	<b>22.5%</b>

"Market Exposure" includes the value of total investments (including the contract value of any derivatives) and excludes any short-term investments and cash equivalents divided by Net Assets.

<sup>1</sup> Commencement of operations.

<sup>2</sup> As of August 31, 2011.

## Expense Example

### August 31, 2011 (Unaudited)

As a shareholder of a mutual fund, you incur two types of costs: (1) transaction costs, including sales charges (loads) on purchase payments, reinvested dividends, or other distributions; redemption fees; and exchange fees; and (2) ongoing costs, including management fees; distribution and/or service fees; and other fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in a fund and to compare costs with the ongoing costs of investing in other mutual funds.

The example is based on an investment of \$1,000 invested at the beginning of the period and held the entire period (March 1, 2011 — August 31, 2011).

#### **Actual Expenses**

The first line of the table below provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first line under the heading entitled “Expenses Paid During Period” to estimate the expenses you paid on your account during this period.

#### **Hypothetical Example for Comparison Purposes**

The second line of the table below provides information about hypothetical account values and hypothetical expenses based on the Funds’ actual expense ratios and an assumed rate of return of 5% per year before expenses, which is not the Funds’ actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Funds and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs, such as wire transfers, returned checks or stop payment orders. Therefore, the second line of the table is useful in comparing ongoing costs only, and will not help you determine the relative costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

**Expense Example Table**  
**August 31, 2011 (Unaudited)**

	<u>Expense Ratio<sup>1</sup></u>	<u>Beginning Account Value March 1, 2011</u>	<u>Ending Account Value August 31, 2011</u>	<u>Expenses Paid During Period<sup>2</sup></u>
<b>Evolution Managed Bond Fund</b>				
Based on actual fund return	1.91%	\$1,000.00	\$1,040.30	\$9.82
Based on hypothetical 5% return	1.91%	1,000.00	1,015.58	9.70
<b>Evolution All-Cap Equity Fund</b>				
Based on actual fund return	1.90%	1,000.00	906.10	9.13
Based on hypothetical 5% return	1.90%	1,000.00	1,015.63	9.65
<b>Evolution Market Leaders Fund</b>				
Based on actual fund return	1.90%	1,000.00	880.10	9.00
Based on hypothetical 5% return	1.90%	1,000.00	1,015.63	9.65
<b>Evolution Alternative Investment Fund</b>				
Based on actual fund return	1.90%	1,000.00	906.90	9.13
Based on hypothetical 5% return	1.90%	1,000.00	1,015.63	9.65

<sup>1</sup> Annualized

<sup>2</sup> Expenses are equal to the Fund's annualized expense ratio, multiplied by the average account value over the period, multiplied by the number of days in the most recent fiscal half-year/period, then divided by 365.

**Allocation of Portfolio Holdings**  
**August 31, 2011 (Unaudited)**

	<u>Cash*</u>	<u>Common Stock</u>	<u>Investment Companies</u>	<u>Futures</u>	<u>Total</u>
Evolution Managed Bond Fund	2%	—	98%	0%**	100%
Evolution All-Cap Equity Fund	15%	70%	15%	0%**	100%
Evolution Market Leaders Fund	38%	0%**	62%	—	100%
Evolution Alternative Investment Fund	69%	—	31%	0%**	100%

\* Cash, cash equivalents and other assets less liabilities.

\*\* Percentage is less than 0.5%.

## Evolution Managed Bond Fund

### Schedule of Investments

August 31, 2011

Shares		Value	Shares		Value
<b>INVESTMENT COMPANIES - 97.6%</b>					
15,076	AllianceBernstein Global High Income Fund	\$ 216,793	34,255	MFS Intermediate Income Trust	\$ 220,260
19,071	BlackRock Corporate High Yield Fund VI	213,786	36,882	Putnam Premier Income Trust	215,391
21,581	BlackRock Credit Allocation Income Trust II	211,062	109,415	SPDR Barclays Capital 1-3 Month T-Bill Bond ETF	5,017,772
15,872	BlackRock Floating Rate Income Strategies Fund	211,574	88,723	SPDR Barclays Capital International Treasury Bond ETF	5,601,083
31,286	iShares Barclays 1-3 Year Treasury Bond Fund	2,650,237	12,204	Templeton Emerging Markets Income Fund	210,153
21,780	iShares Barclays 3-7 Year Treasury Bond Fund	2,641,478	179,446	Vanguard Total Bond Market ETF	14,965,796
70,433	iShares Barclays 7-10 Year Treasury Bond Fund	7,253,190	14,432	Wells Fargo Advantage Multi-Sector Income Fund	218,212
55,198	iShares Barclays 20+ Year Treasury Bond Fund	5,907,842	11,208	Western Asset Emerging Markets Debt Fund	219,453
63,827	iShares Barclays Aggregate Bond Fund	6,989,056	22,548	Western Asset High Income Fund II	215,333
5,225	iShares Barclays MBS Bond Fund	566,599	15,950	Western Asset/Claymore - Linked Opportunities & Income Fund	204,319
28,050	iShares Barclays Short Treasury Bond Fund	3,092,232	<b>TOTAL INVESTMENT COMPANIES</b>		
26,982	iShares Barclays TIPS Bond Fund	3,084,582	(Cost \$57,475,789)		
9,089	iShares S&P National AMT-Free Municipal Bond Fund	972,432	<b>TOTAL INVESTMENTS</b>		
29,890	MFS Charter Income Trust	272,597	(Cost \$57,475,789) - 97.6%		
39,549	MFS Government Markets Income Trust	267,747	Other Assets in Excess of Liabilities - 2.4%		
			<b>TOTAL NET ASSETS - 100.0%</b>		
			<u>\$61,638,979</u>		
			<u>\$61,638,979</u>		
			<u>1,503,223</u>		
			<u>\$63,142,202</u>		

Percentages are stated as a percent of net assets.

## Evolution Managed Bond Fund

### Futures Contracts

August 31, 2011

Contracts		Unrealized Appreciation
16	U.S. Long Bond Index Future Expiring September 2011 (Underlying Face Amount at Market Value \$2,194,000)	<u>\$6,932</u>

The accompanying notes are an integral part of these financial statements.

## Evolution All-Cap Equity Fund

### Schedule of Investments

August 31, 2011

Shares	Value	Shares	Value
<b>COMMON STOCKS - 69.9%</b>			
<b>Administrative and Support Services - 0.1%</b>			
753 Emdeon, Inc.(a)	\$ 14,096	5,596 NETGEAR, Inc.(a)	\$ 155,625
<b>Air Transportation - 0.1%</b>			
214 Copa Holdings S.A. ADR (Panama)	14,792	13,060 Photronics, Inc.(a)	84,629
<b>Amusement, Gambling, and Recreation Industries - 0.2%</b>			
972 Six Flags Entertainment Corp.	32,611	17,180 SunPower Corp.(a)	242,238
<b>Apparel Manufacturing - 0.5%</b>			
2,859 Oxford Industries, Inc.	102,409	1,349,315	
<b>Beverage and Tobacco Product Manufacturing - 0.1%</b>			
406 The Coca-Cola Co.	28,603	<b>Credit Intermediation and Related Activities - 5.0%</b>	
<b>Broadcasting (except Internet) - 1.2%</b>			
4,935 Charter Communications Inc.(a)	246,158	17,551 Advance America Cash Advance Centers, Inc.	146,726
<b>Chemical Manufacturing - 8.0%</b>			
3,313 Acorda Therapeutics, Inc.(a)	86,304	1,581 Altisource Portfolio Solutions S.A. ADR (Luxembourg)(a)	55,098
6,940 Aveo Pharmaceuticals, Inc.(a)	117,841	524 Cash America International, Inc.	29,281
1,267 Balchem Corp.	52,327	1,567 EZCORP, Inc.(a)	52,573
521 CF Industries Holdings, Inc.	95,249	1,132 First Cash Financial Services, Inc.(a)	52,876
17,755 DepoMed, Inc.(a)	110,436	42,832 Hampton Roads Bankshares, Inc.(a)	336,659
556 Ecolab, Inc.	29,802	771 Prosperity Bancshares, Inc.	29,182
2,324 Forest Laboratories, Inc.(a)	79,574	26,988 Walker & Dunlop, Inc.(a)	313,061
4,770 Hi-Tech Pharmacal Co., Inc.(a)	133,608	1,015,456	
1,217 Innospec, Inc.(a)	32,920	<b>Data Processing, Hosting and Related Services - 0.8%</b>	
428 Johnson & Johnson	28,162	6,113 ExlService Holdings, Inc.(a)	158,632
969 LyondellBasell Industries NV	33,576	<b>Educational Services - 1.5%</b>	
761 Mead Johnson Nutrition Co.	54,221	34,737 National American University Holdings, Inc.	304,991
13,324 The Medicines Co.(a)	194,264	<b>Electrical Equipment, Appliance, and Component Manufacturing - 0.7%</b>	
5,977 NL Industries, Inc.	90,253	3,231 Littelfuse, Inc.	149,886
451 OM Group, Inc.(a)	14,265	<b>Fabricated Metal Product Manufacturing - 0.1%</b>	
438 The Procter & Gamble Co.	27,892	418 Sturm, Ruger & Co., Inc.	13,907
44,230 QLT, Inc. (Canada)(a)	319,340	<b>Food Manufacturing - 2.2%</b>	
2,821 Questcor Pharmaceuticals Inc.(a)	84,771	1,346 Flowers Foods, Inc.	25,641
288 Rockwood Holdings, Inc.(a)	14,688	143 Green Mountain Coffee Roasters, Inc.(a)	14,978
739 Westlake Chemical Corp.	33,957	2,868 Ralcorp Holdings, Inc.(a)	248,283
1,633,450		7,185 Snyder's-Lance, Inc.	160,010
<b>Clothing and Clothing Accessories Stores - 2.7%</b>			
4,103 Foot Locker, Inc.	85,630	448,912	
3,199 Genesco, Inc.(a)	169,611	<b>Food Services and Drinking Places - 3.7%</b>	
5,487 Hanesbrands, Inc.(a)	156,709	5,114 Darling International, Inc.(a)	86,171
396 Ross Stores, Inc.	30,304	8,795 Dominos Pizza, Inc.(a)	243,885
3,450 Rue21, Inc.(a)	86,457	9,312 Krispy Kreme Doughnuts, Inc.(a)	84,646
435 Tiffany & Co.	31,302	309 McDonald's Corp.	27,952
560,013		10,027 Red Robin Gourmet Burgers, Inc.(a)	312,843
<b>Computer and Electronic Product Manufacturing - 6.6%</b>			
53,165 Advanced Analogic Technologies, Inc.(a)	318,990	755,497	
2,357 Agilent Technologies, Inc.(a)	86,902	<b>Funds, Trusts, and Other Financial Vehicles - 1.2%</b>	
36 Apple, Inc.(a)	13,854	5,300 WellCare Health Plans, Inc.(a)	242,899
877 ARM Holdings plc ADR	24,188	<b>Furniture and Related Product Manufacturing - 0.6%</b>	
3,094 CEVA, Inc.(a)	82,300	7,633 Pier 1 Imports, Inc.(a)	81,521
5,234 Cypress Semiconductor Corp.(a)	82,906	3,316 Select Comfort Corp.(a)	52,658
5,809 Dell, Inc.(a)	86,351	134,179	
2,668 GT Advanced Technologies, Inc.(a)	32,576	<b>Gasoline Stations - 0.4%</b>	
1,456 IPG Photonics Corp.(a)	84,419	5,837 Delek US Holdings, Inc.	86,446
3,817 LDK Solar Co., Ltd. ADR (China)(a)	21,795	<b>General Merchandise Stores - 1.3%</b>	
1,042 Measurement Specialties, Inc.(a)	32,542	2,809 99 Cents Only Stores(a)	52,304
		410 Dollar Tree, Inc.(a)	29,282
		584 Family Dollar Stores, Inc.	31,180
		3,289 Macy's, Inc.	85,349

The accompanying notes are an integral part of these financial statements.

