SDIF: One year later

by Savitri P. Pai, President, Surgeons Diversified Investment Fund

As of June 30, the Surgeons Diversified Investment Fund (SDIF) net assets were approximately $43.5 million. SDIF's total return since the inception date of September 22, 2006, to June 30, 2007, was 12.63 percent. SDIF's return can be compared against the return of 11.73 percent for the combined index of the S&P 500 Index/Lehman Brothers U.S. Aggregate Index* during the same period. Current performance may be lower or higher than the quoted past performance, which cannot guarantee future results. Share price, principal value, and return will vary and you may have a gain or loss when you sell your shares.

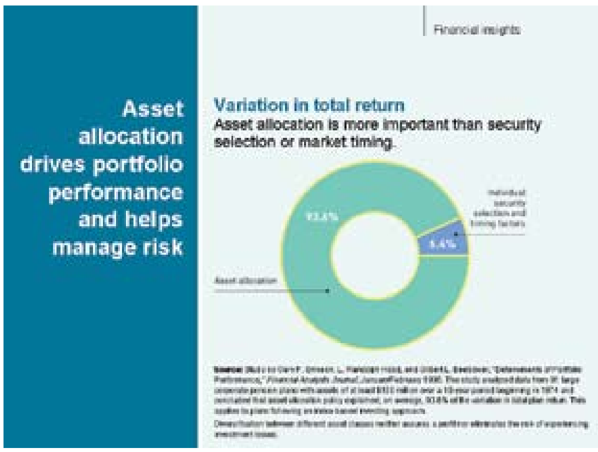
SDIF was created in September 2006 to help ACS members and affiliated organizations develop a healthy financial future. SDIF provides busy surgeons and organizations with access to a professionally managed, diversified investment program. SDIF is a no-load, open-end, asset allocation mutual fund that seeks to provide long-term capital appreciation and income through the fundamental investing principles employed by the endowment fund of the College—asset allocation, diversification, and rebalancing.

Asset allocation is the discipline of combining asset classes—stocks, bonds, and cash—to achieve an optimally balanced portfolio. Asset classes, considered alone, may vary greatly in performance and risk potential. By combining them in a diversified portfolio, one can seek an ideal ratio of risk versus reward. For instance, adding bonds to a 100 percent stock portfolio may lower return potential and possibly reduce volatility by an even greater margin. (See Figure, this page.)

*The S&P 500 Index/Lehman Brothers U.S. Aggregate Index reflect an unmanaged portfolio of 70 percent S&P 500 Index and 30 percent of Lehman Brothers U.S. Aggregate Index.

Diversification and rebalancing are two additional investment principles used by SDIF. Diversification can help to manage risk and may increase return potential by ensuring that a portfolio remains invested in a variety of sub-asset classes, each of which will exhibit performance variations over time. Rebalancing is the process of returning to the original allocation. Over time, a portfolio's diversified asset allocation will shift as certain investments outperform others. Rebalancing keeps a portfolio focused on specific objectives and prevents the risk level from moving too far in one direction or another. Rebalancing can be one of the hardest things to do, as it is counterintuitive: you must sell your winners and buy more of your losers in order to get back to your target allocation. Busy professionals may lack the time to rebalance regularly and consistently. SDIF rebalances to the determined allocation at least quarterly.

Figure: Asset allocation



Targeted allocation

SDIF invests, on average, 70 percent of its securities in equities and 30 percent in fixed income. The asset allocation for SDIF is actively managed. In February, the investment advisor recommended to adjust the allocation by shifting 3 percent from small cap stocks to large cap stocks. In June, the investment advisor recommended to adjust the allocation by reducing 1 percent of large cap value equities, 1 percent of large cap growth equities, and 2 percent from international equities, to add a 4 percent emerging market component. See the Table at right for an illustration of these changes.

SDIF currently invests in exchange-traded funds (ETFs), which hold a portfolio of common stocks or other securities designed to track the performance of a particular index. ETFs differ from traditional index funds in that their shares are listed on a securities exchange and can be traded throughout the day. When SDIF has accumulated net assets of at least $100 million, it intends to retain additional investment subadvisors in the equity and fixed-income markets to achieve SDIF's investment objective and to invest in securities other than the ETFs.

