



Robert Hyman, Portfolio Manager

Robert B. Hyman manages the Jefferies Asset Management Commodity Strategy Allocation Fund. Mr. Hyman rejoined JAM in June 2010. From January 2004 to April 2006, Mr. Hyman was a portfolio manager for Jefferies Asset Management, LLC in its Real Asset Division. During his 32 years of trading commodities and commodity related products, Mr. Hyman has held a number of trading and risk control positions, including proprietary trading positions at Lehman Brothers, Amerada Hess Crude & Gas Co., and Drexel Burnham Lambert. Mr. Hyman graduated from Dartmouth College in 1978 with a Bachelor of Arts degree in Government.

JAM Commodity Strategy Allocation Fund

Class A – JCRAX

Class C – JCRCX

Class I – JCRIX

Fund Inception Date of June 29, 2010

The Road Ahead - First, A Year in Review

2011 had a number of political, economic, and natural events which shaped the investment landscape for the year. A major earthquake in Japan in early March and the resulting devastation in the wake of the tsunami it triggered had immediate and long term effects on markets and the global economy. The series of protests and demonstrations across the Middle East and North Africa has become known as the “Arab Spring”, brought anxiety to the region and continues to simmer. The political climate in the United States became more contentious as the summer progressed. In August, the US lost its high credit rating. Perhaps the most dominant story which impacted commodity prices, especially in the latter part of the year, concerned the European debt crisis and doubts about the viability of the Euro currency.

The cumulative effect of these events eroded investor confidence and added hurdles to global growth. Some of the scars left by the events of the financial crisis of 2007/2008 prompted investors to sell equity and commodity investments as the sentiment for a global slowdown appeared to gather momentum. From the market highs in late April and early May 2011, many investors exited equity and commodity investments. Reuters reported that the flows relating to US mutual funds had the largest rate of redemptions since the depths of the stock market collapse in March of 2009. (Aug 10, 2011) Equity indices in Shanghai (-20.18% for 2011), Bombay (-23.65% for 2011), and Sao Paulo (-18.11% for 2011) reflected the negative mood that heretofore had produced outsized returns for previous years. The downbeat sentiment lingered through the end of the year, particularly about the Euro zone and the possible negative effects on growth and commerce.

For the year ending December 30, 2011, commodity prices as measured by the broad based Dow Jones UBS Spot Commodity Index were down by 8.12%. This was the first calendar year since 2008 that commodity prices ended lower. In general, commodities linked to global industrial growth fared poorer than other commodity sectors. Specifically, base metals like copper (-20.76%), aluminum (-18.22%), and nickel (-24.40%) (Bloomberg), reflected the lower bias in global growth. It is important to note that some commodities had positive price growth even with the decidedly sour investment sentiment. Corn, the best performer within the Thomson Reuters/Jefferies CRB Index, was up +13.47% for the year. Crude oil and related energy products also ended higher. Crude oil gained 4.79% while unleaded gasoline prices added 11.92% and heating oil moved ahead by 10.62%.

The Road Ahead

Emerging Market Growth Continues to Fuel Demand

A re-examination of the fundamentals that have been driving commodity prices higher over the past decade is worthwhile, in our view. We know that population growth has proceeded unabated. The United Nations estimates that the world population surpassed seven billion people at the end of October 2011. It took just 13 years for the last billion to be added to the population. (un.org) With the population growing by about 80 million people per year (Nationalgeographic.com), we can visualize the impact the birthrate is presenting. The obvious increasing demands of feeding, clothing, housing, and transporting additional humans is clear. Commodities must be produced in ever increasing amounts to meet the new requirements.

World demographic changes may be more subtle, but nonetheless add to the demand for basic materials, energy, and food. By now, most of us in the investment community are familiar with the strides that the BRIC⁽¹⁾ countries have been making

in terms of gross domestic product (GDP) growth. We tend to think of these countries and others in the developing world mainly as exporters of commodities or as low cost-producers of finished goods for sale and use elsewhere. However, per capita incomes have been rising in these countries allowing for ever increasing amounts of domestic consumption. The per capita numbers are still far behind places like Europe, Japan, or the United States, but the results of increased discretionary income have produced some surprising results. In 2011, General Motors sold more cars in China than it did in the United States. (USA Today) More Bentleys were sold last year in China than in the United Kingdom (Bloomberg). And Mercedes registered a staggering 30.6% sales gain in China in 2011. China is now the number three market for Mercedes, just behind the US and Western Europe. (Autonews.com).