## Evolution All-Cap Equity Fund

### Schedule of Investments

August 31, 2011

Shares		Value	Shares		Value
479	PriceSmart, Inc.	\$ 31,355	<b>Paper Manufacturing - 1.4%</b>		
478	Tractor Supply Co.	29,335	3,534	Mercer International, Inc. (Canada)(a)	\$ 33,679
		258,805	10,245	Temple-Inland, Inc.	247,929
					281,608
<b>Health and Personal Care Stores - 0.4%</b>			<b>Petroleum and Coal Products Manufacturing - 1.4%</b>		
1,499	Ultra Salon Cosmetics & Fragrance, Inc.(a)	88,561	3,962	HollyFrontier Corp.	284,313
<b>Insurance Carriers and Related Activities - 1.6%</b>			<b>Pipeline Transportation - 0.5%</b>		
365	Aetna, Inc.	14,611	3,702	Atlas Pipeline Partners, LP	112,615
551	Catalyst Health Solutions, Inc.(a)	29,600	<b>Plastics and Rubber Products Manufacturing - 1.4%</b>		
477	The Chubb Corp.	29,521	9,694	Graham Packaging Co, Inc.(a)	246,906
1,712	CIGNA Corp.	80,019	2,157	Zagg, Inc.(a)	32,420
1,003	HCC Insurance Holdings, Inc.	29,328			279,326
3,561	Healthspring, Inc.(a)	139,021	<b>Professional, Scientific, and Technical Services - 1.8%</b>		
		322,100	246	athenahealth, Inc.(a)	14,268
<b>Leather and Allied Product Manufacturing - 0.1%</b>			2,053	Echo Global Logistics, Inc.(a)	28,742
509	Crocs, Inc.(a)	13,926	741	Focus Media Holding Ltd. ADR (China)(a)	23,238
<b>Machinery Manufacturing - 0.8%</b>			8,955	National Research Corp.	302,410
673	ASML Holding N.V. ADR (Netherlands)	23,736			368,658
305	Robbins & Myers, Inc.	14,655	<b>Publishing Industries (except Internet) - 0.8%</b>		
764	Sauer-Danfoss, Inc.(a)	33,028	4,538	OPNET Technologies, Inc.	156,561
1,385	Varian Semiconductor Equipment Associates, Inc.(a)	84,880	<b>Real Estate - 2.8%</b>		
		156,299	640	AvalonBay Communities, Inc.	87,283
<b>Management of Companies and Enterprises - 2.4%</b>			3,078	MI Developments, Inc. (Canada)	85,845
4,148	AGL Resources, Inc.	171,810	2,086	Post Properties, Inc.	87,195
33,031	Cascade Bancorp(a)	330,310	1,272	Public Storage	157,385
		502,120	2,176	SL Green Realty Corp.	157,194
<b>Merchant Wholesalers, Durable Goods - 0.9%</b>					574,902
11,928	Amerigon, Inc.(a)	159,477	<b>Sporting Goods, Hobby, Book, and Music Stores - 1.9%</b>		
378	MWI Veterinary Supply, Inc.(a)	27,972	2,289	Hibbett Sports, Inc.(a)	85,746
		187,449	37,030	Hot Topic, Inc.	306,608
<b>Merchant Wholesalers, Nondurable Goods - 0.1%</b>					392,354
257	Herbalife Ltd.	14,341	<b>Support Activities for Mining - 0.6%</b>		
<b>Mining (except Oil and Gas) - 0.1%</b>			4,390	RPC, Inc.	113,701
3,395	Pilot Gold, Inc. (Canada)(a)	7,522	418	Superior Energy Services, Inc.(a)	14,764
189	Royal Gold, Inc.	14,493			128,465
		22,015	<b>Telecommunications - 0.4%</b>		
<b>Motor Vehicle and Parts Dealers - 0.1%</b>			472	j2 Global Communications, Inc.	15,080
783	Asbury Automotive Group, Inc.(a)	14,728	2,765	MetroPCS Communications, Inc.(a)	30,858
<b>Oil and Gas Extraction - 3.1%</b>			1,148	Telefonica S.A. ADR (Spain)	23,936
11,746	Atlas Energy LP(a)	245,374	1,362	Telefonos De Mexico SAB de CV ADR (Mexico)	23,304
194	Cabot Oil & Gas Corp.	14,717			93,178
30,394	Eagle Rock Energy Partners LP	322,784	<b>Utilities - 10.2%</b>		
836	Petroleo Brasileiro S.A. ADR (Brazil)	24,286	4,474	American Electric Power Co., Inc.	172,831
1,267	Stone Energy Corp.(a)	33,461	11,004	Avista Corp.	279,281
		640,622	4,860	Cleco Corp.	172,676
<b>Other Information Services - 0.1%</b>			3,023	Consolidated Edison, Inc.	169,923
166	Baidu, Inc. ADR (China)(a)	24,200	3,467	Dominion Resources, Inc.	168,982
			4,670	Edison International	173,677
			4,000	Exelon Corp.	172,480
			3,951	FirstEnergy Corp.	174,832
			4,571	IDACORP, Inc.	174,612

The accompanying notes are an integral part of these financial statements.

## Evolution All-Cap Equity Fund

### Schedule of Investments

August 31, 2011

<u>Shares</u>		<u>Value</u>	<u>Shares</u>		<u>Value</u>
3,032	NextEra Energy, Inc.	\$ 171,975	13,005	ProShares Short S&P 500 ETF(a)	\$ 561,686
3,905	Pinnacle West Capital Corp.	172,757	10,132	Vanguard Total Bond Market ETF	845,009
227	Siemens AG ADR (Germany)	23,426		<b>TOTAL INVESTMENT COMPANIES</b>	
677	Southern Co.	28,001		(Cost \$4,277,718)	<u>\$ 3,109,105</u>
888	Wisconsin Energy Corp.	28,096		<b>TOTAL INVESTMENTS</b>	
		<u>2,083,549</u>		(Cost \$16,961,382) - 85.1%	\$17,402,052
	<b>TOTAL COMMON STOCKS</b>			Other Assets in Excess of	
	(Cost \$12,683,664)	<u>\$14,292,947</u>		Liabilities - 14.9%	<u>3,042,917</u>
				<b>TOTAL NET ASSETS - 100.0%</b>	<u>\$20,444,969</u>
<b>INVESTMENT COMPANIES - 15.2%</b>					
5,189	iShares Barclays 20+ Year Treasury Bond Fund	\$ 555,379		Percentages are stated as a percent of net assets.	
2,573	iShares Barclays Aggregate Bond Fund	281,743		(a) Non income producing	
18,383	iShares S&P Latin America 40 Index Fund	865,288			

## Evolution All-Cap Equity Fund

### Short Futures Contracts

August 31, 2011

<u>Contracts</u>		<u>Unrealized Depreciation</u>
138	E-Mini S&P 500 Futures Expiring September 2011 (Underlying Face Amount at Market Value \$8,399,025)	<u>\$ (9,912)</u>

The accompanying notes are an integral part of these financial statements.

## Evolution Market Leaders Fund

### Schedule of Investments

August 31, 2011

Shares	Value	Shares	Value
<b>COMMON STOCKS - 0.0%</b>		96,552	PIMCO 15+ Year U.S. TIPS Index Fund
<b>Chemical Manufacturing - 0.0%</b>			\$ 5,977,534
1	Inter Parfums, Inc.	16,831	PIMCO Broad U.S. TIPS Index Fund
	TOTAL COMMON STOCKS		961,050
	(Cost \$7)	32,566	PowerShares Dynamic Pharmaceuticals Portfolio
	\$ 17	75,021	PowerShares DWA Technical Leaders Portfolio
<b>INVESTMENT COMPANIES - 62.3%</b>		41,675	PowerShares Fundamental Pure Small Growth Portfolio
8,900	Biotech HOLDRs Trust	16,489	PowerShares QQQ Trust
31,165	iShares Barclays 10-20 Year Treasury Bond Fund	136,852	PowerShares S&P 500 High Quality Portfolio
	3,931,465	22,719	Rydex S&P Midcap 400 Pure Growth ETF
92,524	iShares Barclays 20+ Year Treasury Bond Fund	147,073	SPDR Barclays Capital TIPS ETF
	9,902,844	26,391	SPDR S&P 500 Growth ETF
11,491	iShares Barclays U.S. Treasury Inflation Protected Securities Fund	22,968	SPDR S&P 600 Small Cap Growth ETF
	1,313,651	30,100	Telecom HOLDRs Trust
37,699	iShares Dow Jones U.S. Telecommunications Sector Index Fund	8,100	Utilities HOLDRs Trust
	844,081	25,716	Utilities Select Sector SPDR Fund
10,342	iShares Dow Jones U.S. Utilities Sector Index Fund	25,037	Vanguard Extended Duration Treasury ETF
	858,179	95,030	Vanguard Long-Term Bond ETF
12,443	iShares Dow Jones U.S. Pharmaceuticals Index Fund	47,627	Vanguard Long-Term Corporate Bond ETF
	862,424	12,799	Vanguard Telecommunication Services ETF
37,851	iShares iBoxx \$ Investment Grade Corporate Bond Fund	12,072	Vanguard Utilities ETF
	4,251,803		874,738
8,720	iShares Morningstar Large Growth Index		TOTAL INVESTMENT COMPANIES
	565,230		(Cost \$80,833,987)
1	iShares MSCI All Peru Capped Index Fund		\$ 82,837,552
	42		TOTAL INVESTMENTS
50,306	iShares Russell Top 200 Growth Index Fund		(Cost \$80,833,994) - 62.3%
	1,509,180		\$ 82,837,569
22,918	iShares S&P 500 Growth Index Fund		Other Assets in Excess of Liabilities - 37.7%
	1,507,775		50,130,918
14,503	iShares S&P Global Telecommunications Sector Index Fund		TOTAL NET ASSETS - 100.0%
	831,747		\$132,968,487
18,191	iShares S&P MidCap 400 Growth Index Fund		
	1,822,556		
95,290	iShares S&P SmallCap 600 Growth Index Fund		
	6,817,047		
12,200	Pharmaceutical HOLDRs Trust		
	829,600		

Percentages are stated as a percent of net assets.

The accompanying notes are an integral part of these financial statements.

