

**FIRSTHAND FUNDS  
STATEMENT OF ADDITIONAL INFORMATION**

**April 30, 2011**

**TECHNOLOGY OPPORTUNITIES FUND (TEFQX)  
(NAMED E-COMMERCE FUND BEFORE MAY 1, 2010)  
TECHNOLOGY LEADERS FUND (TLFQX)  
ALTERNATIVE ENERGY FUND (ALTEX)**

This Statement of Additional Information (“SAI”) is not a Prospectus. It should be read in conjunction with the Prospectus for the Funds dated April 30, 2011 (the “Prospectus”), as may be amended. A copy of the Prospectus can be obtained by writing to Firsthand Funds at P.O. Box 9836 Providence, RI 02940-8036, by calling Firsthand Funds toll-free at 1.888.884.2675, or by visiting our website at [www.firsthandfunds.com](http://www.firsthandfunds.com). Financial statements for the Funds for the fiscal year ended December 31, 2010, as contained in the Annual Report to Shareholders, are incorporated herein by this reference. Firsthand Funds’ Annual Report and Semi-Annual Report are available, free of charge, upon request, by calling the toll-free number shown above.

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## **THE TRUST**

Firsthand Funds (the “Trust”), a Delaware statutory trust, is registered under the Investment Company Act of 1940, as amended (the “1940 Act”), as an open-end management investment company. The Trust was formed on November 8, 1993. As of the date of this SAI, the Trust offers shares of three series, Firsthand Technology Opportunities Fund (named Firsthand e-Commerce Fund before May 1, 2010), Firsthand Technology Leaders Fund and Firsthand Alternative Energy Fund (each a “Fund” and collectively the “Funds”). Prior to May 1, 1998, the name of the Trust was Interactive Investments Trust. Each Fund is non-diversified and has its own investment objective and policies.

The shares of each Fund have equal voting rights and liquidation rights, and are voted in the aggregate and not by individual Funds, except on matters where a separate vote is required by the 1940 Act, or when the matter affects only the interest of a particular Fund. When matters are submitted to shareholders for a vote, each shareholder is entitled to one vote for each full share owned and fractional votes for fractional shares owned. The Trust does not normally hold annual meetings of shareholders. The Trustees shall promptly call and give notice of a meeting of shareholders for the purpose of voting upon the removal of any Trustee when requested to do so in writing by shareholders holding 10% or more of the Trust’s outstanding shares. The Trust will comply with the provisions of Section 16(c) of the 1940 Act in order to facilitate communications among shareholders.

Each share of a Fund represents an equal proportionate interest in the assets and liabilities belonging to the Fund with each other share of the Fund. Each share of a Fund is entitled to its pro rata portion of such distributions out of the income belonging to the Fund as are declared by the Trustees. Fund shares do not have cumulative voting rights or any preemptive or conversion rights. In case of any liquidation of a Fund, the shareholders of the Fund will be entitled to receive as a class a distribution out of the assets, net of the liabilities, belonging to that Fund. Expenses attributable to any Fund are borne by that Fund. Any general expenses of the Trust not readily identifiable as belonging to a particular Fund are allocated by or under the direction of the Trustees who allocate such expenses on the basis of relative net assets or number of shareholders. No shareholder is liable to further calls or to assessment by the Trust without his or her express consent.

## **DEFINITIONS, POLICIES, AND RISK CONSIDERATIONS**

A more detailed discussion of some of the terms used and investment policies described in the Prospectus appears below.

**MAJORITY.** As used in the Prospectus and this SAI, the term “majority” of the outstanding shares of the Trust (or of any Fund or class) means the lesser of (1) two-thirds or more of the outstanding shares of the Trust (or the applicable Fund or class) present at a meeting, if the holders of more than 50% of the outstanding shares of the Trust (or the applicable Fund or class) are present or represented at such meeting, or (2) more than 50% of the outstanding shares of the Trust (or the applicable Fund or class).