How to invest

SDIF is available to be used as an investment vehicle in individual accounts, such as traditional individual retirement accounts

Table: Asset allocation changes

	12/31/06	3/31/07	8/31/07 (expected allocation)
U.S. equity			
Large cap value stocks	8%	9%	8%
Large cap growth stocks	8	9	8
Large cap index stocks	7	8	8
Small cap value stocks	5	3.5	3.5
Small cap growth stocks	5	3.5	3.5
Real estate investment trust stocks	6	6	6
Energy stocks	6	6	6
International equity	25	25	23
Emerging market	N/A	N/A	4
U.S. fixed income	30	30	30
Total	**100%**	**100%**	**100%**

Disclosure

An investor should consider the investment objectives, risks, and charges and expenses of SDIF carefully before investing. SDIF's prospectus contains this and other information about SDIF and should be read before investing.

Performance numbers have been positively affected by fee waivers and/or expense reimbursements. Without such fee waivers and/or expense reimbursements, performance numbers would have been lower. Returns for SDIF are before taxes and are net of all expenses and advisory fees. All index returns listed herein also include the reinvestment of dividends, distributions, and interest (total return). The returns shown do not reflect the deduction of taxes a shareholder may pay on the redemption of SDIF shares or SDIF distributions.

Target allocations are subject to change. As a result of SDIF investing in other funds, an investor will pay a proportionate share of the expenses charged by the underlying funds invested in. In addition, SDIF is subject to the same risks as the underlying exchange traded funds that it invests in, including, among others, interest rate risk, credit/default risk, market risk, international investment risk, derivatives risk, management risk, and liquidity risk.

SDIF is distributed by Ultimus Fund Distributors, LLC, 225 Pictoria Dr., Suite 450, Cincinnati, OH 45246; 513/587-3400.

Risks

SDIF is subject to the same risks as the underlying ETF that it invests in, including interest rate risk, credit/default risk, market risk, international investment risk, derivatives risk, management risk, net asset value risk, and liquidity risk. Investing in the underlying ETFs indirectly through the fund, an investor will incur not only a proportionate share of the expenses of the ETFs held by SDIF, but also a share of the expenses of SDIF. Diversification and rebalancing neither ensure a profit nor eliminate the risk of experiencing investment losses. For a more complete discussion of the risks associated with an investment in SDIF, obtain a copy of the current prospectus and read it closely before investing.

Savitri Pai, SDIF President, and Tom Kiley, SDIF Business Development Manager, in front of the Surgeons Diversified Investment Fund booth.

(IRAs), Roth IRAs, simplified employee pension IRAs, simple IRAs, rollover IRAs, beneficiary/inherited IRAs, profit-sharing plans, and regular personal investment accounts. SDIF can also be used as an investment vehicle in institutional accounts, such as associations, foundations, societies, chapters of the American College of Surgeons, hospital and university retirement plan platforms, surgical group practice plans, and others.

The suggested minimum investment to participate in SDIF is $25,000, but waivers of the minimum are possible. The minimum investment has been modified for Medical Student Members ($500), Resident Members ($1,000), and Associate Fellows ($2,500) of the College. For those who find it appropriate, an automatic investment plan is also available.†

†A program of regular investing does not ensure a profit or protect against depreciation in a declining market. Because a consistent investing program involves continuous investment in securities regardless of fluctuating prices, you should consider your financial ability to continue to purchase through periods of various price levels.

More information

For more information about SDIF or regarding the waived minimum, contact Savitri Pai at 312/202-5056 or spai@facs.org or Tom Kiley at 312/202-5019 or tkiley@facs.org. Both individuals are registered representatives available to discuss specific details regarding SDIF. You may also visit the Web site at *www.surgeonsfund.com* or call 800/208-6070.

Visit *http://www.surgeonsfund.com/fundinfo/performance.html* for performance information current through the most recent quarter-end. Performance information through the most recent month-end can be obtained by calling 800/208-6070. SDIF's prospectus may be obtained by downloading it from SDIF's Web site.

The American College of Surgeons hopes that many of you will explore this new investment opportunity it is providing for its members. It is anticipated that this service will be of assistance in alleviating some of the financial pressures that members all face. Ω