**Evolution Alternative Investment Fund**

**Schedule of Investments**

**August 31, 2011**

<u>Shares</u>		<u>Value</u>	<u>Shares</u>		<u>Value</u>
<b>INVESTMENT COMPANIES - 30.9%</b>					
67,181	American Century Long-Short Market Neutral Fund(a)	\$ 689,952	3,700	PowerShares Dynamic Media ETF	\$ 48,877
6,500	Biotech HOLDRs Trust	644,735	1,900	PowerShares Dynamic Networking ETF	43,130
7,300	Claymore S&P Global Water Index Fund	145,927	15,600	PowerShares Water Resources ETF	268,320
45,947	DWS Disciplined Market Neutral Fund	436,039	3,300	ProShares UltraShort Basic Materials ETF	63,129
2,100	First Trust Consumer Discretionary Alpha Fund	41,223	2,800	ProShares UltraShort Consumer Services ETF	53,172
2,800	First Trust S&P REIT Index Fund	42,728	900	ProShares UltraShort Semiconductors ETF	54,612
6,485	Gateway Fund	167,259	800	ProShares UltraShort Technology ETF	48,472
80,019	Highland Long/Short Equity Fund	867,405	700	ProShares UltraShort Industrials ETF	36,302
800	Internet HOLDRs Trust	60,840	3,600	ProShares UltraShort Oil & Gas ETF	111,708
3,300	iShares Cohen & Steers Realty Majors Index Fund	230,571	2,400	Retail HOLDRs Trust	250,056
800	iShares Dow Jones U.S. Consumer Services Sector Index Fund	54,680	1,400	Select Sector SPDR Consumer Discretionary ETF	52,556
1,500	iShares Dow Jones U.S. Aerospace & Defense Index Fund	87,210	9,500	Select Sector SPDR Healthcare ETF	316,920
3,800	iShares Dow Jones U.S. Pharmaceuticals Index Fund	263,378	1,300	Select Sector SPDR Industrial ETF	42,107
800	iShares Dow Jones U.S. Industrial Sector Index Fund	48,744	3,600	SPDR Dow Jones Wilshire REIT ETF	230,688
900	iShares Dow Jones US Real Estate Fund	51,462	3,400	SPDR Dow Jones International Real Estate ETF	127,840
9,900	iShares FTSE NAREIT Residential Plus Capped Index Fund	439,362	1,200	SPDR S&P Retail ETF	59,520
3,600	iShares S&P North American Technology-Multimedia Networking Index Fund	101,808	117,137	TFS Market Neutral Fund	1,704,336
19,005	Managers AMG FQ Global Alternatives Fund(a)	167,240	39,741	Schooner Fund	887,022
2,900	Market Vectors Agribusiness ETF	151,409	800	Vanguard REIT ETF	46,056
24,254	Nakoma Absolute Return Fund	451,616	700	Vanguard Industrials ETF	42,091
83,311	MutualHedge Frontier Legends Fund	881,425	67,699	Wasatch Long/Short Fund	854,367
19,115	Sierra Core Retirement Fund	440,990	2,000	WisdomTree International Real Estate Fund	53,800
16,780	Permanent Portfolio	835,147	<b>TOTAL INVESTMENT COMPANIES</b>		
6,300	PowerShares Dynamic Pharmaceuticals ETF	162,414	(Cost \$12,515,455) - 30.9%		
3,900	PowerShares Dynamic Leisure & Entertainment ETF	72,150	<b>TOTAL INVESTMENTS</b>		
			(Cost \$12,515,455) - 30.9%		
			Other Assets in Excess of Liabilities - 69.1%		
			<b>TOTAL NET ASSETS - 100.0%</b>		
			<u>\$41,782,530</u>		

Percentages are stated as a percent of net assets.

(a) Non-income producing security.

**Evolution Alternative Investment Fund**

**Short Futures Contracts**

**August 31, 2011**

<u>Contracts</u>		<u>Unrealized Depreciation</u>
58	E-Mini S&P 500 Futures Expiring September 2011 (Underlying Face Amount at Market Value \$3,530,025)	<u>\$ (11,846)</u>

The accompanying notes are an integral part of these financial statements.

## Statements of Assets and Liabilities

August 31, 2011

	<u>Evolution Managed Bond Fund</u>	<u>Evolution All-Cap Equity Fund</u>
<b>Assets:</b>		
Investments, at market value (Note 2)	\$61,638,979	\$ 17,402,052
Cash	1,986,791	4,060,896
Receivables:		
Fund shares sold	345,133	40,908
Investment securities sold	3,417,297	2,931,143
Deposits at broker for futures	29,400	662,795
Due from broker for futures	30,000	43,455
Dividends and interest	2,926	15,257
Total assets	<u>67,450,526</u>	<u>25,156,506</u>
<b>Liabilities:</b>		
Payables:		
Fund shares redeemed	842,619	684,711
Investment securities purchased	3,338,431	3,936,772
Variation margin	23,000	52,801
Accrued investment advisory fees	52,793	17,867
Accrued operating services fees	26,397	8,933
Accrued distribution expense	15,324	6,721
Accrued shareholder servicing fees	9,760	3,732
Total liabilities	<u>4,308,324</u>	<u>4,711,537</u>
<b>Net Assets</b>	<u>\$63,142,202</u>	<u>\$ 20,444,969</u>
<b>Net Assets Consist Of:</b>		
Capital stock	\$63,040,223	\$ 40,635,696
Undistributed net investment income	573,365	—
Accumulated net realized loss	(4,641,508)	(20,621,485)
Net unrealized appreciation (depreciation) on:		
Investments	4,163,190	440,670
Futures	6,932	(9,912)
Total Net Assets	<u>\$63,142,202</u>	<u>\$ 20,444,969</u>
<b>Calculation of Net Assets Value Per Share:</b>		
Net assets	\$63,142,202	\$ 20,444,969
Shares outstanding (unlimited shares of beneficial interest authorized, no par value)	3,598,955	1,470,586
Net asset value, redemption and offering price per share	<u>\$ 17.54</u>	<u>\$ 13.90</u>
Cost of Investments	<u>\$57,475,789</u>	<u>\$ 16,961,382</u>

The accompanying notes are an integral part of these financial statements.

## Statements of Assets and Liabilities

August 31, 2011

	Evolution Market Leaders Fund	Evolution Alternative Investment Fund
<b>Assets:</b>		
Investments, at market value (Note 2)	\$ 82,837,569	\$ 12,930,795
Cash	49,999,493	29,390,638
Receivables:		
Fund shares sold	508,664	359,238
Investment securities sold	1,258,825	903,461
Deposits at broker for futures	—	109,425
Due from broker for futures	—	6,575
Dividends and interest	27,951	829
Total assets	134,632,502	43,700,961
<b>Liabilities:</b>		
Payables:		
Fund shares redeemed	1,108,140	826,903
Investment securities purchased	345,645	1,012,919
Variation margin	—	18,175
Accrued investment advisory fees	112,490	35,844
Accrued operating services fees	56,245	17,922
Accrued distribution expense	24,380	5,493
Accrued shareholder servicing fees	17,115	1,175
Total liabilities	1,664,015	1,918,431
<b>Net Assets</b>	<b>\$132,968,487</b>	<b>\$ 41,782,530</b>
<b>Net Assets Consist Of:</b>		
Capital stock	\$133,827,721	\$ 51,487,199
Undistributed net investment income	—	—
Accumulated net realized loss	(2,862,809)	(10,108,163)
Net unrealized appreciation (depreciation) on:		
Investments	2,003,575	415,340
Futures	—	(11,846)
Total Net Assets	\$132,968,487	\$ 41,782,530
<b>Calculation of Net Assets Value Per Share:</b>		
Net assets	\$132,968,487	\$ 41,782,530
Shares outstanding (unlimited shares of beneficial interest authorized, no par value)	10,346,878	2,732,495
Net asset value, redemption and offering price per share	\$ 12.85	\$ 15.29
Cost of Investments	\$ 80,833,994	\$ 12,515,455

The accompanying notes are an integral part of these financial statements.

**Statements of Operations**  
**For the Year Ended August 31, 2011**

	<u>Evolution Managed Bond Fund</u>	<u>Evolution All-Cap Equity Fund</u>
<b>Investment Income:</b>		
Dividend income (net of foreign withholding tax of \$- and \$1,712, respectively)	\$2,243,939	\$ 163,530
Interest income	<u>2,175</u>	<u>3,804</u>
Total investment income	<u>2,246,114</u>	<u>167,334</u>
<b>Expenses:</b>		
Investment advisory fees	664,047	180,508
Operating services fees	332,023	90,254
Distribution expenses	166,012	45,127
Shareholder servicing fees	<u>99,608</u>	<u>27,094</u>
Total expenses before interest	1,261,690	342,983
Interest on line of credit	<u>3,727</u>	<u>191</u>
Total expenses	<u>1,265,417</u>	<u>343,174</u>
<b>Net investment income (loss)</b>	<u>980,697</u>	<u>(175,840)</u>
<b>Realized and unrealized gain (loss) on investments:</b>		
Net realized gain (loss) on:		
Investments	49,294	(229,794)
Futures	<u>88,617</u>	<u>555,265</u>
	<u>137,911</u>	<u>325,471</u>
Capital gain distributions from regulated investment companies	<u>238,086</u>	<u>—</u>
Change in unrealized appreciation (depreciation) on:		
Investments	77,969	302,806
Futures	<u>6,932</u>	<u>(16,425)</u>
	<u>84,901</u>	<u>286,381</u>
Net realized and unrealized gain on investments	<u>460,898</u>	<u>611,852</u>
<b>Net increase in net assets resulting from operations</b>	<u>\$1,441,595</u>	<u>\$ 436,012</u>

The accompanying notes are an integral part of these financial statements.

**Statements of Operations**  
**For the Year Ended August 31, 2011**

	<u>Evolution Market Leaders Fund</u>	<u>Evolution Alternative Investment Fund</u>
<b>Investment Income:</b>		
Dividend income (net of foreign withholding tax of \$1,498 and \$31, respectively)	\$1,418,807	\$ 432,055
Interest income	<u>5,984</u>	<u>5,334</u>
Total investment income	<u>1,424,791</u>	<u>437,389</u>
<b>Expenses:</b>		
Investment advisory fees	1,243,645	457,636
Operating services fees	621,823	228,818
Distribution expenses	310,911	114,409
Shareholder servicing fees	<u>186,519</u>	<u>68,646</u>
Total expenses before interest	2,362,898	869,509
Interest on line of credit	<u>1,253</u>	<u>719</u>
Total expenses	<u>2,364,151</u>	<u>870,228</u>
<b>Net investment loss</b>	<u>(939,360)</u>	<u>(432,839)</u>
Net realized gain (loss) on:		
Investments	555,858	(740,796)
Futures	<u>—</u>	<u>153,793</u>
	<u>555,858</u>	<u>(587,003)</u>
Capital gain distributions from regulated investment companies	<u>306,237</u>	<u>437,775</u>
Change in unrealized appreciation (depreciation) on:		
Investments	4,002,000	(566,231)
Futures	<u>—</u>	<u>11,179</u>
	<u>4,002,000</u>	<u>(555,052)</u>
Net realized and unrealized gain (loss) on investments	<u>4,864,095</u>	<u>(704,280)</u>
<b>Net increase (decrease) in net assets resulting from operations</b>	<u>\$3,924,735</u>	<u>\$(1,137,119)</u>

The accompanying notes are an integral part of these financial statements.

## Statements of Changes in Net Assets

August 31, 2011

	Evolution Managed Bond Fund		Evolution All-Cap Equity Fund	
	Year Ended August 31, 2011	Year Ended August 31, 2010	Year Ended August 31, 2011	Year Ended August 31, 2010
<b>Increase (Decrease) in net assets from:</b>				
<b>Operations:</b>				
Net investment income (loss)	\$ 980,697	\$ 987,222	\$ (175,840)	\$ (187,407)
Net realized gain (loss) on investments	137,911	920,276	325,471	(1,563,862)
Capital gain distributions from regulated investment companies	238,086	33,735	—	—
Change in net unrealized appreciation (depreciation) on investments	84,901	1,588,337	286,381	(1,948,443)
Net increase (decrease) in net assets resulting from operations	1,441,595	3,529,570	436,012	(3,699,712)
<b>Distributions to shareholders:</b>				
Net investment income	(911,640)	(929,653)	—	—
Total distributions to shareholders	(911,640)	(929,653)	—	—
<b>Capital share transactions:</b>				
Net increase (decrease) in net assets resulting from net change in capital share transactions(a)	9,853,046	2,394,516	8,654,112	(28,417,731)
Total increase (decrease) in net assets from capital share transactions	9,853,046	2,394,516	8,654,112	(28,417,731)
<b>Total increase (decrease) in net assets</b>	<b>10,383,001</b>	<b>4,994,433</b>	<b>9,090,124</b>	<b>(32,117,443)</b>
<b>Net assets:</b>				
Beginning of year	52,759,201	47,764,768	11,354,845	43,472,288
End of year	<b>\$63,142,202</b>	<b>\$52,759,201</b>	<b>\$20,444,969</b>	<b>\$ 11,354,845</b>
<b>Undistributed net investment income, end of year</b>	<b>\$ 573,365</b>	<b>\$ 322,088</b>	<b>\$ —</b>	<b>\$ 177</b>

(a) Summary of capital share transactions is as follows:

	Evolution Managed Bond Fund				Evolution All-Cap Equity Fund			
	Year Ended August 31, 2011		Year Ended August 31, 2010		Year Ended August 31, 2011		Year Ended August 31, 2010	
	Shares	Value	Shares	Value	Shares	Value	Shares	Value
Shares sold	8,332,132	\$ 142,306,590	5,150,963	\$ 86,778,757	2,407,735	\$ 36,266,754	812,865	\$ 11,555,490
Shares issued in reinvestment of distributions	54,021	\$ 911,640	55,888	\$ 929,653	—	\$ —	—	\$ —
Shares redeemed	(7,795,613)	\$(133,365,184)	(5,081,153)	\$(85,313,894)	(1,880,397)	\$(27,612,642)	(2,801,250)	\$(39,973,221)
Net increase (decrease)	590,540	\$ 9,853,046	125,698	\$ 2,394,516	527,338	\$ 8,654,112	(1,988,385)	\$(28,417,731)

The accompanying notes are an integral part of these financial statements.