Morton's Steakhouses opened a few restaurants in China and around Asia over the last couple of years. Their Shanghai location is their largest in the world, over 160,000 square feet. (enterprisechina.net) Overall, the Chinese locations are amongst the busiest and most profitable in the company's chain. Premium steakhouses like Morton's understand that there is a growing appetite to move up the food chain for complex proteins as income swells.

China isn't alone. Brazil sales of Mercedes grew by 35.3% and Russia sales jumped by 47.3% in 2011. (Autonews.com) It should be noted that this increased consumption occurred while the respective equity markets in each of the growth countries listed suffered sizable losses. In contrast, sales of Mercedes vehicles in Western Europe, were down 1% in 2011, which reflects in part the ongoing debt crisis in Europe, but may also in part reflect the narrowing of the "wealth gap" between BRIC⁽¹⁾ and Western European economies.

Monetary policy throughout the developed world remains very supportive of commodity prices (and more broadly, risky assets), in our view. The European situation has prompted the central bank (ECB) to lower rates and to add asset purchases to its balance sheet. In fact, at the end of 2011, the ECB owned nearly 150% of the assets currently held by the US Federal Reserve (Fed) in the wake of our financial and housing crisis. The Fed and ECB will likely commit to an extremely accommodative posture through the year. Meanwhile, China, Brazil, India, and others had raised interest rates or bank reserve requirements in response to food and property price inflation during 2011. With the decline of many commodity prices last year, those countries are in a better position to lower rates as the year begins. We feel that easy monetary policy will complement the continued undercurrent of population growth and redistribution of global wealth.

Despite the recent headwinds in the markets, we believe that the outlook for commodities in 2012 continues to be positive. We believe the commodity markets may have already anticipated a substantial portion of the economic plight of the European Union (EU). Commodity price declines in late 2011 may have been discounting current events. The United States economy is still languishing with GDP levels at positive 2% or less. Housing prices continue to be a drag on consumer spending and psychology. Still, more recent numbers on the US economy may be showing some improvement. The most recent non-farm payroll numbers at +200,000 and the headline unemployment number dipping to 8.5%, the lowest since President Obama took office, are decent signs.

We believe that many of the same themes may be present for the year ahead. Industrial metals prices (copper, aluminum, and nickel for example) will likely tend to trade with the economic conditions in the developed world for the short term. Given the negative tone that markets were left with after the 2011 performance, the surprise side of the equation may be to the upside.

Energy prices, specifically petroleum based products, and certain agricultural commodities managed to post higher prices in spite of the negative tone in many other markets during 2011. We believe that the resilience shown by crude oil, gasoline, heating oil, corn, and livestock prices is indicative of incremental global demand.

As 2012 begins, the "Arab Spring" is close to its first anniversary. The situation in the region is still unsettled. Iran is creating anxiety with threats to the strategically important Straits of Hormuz. More than 20 percent of the world's total crude oil production passes through the narrow waterway daily (EIA), mainly headed for the Asian markets. While there is undoubtedly some premium attached to the crude price because of this tension, the underlying fundamentals are positive. Refining capacity globally is scheduled to increase slightly this year but the recent closure of the Sun Oil Marcus Hook refinery near Delaware may cause product dislocations on the US east coast.

Weather and natural events always play a part in the agricultural picture for any crop year. We will refrain from becoming weathermen. The stock levels for some of the agricultural crops were notably low as 2011 came to a close. Corn in particular ended the year with the lowest stock levels since 1995, at 848 million bushels (USDA.gov). That level represents just 6.7% of total use for the commodity. Soybeans ended with stock levels representing approximately 7.6% of total use. The salient point for both commodities is that the reduced stock levels put a higher degree of pressure to hit target production numbers. Any disappointments due to

weather or other natural causes may have immediate upward price pressure.