## Statements of Changes in Net Assets

August 31, 2011

	Evolution Market Leaders Fund		Evolution Alternative Investment Fund	
	Year Ended August 31, 2011	Year Ended August 31, 2010	Year Ended August 31, 2011	Year Ended August 31, 2010
<b>Increase (Decrease) in net assets from:</b>				
<b>Operations:</b>				
Net investment loss	\$ (939,360)	\$ (244,177)	\$ (432,839)	\$ (169,165)
Net realized gain (loss) on investments	555,858	5,583,465	(587,003)	(1,208,889)
Capital gain distributions from regulated investment companies	306,237	—	437,775	55,955
Change in net unrealized appreciation (depreciation) on investments	<u>4,002,000</u>	<u>(3,871,149)</u>	<u>(555,052)</u>	<u>373,698</u>
Net increase (decrease) in net assets resulting from operations	<u>3,924,735</u>	<u>1,468,139</u>	<u>(1,137,119)</u>	<u>(948,401)</u>
<b>Distributions to shareholders:</b>				
Net investment income	(242,010)	—	—	(30,374)
Return of capital	—	(155,936)	—	(7)
Total distributions to shareholders	<u>(242,010)</u>	<u>(155,936)</u>	<u>—</u>	<u>(30,381)</u>
<b>Capital share transactions:</b>				
Net increase in net assets resulting from net change in capital share transactions(a)	<u>35,700,458</u>	<u>47,195,706</u>	<u>10,794,891</u>	<u>13,001,087</u>
Total increase in net assets from capital share transactions	<u>35,700,458</u>	<u>47,195,706</u>	<u>10,794,891</u>	<u>13,001,087</u>
<b>Total increase in net assets</b>	<u>39,383,183</u>	<u>48,507,909</u>	<u>9,657,772</u>	<u>12,022,305</u>
<b>Net assets:</b>				
Beginning of year	<u>93,585,304</u>	<u>45,077,395</u>	<u>32,124,758</u>	<u>20,102,453</u>
End of year	<u>\$132,968,487</u>	<u>\$93,585,304</u>	<u>\$41,782,530</u>	<u>\$32,124,758</u>
<b>Undistributed net investment income, end of year</b>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

(a) Summary of capital share transactions is as follows:

	Evolution Market Leaders Fund				Evolution Alternative Investment Fund			
	Year Ended August 31, 2011		Year Ended August 31, 2010		Year Ended August 31, 2011		Year Ended August 31, 2010	
	Shares	Value	Shares	Value	Shares	Value	Shares	Value
Shares sold	11,322,168	\$ 158,854,601	9,801,573	\$ 119,914,890	4,757,580	\$ 77,961,447	2,335,415	\$ 36,496,354
Shares issued in reinvestment of distributions	17,176	\$ 242,010	12,824	\$ 155,936	—	\$ —	1,912	\$ 30,381
Shares redeemed	<u>(8,843,764)</u>	<u>\$(123,396,153)</u>	<u>(5,935,536)</u>	<u>\$(72,875,120)</u>	<u>(4,146,064)</u>	<u>\$(67,166,556)</u>	<u>(1,511,777)</u>	<u>\$(23,525,648)</u>
Net increase	<u>2,495,580</u>	<u>\$ 35,700,458</u>	<u>3,878,861</u>	<u>\$ 47,195,706</u>	<u>611,516</u>	<u>\$ 10,794,891</u>	<u>825,550</u>	<u>\$ 13,001,087</u>

The accompanying notes are an integral part of these financial statements.

## Financial Highlights

	RATIOS TO AVERAGE NET ASSETS														
	Net Asset Value, Beginning of Year/Period	Net Investment Income (Loss) <sup>2</sup>	Net Realized and Unrealized Gain (Loss) on Investments	Net Increase (Decrease) in Net Asset Value Resulting from Operations	Dividends from Net Investment Income	Distributions from Realized Capital Gains	Return of Capital Distribution	Total Distributions	Net Asset Value, End of Year/Period	Total Return <sup>3</sup> Year/Period	Net Assets, End of Year/Period (,000)	Total Expenses <sup>1</sup>	Net Expenses <sup>1</sup>	Investment Income (Loss) After Expense Reimbursement/Recoupment <sup>1</sup>	Portfolio Turnover Rate <sup>4</sup>
<b>Evolution Managed Bond Fund</b>															
Year Ended August 31, 2011	\$17.54	\$ 0.25	\$(0.02)	\$ 0.23	\$(0.23)	\$ —	\$ —	\$17.54	1.36%	\$ 63,142	1.91%	1.91%	1.48%	506%	
Year ended August 31, 2010	16.57	0.34	0.93	1.27	(0.30)	—	(0.30)	17.54	7.78%	52,759	1.91%	1.91%	2.02%	390%	
Year ended August 31, 2009	16.41	0.37	0.12	0.49	(0.33)	—	(0.33)	16.57	3.04%	47,765	1.88%	1.87%	2.32%	425%	
Year ended August 31, 2008	16.83	0.59	(0.30)	0.29	(0.71)	—	(0.71)	16.41	1.78%	26,242	1.90%	1.75%	3.51%	439%	
Year ended August 31, 2007	17.45	0.64	(0.51)	0.13	(0.75)	—	(0.75)	16.83	0.76%	39,736	1.75%	1.75%	3.70%	914%	
<b>Evolution All-Cap Equity Fund</b>															
Year Ended August 31, 2011	12.04	(0.14)	2.00	1.86	—	—	—	13.90	15.45%	20,445	1.90%	1.90%	(0.96%)	1,415%	
Year ended August 31, 2010	14.83	(0.09)	(2.70)	(2.79)	—	—	—	12.04	(18.81%)	11,355	1.90%	1.90%	(0.65%)	1,677%	
Year ended August 31, 2009	18.55	(0.07)	(3.65)	(3.72)	—	—	—	14.83	(20.05%)	43,472	1.87%	1.85%	(0.48%)	1,977%	
Year ended August 31, 2008	24.31	(0.06)	(1.96)	(2.02)	—	(3.74)	(3.74)	18.55	(10.07%)	35,137	1.84%	1.75%	(0.27%)	1,374%	
Year ended August 31, 2007	22.75	0.03	2.67	2.70	(0.19)	(0.95)	(1.14)	24.31	12.03%	64,247	1.69%	1.69%	0.10%	885%	
<b>Evolution Market Leaders Fund</b>															
Year Ended August 31, 2011	11.92	(0.11)	1.07	0.96	(0.03)	—	(0.03)	12.85	8.04%	132,968	1.90%	1.90%	(0.76%)	781%	
Year ended August 31, 2010	11.35	(0.04)	0.64	0.60	(0.03)	—	(0.03)	11.92	5.29%	93,585	1.90%	1.90%	(0.33%)	1,239%	
Year ended August 31, 2009	16.68	(0.02)	(5.31)	(5.33)	—	—	—	11.35	(31.95%)	45,077	1.95%	1.90%	(0.16%)	1,697%	
Year ended August 31, 2008	18.80	0.07	(2.10)	(2.03)	(0.06)	—	(0.03)	16.68	(10.86%)	17,298	1.96%	1.75%	0.38%	1,191%	
Year ended August 31, 2007	18.12	(0.03)	0.78	0.75	(0.07)	—	(0.07)	18.80	4.06%	31,637	1.85%	1.75%	(0.17%)	886%	
<b>Evolution Alternative Investment Fund</b>															
Year Ended August 31, 2011	15.15	(0.15)	0.29	0.14	—	—	—	15.29	0.92%	41,783	1.90%	1.90%	(0.95%)	1,073%	
Year ended August 31, 2010	15.52	(0.10)	(0.25)	(0.35)	(0.02)	—	(0.02)	15.15	(2.26%)	32,125	1.90%	1.90%	(0.66%)	879%	
Year ended August 31, 2009	17.63	(0.02)	(1.47)	(1.49)	(0.62)	—	(0.62)	15.52	(8.35%)	20,102	1.99%	1.90%	(0.10%)	785%	
Year ended August 31, 2008	20.48	0.45	(2.60)	(2.15)	(0.06)	(0.64)	(0.70)	17.63	(10.77%)	25,037	1.89%	1.75%	2.32%	777%	
Year ended August 31, 2007	20.65	0.32	(0.03)	0.29	(0.32)	(0.14)	(0.46)	20.48	1.35%	46,115	1.72%	1.75%	1.46%	824%	

<sup>1</sup> Annualized.

<sup>2</sup> Net investment income (loss) per share represents net investment income (loss) divided by the daily average shares of beneficial interest outstanding throughout each period.

<sup>3</sup> All returns reflect reinvested dividends, if any, but do not reflect the impact of taxes.

<sup>4</sup> Portfolio turnover is calculated without regard to short-term securities having a maturity of less than one year. Investments in swaps and futures contracts and repurchase agreements are deemed short-term securities. The Fund's aggressive investment to take advantage of anticipated changes in market conditions.

**Direxion Funds**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**August 31, 2011**

**1. ORGANIZATION**

Direxion Funds (the "Trust") was organized as a Massachusetts Business Trust on June 6, 1997 and is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company issuing its shares in series, each series representing a distinct portfolio with its own investment objective and policies. The Trust currently has 30 series in operation of which four are included in this report, the Evolution Managed Bond Fund, the Evolution All-Cap Equity Fund, the Evolution Market Leaders Fund and the Evolution Alternative Investment Fund (each a "Fund" and collectively, the "Funds"). Each Fund is a "non-diversified" series of the Trust pursuant to the 1940 Act.

The Evolution Managed Bond Fund seeks the high appreciation on an annual basis consistent with a high tolerance for risk by investing at least 80% of its assets (plus any borrowing for investment purposes) in fixed-income securities indirectly through securities that invest in or are a derivative of fixed-income securities, including exchange traded funds (ETFs), unit investment trusts (UITs) and closed-end and open-end investment companies. The Evolution All-Cap Equity Fund seeks the high appreciation on an annual basis consistent with a high tolerance for risk by investing at least 80% of its net assets (plus any borrowing for investment purposes) in equity securities either directly through individual stocks and American Depository Receipts (ADRs) or indirectly through securities that invest in or are a derivative of equity securities. The Evolution Market Leaders Fund seeks high appreciation on an annual basis consistent with a high tolerance for risk by typically investing primarily in equity securities either directly or indirectly through individual stocks and ADRs or indirectly through securities that invest in or are a derivative of equity securities. The Evolution Alternative Investment Fund seeks high total return on an annual basis with the S&P 500® Index consistent with a high tolerance for risk by investing primarily in securities, including dividend-paying equities or interest bearing fixed income securities, having a low or negative correlation with the S&P 500® Index (collectively, "alternative securities") or indirectly through securities that invest in or are a derivative of alternative securities.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of significant accounting policies consistently followed by the Funds in the preparation of their financial statements. These policies are in conformity with U.S. generally accepted accounting principles ("GAAP").

**a) Investment Valuation** – The Net Asset Value ("NAV") of each Fund is determined daily, Monday through Friday, as of the close of regular trading on the New York Stock Exchange ("NYSE"), each day the NYSE is open for business. The value of all portfolio securities and other assets held by a Fund will be determined as of the time a Fund calculates its NAV, 4:00 p.m. Eastern Time ("Valuation Time"). Equity securities and exchange-traded funds are valued at their last sales price, or if not available, at the average of the last bid and ask prices. Investments in open-end mutual funds are valued at their respective quoted net asset values on the valuation dates. Futures are valued at the settlement price established on the exchange on which they are traded, if that settlement price reflects trading prior to the Valuation Time. If the settlement price established by the exchange reflects trading after the Valuation Time, then the last sales price prior to Valuation Time will be used. Securities primarily traded on the NASDAQ National Market are valued using the NASDAQ Official Closing Price. Swaps are valued based upon prices from third party vendor models or quotations from market makers to the extent available. Short-term debt securities with a maturity of 60 days or less and money market securities are valued using the amortized cost method. Other debt securities are valued by using the mean prices provided by the Fund's pricing service or, if such services are unavailable, by a pricing matrix method. Securities for which reliable market quotations are not readily available, the Funds' pricing service does not provide a valuation for such securities, the Fund's pricing service provides valuation that in the judgment of Rafferty Asset Management, LLC (the "Adviser") does not represent fair value, or the Fund or Adviser believes the market price is stale will be fair valued as determined by the Adviser under the supervision of the Board of Trustees. Additionally, the Adviser will monitor developments in the marketplace for significant events that may affect the value of those securities whose closing prices were established before the Valuation Time.

**b) Repurchase Agreements** – Each Fund may enter into repurchase agreements with institutions that are members of the Federal Reserve System or securities dealers who are members of a national securities exchange or are primary dealers in U.S. government securities. In connection with transactions in repurchase agreements, it is the Trust's policy that the Fund

receives, as collateral, cash and/or securities (primarily U.S. Government securities) whose market value, including accrued interest, at all times will be at least equal to 100% of the amount invested by the Fund in each repurchase agreement. If the seller defaults, and the value of the collateral declines, realization of the collateral by the Fund may be delayed or limited. The Funds were not invested in repurchase agreements at August 31, 2011.

**c) Swap Contracts** – Each Fund may enter into equity swap contracts. Standard equity swap contracts are between two parties that agree to exchange the returns (or differentials in rates of returns) earned or realized on particular predetermined investments or instruments. The gross amount to be exchanged is calculated with respect to a “notional amount” (i.e. the return on or increase in value of a particular dollar amount invested in a “basket” of securities representing a particular index or industry sector). The Fund’s obligations are accrued daily (offset by any amounts owed to the Funds.)

In a “long” swap agreement, the counterparty will generally agree to pay the Fund the amount, if any, by which the notional amount the swap contract would have increased in value if the Fund had been invested in the particular securities, plus dividends that would have been received on those securities. The Fund will agree to pay the counterparty a floating rate of interest on the notional amount of the swap contract plus the amount, if any, by which the notional amount would have decreased in value had it been invested in such securities plus, in certain instances, commissions or trading spreads on the notional amount. Thus, the return on the swap contract should be the gain or loss on the notional amount plus dividends on the securities less the interest paid by the Fund on the notional amount. However, in certain instances, market factors such as the interest rate environment and the demand to borrow the securities underlying the swap agreement can cause a scenario in which the counterparty will pay the Fund interest. Payments may be made at the conclusion of the contract or periodically during its term. Swap contracts do not include the delivery of securities. The net amount of the excess, if any, of the Fund’s obligations over its entitlement with respect to each swap is accrued on a daily basis and an amount of cash or liquid assets, having an aggregate net asset value at least equal to such accrued excess is maintained in a segregated account. Until a swap contract is settled in cash, the gain or loss on the notional amount plus dividends on the securities less the interest paid by the Fund on the notional amount are recorded as “unrealized gains or losses on swaps” and when cash is exchanged, the gain or loss is recorded as “realized gains or losses on swaps”.

Each Fund may enter into swap contracts that provide the opposite return of the particular benchmark or security (“short” the index or security). The operations are similar to that of the swaps disclosed above except that the counterparty pays interest to the Fund on the notional amount outstanding and the dividends on the underlying securities reduce the return of the swap. However, in certain instances, market factors such as the interest rate environment and the demand to borrow the securities underlying the swap agreement can cause a scenario in which the Fund pays the counterparty interest. These amounts are netted with any unrealized appreciation or depreciation to determine the value of the swap.

The Funds collateralize swap agreements with cash and certain securities as indicated on the Schedule of Investments of each of the Funds, respectively. Such collateral is held for the benefit of the counterparty in a segregated account at the Custodian to protect the counterparty against non-payment by the Funds. The Funds do not net collateral. In the event of a default by the counterparty, the Funds will seek return of this collateral and may incur certain costs exercising their rights with respect to the collateral. Amounts expected to be owed to the Funds are regularly collateralized either directly with the Funds or in a segregated account at the Custodian.

A Fund bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or bankruptcy of swap agreement counterparty to the extent that posted collateral is insufficient. A Fund will enter into swap agreements only with large, well-capitalized and established financial institutions. The creditworthiness of each of the firms that is counterparty to a swap agreement is monitored by the Adviser. The financial statements of these counterparties are available by accessing the SEC’s website, at [www.sec.gov](http://www.sec.gov).

The Funds were not invested in swap contracts at August 31, 2011.

**d) Short Positions** – Each Fund may engage in short sale transactions. For financial statement purposes, an amount equal to the settlement amount is included in the Statement of Assets and Liabilities as an asset and an equivalent liability. The amount of the liability is subsequently marked-to-market to reflect the current value of the short position. Subsequent fluctuations in the market prices of short positions may require purchasing the securities at prices which may differ from the market value reflected on the Statement of Assets and Liabilities. The Fund is liable to the buyer for any dividends payable on securities while those securities are in a short position. As collateral for its short positions, the Fund is required under the

1940 Act to maintain assets consisting of cash, cash equivalents or liquid securities equal to the market value of the securities sold short. This collateral is required to be adjusted daily. The Funds were not invested in short positions at August 31, 2011.

**e) Stock Index Futures Contracts and Options on Futures Contracts** – Each Fund may purchase and sell stock index futures contracts and options on such futures contracts. A Fund may use futures contracts to gain exposure to, or hedge against changes in the values of equities, interest rates or foreign currencies. Upon entering into a contract, the Fund deposits and maintains as collateral such initial margin as required by the exchange on which the transaction is effected. Pursuant to the contract, the Fund agrees to receive from or pay to the broker an amount of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as “variation margin” and are recorded by the Fund as unrealized gains and losses. When the contract is closed, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. As collateral for futures contracts, the Fund is required under the 1940 Act to maintain assets consisting of cash, cash equivalents or liquid securities. This collateral is required to be adjusted daily to reflect the market value of the purchase obligation for long futures contracts or the market value of the instrument underlying the contract, but not less than the market price at which the futures contract was established, for short futures contracts. The Funds were not invested in options on futures contracts at August 31, 2011.

**f) Risks of Options, Futures Contracts, Options on Futures Contracts and Short Positions** – The risks inherent in the use of options, futures contracts, options on futures contracts and short positions include 1) adverse changes in the value of such instruments; 2) imperfect correlation between the price of options and futures contracts and options thereon and movements in the price of the underlying securities, index or futures contracts; 3) the possible absence of a liquid secondary market for any particular instrument at any time; 4) the possible need to defer closing out certain positions to avoid adverse tax consequences; and 5) the possible nonperformance by the counterparty under the terms of the contract. The Funds designate all cash, cash equivalents and liquid securities as collateral for written options, futures contracts, options on futures contracts and short positions.

**g) Risks of Investing in Foreign Securities** – Investments in foreign securities involve greater risks than investing in domestic securities. As a result, the Funds’ returns and net asset values may be affected to a large degree by fluctuations in currency exchange rates, political, diplomatic or economic conditions and regulatory requirements in other countries. The laws and accounting, auditing, and financial reporting standards in foreign countries typically are not as strict as they are in the U.S., and there may be less public information available about foreign companies. Investments in foreign emerging markets present a greater risk than investing in foreign issuers in general. The risk of political or social upheaval is greater in emerging markets. In addition, there may be risks of an economy’s dependence on revenues from particular commodities, currency transfer restrictions, a limited number of buyers for such securities and delays and disruptions in securities settlement procedures.

**h) Security Transactions** – Investment transactions are recorded on trade date. The Funds determine the gain or loss realized from investment transactions by comparing the identified cost, which is the same basis used for federal income tax purposes, with the net sales proceeds.

**i) Federal Income Taxes** – Each Fund intends to comply with the requirements of Subchapter M of the Internal Revenue Code necessary to qualify as a regulated investment company and to make the requisite distributions of income and capital gains to its shareholders sufficient to relieve it from all or substantially all federal income. No provision for federal income taxes has been made.

**j) Income and Expenses** – Dividend income is recorded on the ex-dividend date. Interest income, including amortization of premium and discount, and dividends received from money market funds, is recognized on an accrual basis. Expenses are charged to the Funds daily. Expenses are computed based on each Fund’s respective daily net assets. For additional discussion on expenses refer to Note 4.

**k) Distributions to Shareholders** – Each Fund generally pays dividends from net investment income and distributes net realized capital gains, if any, at least annually. Income and capital gain distributions are determined in accordance with income tax regulations which may differ from GAAP. Distributions to shareholders are recorded on the ex-dividend date.

The tax character of distributions for the Funds during the years ended August 31, 2011 and August 31, 2010 were as follows:

	<b>Evolution Managed Bond Fund</b>		<b>Evolution All-Cap Equity Fund</b>	
	Year Ended August 31, 2011	Year Ended August 31, 2010	Year Ended August 31, 2011	Year Ended August 31, 2010
Distributions paid from:				
Ordinary Income	\$911,640	\$929,653	\$ —	\$ —
Long-Term Capital Gains	—	—	—	—
Return of Capital	—	—	—	—
<b>Total Distributions paid</b>	<b>\$911,640</b>	<b>\$929,653</b>	<b>\$ —</b>	<b>\$ —</b>

	<b>Evolution Market Leaders Fund</b>		<b>Evolution Alternative Investment Fund</b>	
	Year Ended August 31, 2011	Year Ended August 31, 2010	Year Ended August 31, 2011	Year Ended August 31, 2010
Distributions paid from:				
Ordinary Income	\$242,010	\$ —	\$ —	\$30,374
Long-Term Capital Gains	—	—	—	—
Return of Capital	—	155,936	—	7
<b>Total Distributions paid</b>	<b>\$242,010</b>	<b>\$155,936</b>	<b>\$ —</b>	<b>\$30,381</b>

The Funds are designating as long-term capital gain dividends, pursuant to Internal Revenue Code 852(b)(3), the amount necessary to reduce the earnings and profits of the Funds related to net capital gain to zero for the tax year ended August 31, 2011. To the extent necessary to fully distribute such capital gains, the Funds also designate earnings and profits distributed to shareholders on the redemption of shares.

As of August 31, 2011, the components of distributable earnings of the Funds on a tax basis were as follows:

	<b>Evolution Managed Bond Fund</b>	<b>Evolution All-Cap Equity Fund</b>	<b>Evolution Market Leaders Fund</b>	<b>Evolution Alternative Investment Fund</b>
Tax cost of investments	\$58,927,488	\$ 18,452,558	\$82,825,917	\$12,954,747
Gross unrealized appreciation	4,253,585	854,090	2,830,416	536,811
Gross unrealized depreciation	(1,542,094)	(1,904,596)	(2,818,764)	(560,763)
Net unrealized appreciation/(depreciation)	<u>\$ 2,711,491</u>	<u>\$ (1,050,506)</u>	<u>\$ 11,652</u>	<u>\$ (23,952)</u>
Undistributed ordinary income	573,365	—	—	—
Undistributed long-term capital gain	—	—	—	—
<b>Total distributable earnings</b>	<b>573,365</b>	<b>—</b>	<b>—</b>	<b>—</b>
Other accumulated gain/(loss)	(3,182,877)	(19,140,221)	(870,886)	(9,680,717)
<b>Total accumulated earnings/(loss)</b>	<b>\$ 101,979</b>	<b>\$(20,190,727)</b>	<b>\$ (859,234)</b>	<b>\$ (9,704,669)</b>

The difference between book cost of investments and tax cost of investments is attributable primarily to the tax deferral of losses on wash sales. Other accumulated gain/(loss) is generally comprised of capital loss carryforwards and post-October capital loss deferrals.