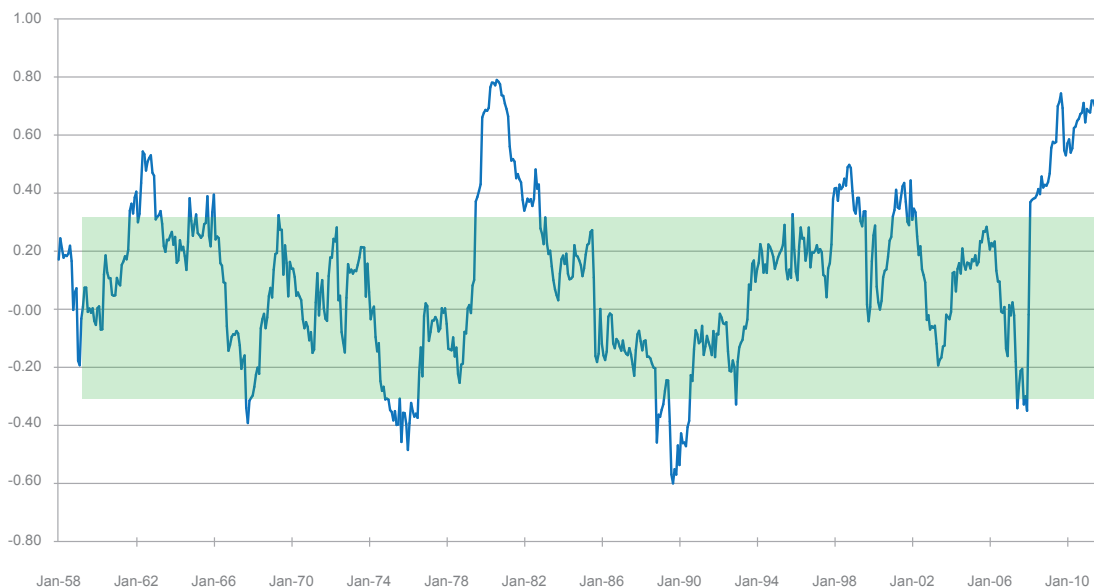
Coffee is another agricultural commodity where the demand appears to be greater than the supply. The US Department of Agriculture cut its forecast for global production to 133.8 million bags (one bag = 60 kilograms or about 132 pounds) for this coming year. Demand is estimated to be almost 133.9 million. (Bloomberg.com) Starbucks has initiated an effort to penetrate the Chinese market more forcefully. The largest coffee chain in the world plans to more than triple its outlets in China from 450 to 1500 by 2015. Chinese taste for coffee is just in its infancy. While annual global demand for coffee equates with a consumption rate of about 240 cups per person, China consumes just about 3 cups per capita. The slight supply/demand imbalance we currently have without China onboard may be significantly exacerbated if the mix changes even by just a few cups a day per capita.

Correlations to Normalize

Investors have looked to commodities to diversify traditional investment portfolios of stocks and bonds. However, over the past few years, commodity markets have become much more correlated with equities and in fact have become more correlated with other investment themes. In the current environment, do commodities still play a role in diversifying a portfolio of stocks and bonds?

The data, particularly when examined over longer time horizons, supports the notion that there is generally little or no correlation between commodities and equities. That said, however, there are shorter periods during which commodities can have correlations that are either abnormally high or abnormally low relative to broader equity markets. Specifically, over the past approximately 60 years, the correlation between equities and commodities has ranged between [+80%] and [-60%]. But, such extremes are rare and short lived. During much of the approximately 60-year period, the correlations between commodities and equities remained between +/- 30%, indicating that commodities can offer investors benefits of diversification.

Historic Correlation of Equity and Commodity Prices 1958 through 2011



Source: Bloomberg, Jefferies Asset Management

During the most recent 4-year period, coinciding with the inception of the financial crisis, commodities have become highly correlated with the equity markets. During the past few years, the correlations between commodities and equities have approached or in some instances exceed 70%. As we look ahead, we believe that the forces that have driven these correlations to the more normal range of being between +/- 30% will resurface and expect that correlations will gradually revert back to their historical norms in the coming years.

Conclusion

The important lesson to take away from 2011, in our opinion, is that the commodity growth story has not been derailed. It is our belief that we may look back at the commodity price declines of 2011 as simply a temporary respite in a broader secular bull market for commodities.

Disclosures

Important Risks:

The Fund's investments may subject the Fund to significantly greater volatility than investments in traditional securities and involve substantial risks, including risk of a significant portion on their principal value. The commodities markets and the prices of various commodities may fluctuate widely based on a variety of factors. Because the Fund's performance is linked to the performance of highly volatile commodities, investors should consider purchasing shares of the Fund only as part of an overall diversified portfolio and should be willing to assume the risks of potentially significant fluctuations in the value of the Fund. One cannot invest directly in an index.

Additional risks of investments that track changes in commodity futures markets, such as swaps, include liquidity risk and counterparty credit risk. Another principal risk of investing in the Fund is equity risk, which is the risk that the value of the securities held by the Fund will fall due to general market and economic conditions, perceptions regarding the industries in which the issuers of securities held by the Fund participate or factors relating to specific companies in which the Fund invest. The Fund's investments in non- U.S. issuers may be even more volatile and may present more risks than investments in U.S. issuers. Equity investments in commodity-related companies may not move in the same direction and to the same extent as the underlying commodities.

The Jefferies Asset Management Commodity Strategy Allocation Fund is:

Not FDIC Insured - No Bank Guarantee - May Lose Value

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Definitions

⁽¹⁾ *Brazil, Russia, India and China*