On the Statement of Assets and Liabilities, the following adjustments were made for permanent tax differences between accounting for net investment income and realized gain and losses under GAAP and tax reporting:

	<u>Net Investment Income (Loss)</u>	<u>Realized Gain (Loss)</u>	<u>Capital Stock</u>
Evolution Managed Bond Fund	182,220	(182,220)	—
Evolution All-Cap Equity Fund	175,663	188	(175,851)
Evolution Market Leaders Fund	939,360	(376,676)	(562,684)
Evolution Alternative Investment Fund	432,839	(295,066)	(137,773)

Net investment income and realized gains and losses for federal income tax purposes may differ from that reported on the financial statements because of permanent book-to-tax differences. GAAP requires that permanent differences in net investment income and realized gains and losses due to differences between financial reporting and tax reporting be reclassified between various components of net assets. The permanent differences primarily relate to net operating losses and dividend reclasses.

In order to meet certain excise tax distribution requirements, the Funds are required to measure and distribute annually, net capital gains realized during a twelve-month period ending October 31. In connection with this, the Funds are permitted for tax purposes to defer into their next fiscal year any net capital losses incurred between November 1 and the end of their fiscal year, August 31, 2011.

At August 31, 2011, the following funds deferred, on a tax basis, post-October losses of:

Evolution Managed Bond Fund	\$	—
Evolution All-Cap Equity Fund		—
Evolution Market Leaders Fund		307,700
Evolution Alternative Investment Fund		1,510,059

At August 31, 2011, the following funds had capital loss carryforwards on a tax basis of:

	<u>Expires</u>						<u>Total</u>
	<u>8/31/2014</u>	<u>8/31/2015</u>	<u>8/31/2016</u>	<u>8/31/2017</u>	<u>8/31/2018</u>	<u>8/31/2019</u>	
Evolution Managed Bond Fund	\$560,526	\$586,831	\$1,226,623	\$ 743,352	\$ —	\$ —	\$ 3,117,332
Evolution All-Cap Equity Fund	—	—	3,893,085	8,377,957	4,229,896	2,415,329	18,916,267
Evolution Market Leaders Fund	—	—	—	—	—	—	—
Evolution Alternative Investment Fund	—	—	1,031,582	6,768,541	—	99,925	7,900,048
<b>Capital Loss Utilized:</b>	<b><u>8/31/2011</u></b>						
Evolution Managed Bond Fund	\$ 522,481						
Evolution Market Leaders Fund	1,998,069						

To the extent that the Funds realize future net capital gains, those gains will be offset by any unused capital loss carryover.

The Funds follow authoritative financial reporting rules regarding recognition and measurement of tax positions taken or expected to be taken on a tax return. The Funds have reviewed all open tax years and concluded that there is no effect to the Funds' financial positions or results of operations and no tax liability resulting from unrecognized tax benefits relating to uncertain income tax position take or expected to be taken on a tax return. Open tax years are those years that are open for examination by the relevant income taxing authority. As of August 31, 2011, open Federal and state income tax years include the tax years ended August 31, 2008, August 31, 2009 and August 31, 2010 and August 31, 2011. The Funds have no examination in progress. The Funds are also not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax expense will significantly change in twelve months.

On December 22, 2010, the Regulated Investment Company Modernization Act of 2010 (the "Act") was enacted, which changed various technical rules governing the tax treatment of regulated investment companies. The changes are generally effective for taxable years beginning after the date of enactment. One of the more prominent changes addresses capital loss carryforwards. Under the Act, each fund will be permitted to carry forward capital losses incurred in taxable years beginning after the date of enactment for an unlimited period. However, any losses incurred during those future taxable years will be

required to be utilized prior to the losses incurred in pre-enactment taxable years, which carry an expiration date. As a result of this ordering rule, pre-enactment capital loss carryforwards may be more likely to expire unused. Additionally, post-enactment capital loss carryforwards will retain their character as either short-term or long-term capital losses rather than being considered all short-term as permitted under previous regulation.

**l) Credit Facility** – U.S. Bank, N.A. (“U.S. Bank”) had made available to Funds a credit facility pursuant to a Line of Credit Agreement (“Line of Credit”) for meeting redemption requests. The following funds utilized the Line of Credit during the year ended August 31, 2011:

	<u>Available Borrowing (Lesser of 33 1/3% of Fund's Net Assets or)</u>	<u>Outstanding Balance as of August 31, 2011</u>	<u>Maximum Amount Outstanding during the Year Ended August 31, 2011</u>	<u>Average Daily Balance</u>	<u>Interest Expense</u>	<u>Borrowings Charged At</u>
Evolution Managed Bond Fund	\$13,000,000	\$ —	\$13,000,000	\$133,660	\$3,727	Prime Rate less 1/2%
Evolution All-Cap Equity Fund	2,500,000	—	2,500,000	6,849	191	Prime Rate less 1/2%
Evolution Market Leaders Fund	22,000,000	—	5,500,000	44,929	1,253	Prime Rate less 1/2%
Evolution Alternative Investment Fund	8,500,000	—	8,500,000	25,781	719	Prime Rate less 1/2%

**m) Guarantees and Indemnifications** – In the ordinary course of business, the Funds enter into contracts that contain a variety of indemnification provisions pursuant to which the Funds agree to indemnify third parties upon occurrence of specified events. The Fund's maximum exposure relating to these indemnification agreements is unknown. However, the Funds have not had prior claims or losses in connection with these provisions and believe the risk of loss is remote.

**n) Use of Estimates** – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### 3. INVESTMENT TRANSACTIONS

During the year ended August 31, 2011, the aggregate purchases and sales of investments (excluding short-term investments, swaps and futures contracts) were:

	<u>Purchases</u>	<u>Sales</u>
Evolution Managed Bond Fund	\$332,030,046	\$321,580,302
Evolution All-Cap Equity Fund	235,976,727	226,012,650
Evolution Market Leaders Fund	838,951,907	852,504,577
Evolution Alternative Investment Fund	381,615,126	391,719,519

### 4. INVESTMENT ADVISORY AND OTHER AGREEMENTS

**Investment Advisory Agreement:** The Funds have entered into an investment advisory agreement with the Adviser. The Adviser receives a fee, computed daily and payable monthly, applied to each Fund's average daily net assets at the annual rates presented below:

Evolution Managed Bond Fund	1.00%
Evolution All-Cap Equity Fund	1.00%
Evolution Market Leaders Fund	1.00%
Evolution Alternative Investment Fund	1.00%

In addition, the Adviser has entered into sub-advisory agreements relating to the Funds whereby the sub-advisor, Flexible Plan Investments, Ltd., will direct investment activities of the Funds. The Adviser pays, out of the management fees it receives from the Funds, a fee for these sub-advisory services.

**Operating Services Agreement:** The Funds have entered into an Operating Services Agreement (the “Agreement”) with the Adviser. Under the Agreement, the Adviser will be responsible for all expenses of the Trust except the following:

management fees, distribution and/or service fees, acquired fund fees, taxes, leverage interest, dividends or interest on short positions, other interest expenses, brokerage commission and other extraordinary expenses outside the typical day-to-day operations of the Funds.

In consideration for the services rendered pursuant to the Agreement, the Funds will pay to the Adviser, as compensation for the services provided by the Adviser under the Agreement, a monthly fee. The monthly fee is calculated on an annualized basis on the average net assets of each Fund and the below amount:

Evolution Managed Bond Fund	0.50%
Evolution All-Cap Equity Fund	0.50%
Evolution Market Leaders Fund	0.50%
Evolution Alternative Investment Fund	0.50%

Distribution Expenses: Shares of the Funds are subject to an annual Rule 12b-1 fee equal to 0.25% of the average daily net assets.

Shareholder Servicing Fees: The Board has also authorized each Fund's shares to pay a shareholder servicing fee of 0.15% of each Fund's average daily net assets. The Trust, on behalf of each Fund, pays the fee to financial institutions and other persons who provide services for and maintain shareholder accounts.

Rafferty Capital Markets, LLC (the "Distributor") serves as principle underwriter of the Funds, and acts as the Funds' distributor in a continuous public offering of the Funds' shares. There were no Rule 12b-1 fees retained by the Distributor for the year ended August 31, 2011. The Distributor is an affiliate of the Adviser.

## 5. VALUATION MEASUREMENTS

The Funds follow authoritative fair valuation accounting standards which establish an authoritative definition of fair value and set out a hierarchy for measuring fair value. These standards require additional disclosures about the various inputs and valuation techniques used to develop the measurements of fair value and a discussion in changes in valuation techniques and related inputs during the period. These inputs are summarized in the three broad levels listed below:

Level 1 - Quoted prices in active markets for identical securities

Level 2 - Evaluated price based on other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)

Level 3 - Significant unobservable inputs (including the Fund's own assumptions in determining fair value of investments)

The inputs or methodology used for valuing securities are not an indication of the credit risk associated with investing in those securities.

The follow is a summary of the inputs used to value the Funds' net assets as of August 31, 2011:

<u>Asset Class</u>	<b>Evolution Managed Bond Fund</b>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Investment Companies — Fixed Income</b>	\$61,638,979	\$ —	\$ —	\$61,638,979
<b>Other Financial Instruments*</b>	\$ 6,932	\$ —	\$ —	\$ 6,932
<u>Asset Class</u>	<b>Evolution All-Cap Equity Fund</b>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Equity Securities</b>	\$14,292,947	\$ —	\$ —	\$14,292,947
<b>Investment Companies — Equity</b>	\$ 1,426,974	\$ —	\$ —	\$ 1,426,974
<b>Investment Companies — Fixed Income</b>	\$ 1,682,131	\$ —	\$ —	\$ 1,682,131
<b>Other Financial Instruments*</b>	\$ (9,912)	\$ —	\$ —	\$ (9,912)
<u>Asset Class</u>	<b>Evolution Market Leaders Fund</b>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Equity Securities</b>	\$ 17	\$ —	\$ —	\$ 17
<b>Investment Companies — Equity</b>	\$33,463,940	\$ —	\$ —	\$33,463,940
<b>Investment Companies — Fixed Income</b>	\$49,373,612	\$ —	\$ —	\$49,373,612

<u>Asset Class</u>	<u>Evolution Alternative Investment Fund</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment Companies — Equity	\$12,930,795	\$ —	\$ —	\$12,930,795
Other Financial Instruments*	\$ (11,846)	\$ —	\$ —	\$ (11,846)

For further detail on each asset class, see the Schedule of Investments.

\* Other financial instruments include exchange-traded futures contracts, which are valued at the unrealized appreciation (depreciation) on the instrument.

There were no significant transfers between Level 1 and Level 2 securities.

## 6. ADDITIONAL DISCLOSURES ABOUT DERIVATIVE INSTRUMENTS

The Funds follow authoritative standards of accounting for derivative instruments which establish disclosure requirement for derivative instruments. These standards improve financial reporting for derivative instruments by requiring enhanced disclosures that enables investors to understand how and why a fund uses derivatives instruments, how derivatives instruments are accounted for and how derivative instruments affect a fund's financial position and results of operations.

The Funds uses derivative instruments as part of its principal investment strategy to achieve its investment objective. For additional discussion on the risks associated with derivative instruments refer to Note 2. As of August 31, 2011, the Funds were invested in futures contracts and equity swap contracts.

At August 31, 2011, the fair value of derivatives instruments were as follows:

<u>Asset derivatives<sup>1</sup></u>		<u>Interest rate risk</u>	<u>Equity risk</u>	<u>Total</u>
Evolution Managed	Futures contracts*	\$6,932	\$ —	\$6,932
Bond Fund	Total	\$6,932	\$ —	\$6,932

<sup>1</sup> Statement of Assets and Liabilities location: Variation margin receivable.

\* Cumulative appreciation (depreciation) of futures contracts as reported in the Schedule of Investments. Only current day's variation margin, if any, is reported within the Statement of Assets and Liabilities.

<u>Liability derivatives<sup>1</sup></u>		<u>Interest rate risk</u>	<u>Equity risk</u>	<u>Total</u>
Evolution All-Cap	Futures contracts*	\$ —	\$ 9,912	\$ 9,912
Equity Fund	Total	\$ —	\$ 9,912	\$ 9,912
Evolution Alternative	Futures contracts*	\$ —	\$11,846	\$11,846
Investment Fund	Total	\$ —	\$11,846	\$11,846

<sup>1</sup> Statement of Assets and Liabilities location: Variation margin payable.

\* Cumulative appreciation (depreciation) of futures contracts as reported in the Schedule of Investments. Only current day's variation margin, if any, is reported within the Statement of Assets and Liabilities.

Transactions in derivative instruments during the year ended August 31, 2011, were as follows:

		Interest rate risk	Equity risk	Total
Evolution Managed Bond Fund	<b>Realized gain (loss)<sup>1</sup></b>			
	Futures contracts	\$88,617	\$ —	\$ 88,617
	Total realized gain (loss)	\$88,617	\$ —	\$ 88,617
	<b>Change in unrealized appreciation (depreciation)<sup>2</sup></b>			
Futures contracts	\$ 6,932	\$ —	\$ 6,932	
Total change in unrealized appreciation (depreciation)	\$ 6,932	\$ —	\$ 6,932	
Evolution All-Cap Equity Fund	<b>Realized gain (loss)<sup>1</sup></b>			
	Futures contracts	\$ —	\$555,265	\$555,265
	Total realized gain (loss)	\$ —	\$555,265	\$555,265
	<b>Change in unrealized appreciation (depreciation)<sup>2</sup></b>			
Futures contracts	\$ —	\$(16,425)	\$(16,425)	
Total change in unrealized appreciation (depreciation)	\$ —	\$(16,425)	\$(16,425)	
Evolution Alternative Investment Fund	<b>Realized gain (loss)<sup>1</sup></b>			
	Futures contracts	\$ —	\$153,793	\$153,793
	Total realized gain (loss)	\$ —	\$153,793	\$153,793
	<b>Change in unrealized appreciation (depreciation)<sup>2</sup></b>			
Futures contracts	\$ —	\$ 11,179	\$ 11,179	
Total change in unrealized appreciation (depreciation)	\$ —	\$ 11,179	\$ 11,179	

<sup>1</sup> Statement of Operations location: Net realized gain (loss) on futures.

<sup>2</sup> Statement of Operations location: Change in unrealized appreciation (depreciation) on futures.

For the year ended August 31, 2011, the volume of the derivatives held by the Funds were as follows:

	Quarterly Average Gross Notional Amounts	
	Long Futures Contracts	Short Futures Contracts
Evolution Managed Bond Fund	\$1,360,133	\$ —
Evolution All-Cap Equity Fund	1,126,225	2,986,052
Evolution Market Leaders Fund	—	—
Evolution Alternative Investment Fund	1,367,507	1,786,507

The Funds utilized this volume of derivatives as a substitute for investing in comparable positions in underlying securities and/or as a means to limit exposures of a Fund's position. During the year ended August 31, 2011, both the Evolution All-Cap Equity Fund and the Evolution Alternative Investment Fund maintained a consistent volume of its investments in long futures contracts during the first half of the year while shifting to investments in short future contracts towards the end of the year. The Evolution Managed Bond Fund began investing in long future contracts towards the last half of the year.

## 7. NEW ACCOUNTING PRONOUNCEMENTS

In January 2010, the Financial Accounting Standards Board ("FASB") issued an update to improve disclosure about fair value measurements. This update required additional disclosures regarding fair value measurements. Specifically, the amendment requires reporting entities to disclose a) the input and valuation techniques used to measure fair value for both recurring and nonrecurring fair value measurements, for Level 2 or Level 3 positions, b) transfers between all levels (including Level and Level 2) will be required to be disclosed on a gross basis (i.e. transfers out must be disclosed separately from transfers in) as well as the reason(s) for the transfers and c) purchases and sales must be shown on a gross basis in the Level 3 rollforward rather than as one net number.

The effective date of this guidance is for interim and annual periods beginning after December 15, 2009; however, the requirement to provide the Level 3 activity for purchases and sales on a gross basis will be effective for interim and annual periods beginning after December 15, 2010. The Funds have disclosed the applicable requirements of the accounting standard in their financial statements.

In April 2011, FASB issued an update intended to improve the accounting for repurchase and other similar agreements. Specifically, the update modifies the criteria for determining when these agreements would be accounted for as financing transactions (secured borrowings/lending agreements) as opposed to sale (purchase) transactions with commitments to repurchase (resell). At this time, management is evaluating the implications of this guidance and the impact it will have to the financial statements or footnote disclosures, if any.

In May 2011, FASB issued an update to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with GAAP and International Financial Reporting Standards. This update will require reporting entities to disclose the following information for fair value measurements categorized within Level 3 of the fair value hierarchy: quantitative information about unobservable inputs used in the fair value measurement, the valuation processes used by the reporting entity and a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs. In addition, the update will require reporting entities to make disclosure about amounts and reason for all transfers in and out of Level 1 and Level 2 fair value measurements. The new and revised disclosures are effective for interim and annual reporting periods beginning after December 15, 2011. At this time, management is evaluating the implications of this update and the impact it will have to the financial statements or footnote disclosures, if any.

## **8. SUBSEQUENT EVENTS**

The Funds follow authoritative standards for accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. These standards require the Funds to recognize in the financial statements the effects of all recognized subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet. For nonrecognized subsequent events that must be disclosed to keep the financial statements from being misleading, the Funds are required to disclose the nature of the event as well as an estimate of its financial effect, or a statement that such an estimate cannot be made. The Funds have evaluated subsequent events through the issuance of the Funds' financial statements and have determined there is no impact to the Funds' financial statements.

## DIREXION FUNDS

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees and Shareholders  
of Direxion Funds:

We have audited the accompanying statements of assets and liabilities of the Evolution Managed Bond Fund, Evolution All-Cap Equity Fund, Evolution Market Leaders Fund, and Evolution Alternative Investment Fund (four of the series of the Direxion Funds) (the "Funds"), including the schedules of investments, as of August 31, 2011, and the related statements of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Funds' internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Funds' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of August 31, 2011, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the above mentioned four of the series of Direxion Funds at August 31, 2011, the results of their operations for the year then ended, the changes in their net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

*Ernst + Young LLP*

New York, New York  
October 21, 2011

## ADDITIONAL INFORMATION

(UNAUDITED)

For the year ended August 31, 2011, certain dividends paid by the Funds may be subject to a maximum tax rate of 15%, as provided for by the Jobs and Growth Tax Relief Reconciliation Act of 2003. The percentage of dividends declared from ordinary income designated as qualified income was 100% in the Evolution Managed Bond Fund and 0% in the Evolution Market Leaders Fund.

For corporate shareholders, the percent of ordinary income distributions qualifying for the corporate dividends received deduction for the year ended August 31, 2011 was 100% in the Evolution Managed Bond Fund and 0% in the Evolution Market Leaders Fund.

### HOUSEHOLDING

In an effort to decrease costs, the Funds intend to reduce the number of duplicate prospectuses, Annual and Semi-Annual Reports, proxy statements and other similar documents you receive by sending only one copy of each to those addresses shared by two or more accounts and to shareholders we reasonably believe are from the same family or household. Householding begins once you have signed your account application. After such time, if you would like to discontinue householding for your accounts, please call toll-free at (800) 851-0511 to request individual copies of these documents. Once the Funds receive notice to stop householding, we will begin sending individual copies thirty days after receiving your request. This policy does not apply to account statements.

Provided below is a summary of certain of the factors the Board considered at its August 17, 2011 Board meeting in renewing, as applicable: (1) the Advisory Agreement between Rafferty Asset Management (“Rafferty”) and the Direxion Funds (the “Trust”), on behalf of the Evolution All-Cap Equity Fund, Evolution Alternative Investment Fund, Evolution Managed Bond Fund and Evolution Market Leaders Fund (each a “Fund” and collectively, the “Funds”), each a series of the Trust; and (2) the Subadvisory Agreement between Rafferty and Flexible Plan Investments, Inc. (“Flexible”) on behalf of the Funds. The Board did not identify any particular information that was most relevant to its consideration to approve the Advisory or Subadvisory Agreement (each an “Agreement” and collectively, the “Agreements”) and each Trustee may have afforded different weight to the various factors.

In determining whether to approve the continuance of the Agreements, the Board considered the best interests of each Fund separately. In addition, the Board noted that the Trustees have considered various reports and information provided throughout the year at their regular Board meetings and otherwise. While the Agreements for all of the Funds were considered at the same Board meeting, the Board considered each Fund’s investment advisory and subadvisory relationship separately. In each instance, the Board considered, among others, the following factors: (1) the nature and quality of the services provided; (2) the investment performance of the Fund; (3) the profitability of the advisory business to Rafferty or Flexible, if such information was provided; (4) the extent to which economies of scale have been taken into account in setting fee schedules; (5) whether fee levels reflect these economies of scale, if any, for the benefit of Fund shareholders; (6) comparisons of services and fees with contracts entered into by Rafferty and Flexible with other clients (such as pension funds and other institutional investors), if any; and (7) other benefits derived or anticipated to be derived and identified by Rafferty or Flexible from its relationship with the Funds.

*Nature, Extent and Quality of Services Provided.* The Board reviewed the nature, extent and quality of the services provided or to be provided under the Advisory Agreement by Rafferty. The Board noted that Rafferty has provided services to the Trust since its inception and has developed an expertise in managing the Funds. The Board also noted that Rafferty trades efficiently with low commission schedules, which helps improve performance results. The Board considered Rafferty’s representation that it has the financial resources and appropriate staffing to manage the Funds and meet its expense reimbursement obligations, if any. The Board also considered that Rafferty utilizes the services of an independent compliance consulting firm and that reports from the chief compliance officer are provided to the Board at its regularly scheduled quarterly Board meetings. The Board considered that Rafferty oversees all aspects of the operation of the Funds, including oversight of the Funds’ service providers and Flexible. Regarding the Subadvisory Agreement with Flexible, the Board noted that Flexible utilizes the Funds as the primary investments for its separate account clients. Based on these and other considerations, the Board determined that, in the exercise of its business judgment, the nature, extent and quality of the services provided by Rafferty and Flexible to the Funds under the Agreements were fair and reasonable.

*Performance of the Funds.* The Board evaluated the performance of each Fund relative to: (1) its benchmark index for year-to-date, one-year and since inception periods ended June 30, 2011, where applicable; and (2) the average performance of the relevant Morningstar peer fund universe for monthly and annual periods ended June 30, 2011.

With respect to the Evolution All-Cap Equity Fund, the Board considered management’s description of the performance of the Morningstar universe of long/short equity funds. The Board also considered that as of June 30, 2011, the Fund outperformed the average of its relevant Morningstar peer funds for the year-to-date and one-year periods, but underperformed for the three-year and five-year periods. In this regard, the Board noted Flexible’s representation that the Fund’s long-term underperformance was in part due to previous defensive cash positions and significant shareholder redemptions that, coupled with intraday market volatilities, detracted from the Fund’s investment performance.

With respect to the Evolution Alternative Investment Fund, the Board considered management’s description of the performance of the Morningstar universe of multi-alternative funds. The Board also considered that as of June 30, 2011, the Fund underperformed the average of its relevant Morningstar peer funds for all periods presented. In this regard, the Board noted Flexible’s representation that it recently changed its asset allocation methodology for the Fund.

With respect to the Evolution Managed Bond Fund, the Board considered management’s description of the performance of the Morningstar universe of intermediate-term bond funds. The Board also considered that as of June 30, 2011, the Fund underperformed the average of its relevant Morningstar peer funds for all periods presented. In this regard, the Board noted

Flexible's representation that the Fund's underperformance was in part due to its overweight in certain underperforming sectors and its use of an active futures overlay that the Fund no longer uses.

With respect to the Evolution Market Leader Fund, the Board considered management's description of the performance of the Morningstar universe of world-stock funds. The Board also considered that as of June 30, 2011, the Fund underperformed the average of its relevant Morningstar peer funds for all periods presented. In this regard, the Board noted Flexible's representation that the Fund's underperformance was in part due to its overweight in certain underperforming sectors and recent temporary defensive positions that it has taken.

Costs of Services Provided to the Funds and Profits Realized. The Board considered the overall fees paid to Rafferty on an annual basis since each Fund's commencement of operations, including any fee waivers and recoupment of fees previously waived. The Board also considered the fees that Rafferty charges for the services that it provides to a pooled trading vehicle for domestic hedge funds. In addition, the Board considered the overall profitability of Rafferty's investment business and its representation that it does not allocate internal costs and assess profitability with respect to its services to individual Funds. Based on these considerations, the Board determined that, in the exercise of its business judgment, the costs of the services provided and the profits realized under the Advisory Agreement were fair and reasonable.

In considering the fees paid by Rafferty to Flexible, the Board noted that the Evolution Funds are offered to Flexible's clients in wrap account advisory programs. The Board also noted that, in some cases, Flexible uses the fees it receives from the Funds to reduce the asset-based fees that it charges clients for providing investment advisory services. In addition, the Board discussed: (1) the fees and expenses charged to the Evolution Managed Bond Fund; and (2) a potential waiver of Rafferty's management fee and/or the subadvisory fees paid to Flexible on behalf of the Fund in order to reduce the total operating expenses of the Fund. Based on these considerations, the Board determined that, in the exercise of its business judgment, the costs of the services provided and the profits realized under the Agreements were fair and reasonable.

Economies of Scale. The Board considered Rafferty's representation that it believes that asset levels at this time are not sufficient to achieve economies of scale or warrant a reduction in fee rates or the addition of breakpoints. Rafferty noted that it was continuing to work on its sales and marketing efforts to raise additional assets. Based on these and other considerations, the Board determined that, in the exercise of its business judgment, the reduction in fee rates or additions of breakpoints were not necessary at this time.

Other Benefits. The Board considered Rafferty's representation that its relationship with the Funds has permitted Rafferty to attract business to its non-mutual fund account. The Board also considered that Rafferty's overall business with brokerage firms helps to lower commission rates and provide better execution for Fund portfolio transactions. In addition, the Board considered that Flexible has greater access to certain trust platforms due to its subadvisory services to the Funds. Based on these and other considerations, the Board determined that, in the exercise of its business judgment, the benefits were fair and reasonable.

Conclusion. Based on, but not limited to, the above considerations and determinations, the Board determined that the Agreements for the Funds were fair and reasonable in light of the services to be performed, fees, expenses and such other matters as the Board considered relevant in the exercise of its business judgment. On this basis, the Board unanimously voted in favor of the continuance of the Agreements.

**Direxion Funds**  
**TRUSTEES AND OFFICERS**

The business affairs of the Funds are managed by or under the direction of the Board of Trustees. Information pertaining to the Trustees and Officers of the Funds is set below. The SAI includes additional information about the Funds' Trustees and Officers and is available without charge, upon request by calling 1-800-851-0511.

**Interested Trustees**

<u>Name, Address and Age</u>	<u>Position(s) Held with Fund</u>	<u>Term of Office and Length of Time Served</u>	<u>Principal Occupation(s) During Past Five Years</u>	<u># of Portfolios in Direxion Family of Investment Companies Overseen by Trustee<sup>(2)</sup></u>	<u>Other Trusteeships/ Directorships Held by Trustee</u>
Lawrence C. Rafferty <sup>(1)</sup> Age: 68 . . . . .	Chairman of the Board of Trustees	Lifetime of Trust until removal or resignation; Since 1997	Chairman and Chief Executive Officer of Rafferty, 1997-present; Chief Executive Officer of Rafferty Companies, LLC, 1996-present; Chief Executive Officer of Rafferty Capital Markets, Inc., 1995-present.	165	Board of Trustees, Fairfield University; Board of Directors, St. Vincent's Services; Executive Committee, Metropolitan Golf Association

**Non-Interested Trustees**

<u>Name, Address and Age</u>	<u>Position(s) Held with Fund</u>	<u>Term of Office and Length of Time Served</u>	<u>Principal Occupation(s) During Past Five Years</u>	<u># of Portfolios in Direxion Family of Investment Companies Overseen by Trustee<sup>(2)</sup></u>	<u>Other Trusteeships/ Directorships Held by Trustee</u>
Daniel J. Byrne Age: 67 . . . . .	Trustee	Lifetime of Trust until removal or resignation; Since 1997	President and Chief Executive Officer of Byrne Securities Florida Inc. (formerly, Byrne Securities Inc.), 1992-present.	165	None.
Gerald E. Shanley III Age: 67 . . . . .	Trustee	Lifetime of Trust until removal or resignation; Since 1997	Retired, Since 2002; Business Consultant, 1985-present; Trustee of Trust Under Will of Charles S. Payson, 1987-present; C.P.A., 1979- present.	165	None.
John Weisser Age: 69 . . . . .	Trustee	Lifetime of Trust until removal or resignation; Since 2007	Retired, Since 1995; Salomon Brothers, Inc, 1971-1995, most recently as Managing Director.	165	Director, MainStay VP Fund Series, The MainStay Funds, The MainStay Funds Trust; Director ICAP Funds, Inc; Director, Eclipse Funds, Inc., Eclipse Funds; (66 Funds Total)

<sup>(1)</sup> Mr. Rafferty is affiliated with Rafferty. Mr. Rafferty is the Chairman and Chief Executive Officer of Rafferty and owns a beneficial interest in Rafferty.  
<sup>(2)</sup> The Direxion Family of Investment Companies consists of the Direxion Funds which currently offers for sale to the public 30 portfolios, the Direxion Insurance Trust which currently offers for sale 1 portfolio and the Direxion Shares ETF Trust which currently offers for sale to the public 51 of the 134 funds currently registered with the SEC.

**Direxion Funds**  
**TRUSTEES AND OFFICERS**

**Principal Officers of the Trust**

The officers of the Trust conduct and supervise its daily business. Unless otherwise noted, an individual's business address is 33 Whitehall Street, 10<sup>th</sup> Floor, New York, New York 10004. As of the date of this report, the officers of the Trust, their ages, their business address and their principal occupations during the past five years are as follows:

Name, Address and Age	Position(s) Held with Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	# of Portfolios in the Direxion Family of Investment Companies Overseen by Trustee <sup>(2)</sup>	Other Trusteeships/ Directorships Held by Trustee
Daniel D. O'Neill <sup>(1)</sup> Age: 43 . . . . .	President;  Chief Operating Officer and Chief Investment Officer	One Year; Since 1999  One Year; Since 2006	Managing Director of Rafferty, 1999-present.	134	N/A
Christopher Lewis Age: 40 . . . . .	Chief Compliance Officer	One Year; Since 2009	Director, Alaric Compliance Services, LLC, 2009 – present; Partner, Thacher Proffitt & Wood LLP, 2004-2008; Partner, Simmons & Simmons, 2002-2004.	N/A	N/A
Patrick J. Rudnick 777 East Wisconsin Avenue Milwaukee, WI 53202 Age: 37 . . . . .	Principal Financial Officer and Treasurer	One Year; Since 2010	Vice President, U.S. Bancorp Fund Services, LLC, since 2006; formerly, Manager, PricewaterhouseCoopers LLP (1999-2006).	N/A	N/A
Angela Brickl Age: 35 . . . . .	Secretary <sup>3</sup>	One Year; Since 2011	Vice President, Rafferty Asset Management, LLC, since October 2010; Summer Associate at Skadden, Arps, Slate, Meagher & Flom, LLP, May-August 2009; Summer Associate at Foley & Lardner, LLP, May-August 2008; Vice President, U.S. Bancorp Fund Services, LLC, November 2003- August 2007.	N/A	N/A

<sup>(1)</sup> Mr. O'Neill serves as Chairman of the Board of Trustees of the Direxion Shares ETF Trust.

<sup>(2)</sup> The Direxion Family of Investment Companies consists of the Direxion Funds which currently offers for sale to the public 30 portfolios, the Direxion Insurance Trust which currently offers for sale 1 portfolio and the Direxion Shares ETF Trust which currently offers for sale to the public 51 of the 134 funds currently registered with the SEC.

<sup>(3)</sup> Ms. Brickl replaced Eric W. Falkeis as Secretary effective August 17, 2011.

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## PRIVACY NOTICE

At the Direxion Funds, we are committed to protecting your privacy. To open and service your Direxion accounts, we collect and maintain certain nonpublic personal information about you, such as your address, phone number, social security number, purchases, sales, account balances, bank account information and other personal financial information. We collect this information from the following sources:

- Account applications or other forms on which you provide information,
- Mail, e-mail, the telephone and our website, and
- Your transactions and account inquiries with us.

We safeguard the personal information that you have entrusted to us in the following ways:

- As a general policy, only those employees who maintain your account and respond to your requests for additional services have access to your account information.
- We maintain physical, electronic, and procedural safeguards to insure the security of your personal information and to prevent unauthorized access to your information.

We do not disclose any nonpublic personal information about you or our former shareholders to anyone, except as permitted or required by law. In the course of conducting business and maintaining your account we may share shareholder information, as allowed by law, with our affiliated companies and with other service providers, including financial intermediaries, custodians, transfer agents and marketing consultants. Those companies are contractually bound to use that information only for the services for which we hired them. They are not permitted to use or share our shareholders' nonpublic personal information for any other purpose. There also may be times when we provide information to federal, state or local authorities as required by law.

In the event that you hold fund shares of Direxion through a financial intermediary, including, but not limited to, a broker-dealer, bank, or trust company, the privacy policy of your financial intermediary would govern how your nonpublic personal information would be shared with nonaffiliated third parties.

For questions about our policy, please contact us at (800) 851-0511.



## ANNUAL REPORT AUGUST 31, 2011

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33 Whitehall St. 10th Floor  
New York, NY 10004

**Sub-Advisor**

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Bloomfield Hills, MI 48302

**Administrator, Transfer Agent, Dividend Paying Agent & Shareholding Servicing Agent**

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P.O. Box 1993  
Milwaukee, WI 53201-1993

**Custodian**

U.S. Bank, N.A.  
1555 RiverCenter Dr., Suite 302  
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**Independent Registered Public Accounting Firm**

Ernst & Young LLP  
5 Times Square  
New York, NY 10036

**Distributor**

Rafferty Capital Markets, LLC  
59 Hilton Avenue  
Garden City, NY 11530

The Fund's Proxy Voting Policies are available without charge by calling 1-800-851-0511, or by accessing the SEC's website, at [www.sec.gov](http://www.sec.gov).

The actual voting records relating to portfolio securities during the most recent period ended June 30 (starting with the year ended June 30, 2005) is available without charge by calling 1-800-851-0511 or by accessing the SEC's website at [www.sec.gov](http://www.sec.gov).

The Funds file its complete schedule of portfolio holdings with the Commission for the first and third quarter of each fiscal year on Form N-Q. The Form N-Q is available without charge, upon request, by calling 1-800-851-0511, or by accessing the SEC's website, at [www.sec.gov](http://www.sec.gov). The Funds' Forms N-Q may be reviewed and copied at the Commission's Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

This report has been prepared for shareholders and may be distributed to others only if preceded or accompanied by a current prospectus.