**DEBT SECURITIES.** Each Fund may invest in debt obligations of corporate issuers, the U.S. Government, states, municipalities, or state or municipal government agencies that, in the opinion of Firsthand Capital Management, Inc., the Funds’ investment adviser (the “Investment Adviser”), offer long-term capital appreciation possibilities because of the timing of such investments. Each Fund intends that no more than 35% of its total assets will be composed of such debt securities. Investments in such debt obligations may result in long-term capital appreciation because the value of debt obligations varies inversely with prevailing interest rates. Thus, an investment in debt obligations that is

sold at a time when prevailing interest rates are lower than they were at the time of investment will typically result in capital appreciation. However, the reverse is also true, so that if an investment in debt obligations is sold at a time when prevailing interest rates are higher than they were at the time of investment, a capital loss will typically be realized. Accordingly, if a Fund invests in the debt obligations described above, such investments will generally be made when the Investment Adviser expects that prevailing interest rates will be falling, and will generally be sold when the Investment Adviser expects interest rates to rise, unless the Investment Adviser nonetheless expects the potential for capital gains (because, *e.g.*, the debt obligations are convertible into equity securities).

Each Fund's investments in debt securities may consist of investment grade securities rated BBB or higher by Standard & Poor's Ratings Group ("Standard & Poor's") or Baa or higher by Moody's Investors Service, Inc. ("Moody's"), as well as unrated securities. Below investment-grade securities have speculative characteristics, and changes in economic conditions or other circumstances are likely to lead to a weakened capacity to pay principal and interest compared to higher-grade securities.

**COMMERCIAL PAPER.** Commercial paper consists of short-term (usually from one to 270 days) unsecured promissory notes issued by corporations to finance their current operations. Each Fund will only invest in commercial paper rated A-1 by Standard & Poor's or Prime-1 by Moody's or in unrated paper of issuers who have outstanding unsecured debt rated AA or better by Standard & Poor's or Aa or better by Moody's. Certain notes may have floating or variable rates. Variable and floating rate notes with a demand notice period exceeding seven days will be subject to each Fund's policy with respect to illiquid investments unless, in the judgment of the Investment Adviser, based on procedures adopted by the Board of Trustees, such note is liquid.

**BANK DEBT INSTRUMENTS.** Bank debt instruments in which the Funds may invest consist of certificates of deposit, bankers' acceptances, and time deposits issued by national banks and state banks, trust companies and mutual savings banks, or by banks or institutions the accounts of which are insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation. Certificates of deposit are negotiable certificates evidencing the indebtedness of a commercial bank to repay funds deposited with it for a definite period of time (usually from 14 days to one year) at a stated or variable interest rate. Bankers' acceptances are credit instruments evidencing the obligation of a bank to pay a draft that has been drawn on it by a customer, and these instruments reflect the obligation both of the bank and of the drawer to pay the face amount of the instrument upon maturity. Time deposits are non-negotiable deposits maintained in a banking institution for a specified period of time at a stated interest rate. A Fund will not invest in time deposits maturing in more than seven days if, as a result thereof, more than 15% of the value of its net assets would be invested in such securities and other illiquid securities.

**REPURCHASE AGREEMENTS.** Repurchase agreements are transactions by which a Fund purchases a security and simultaneously commits to resell that security to the seller at an agreed-upon time and price, thereby determining the yield during the term of the agreement. Therefore, repurchase agreements are treated as loans. In the event of a bankruptcy or other default by the seller of a repurchase agreement, a Fund could experience both delays in liquidating the underlying security and losses. To minimize these possibilities, each Fund intends to enter into repurchase agreements only with its custodian, with banks having assets in excess of \$10 billion, and with broker-dealers that are recognized as primary dealers in U.S. Government obligations by the Federal Reserve Bank of New York. Collateral for repurchase agreements is held in safekeeping in the customer-only account of the Funds' custodian at the Federal Reserve Bank. A Fund will not enter into a repurchase agreement not terminable within seven days if, as a result thereof, more than 15% of the value of its net assets would

be invested in such securities and other illiquid securities. No Fund currently uses repurchase agreements.

Although the securities subject to a repurchase agreement might bear maturities exceeding one year, settlement for the repurchase would never be more than one year after a Fund's acquisition of the securities and normally would be within a shorter period of time. The resale price will be in excess of the purchase price, reflecting an agreed-upon market rate effective for the period of time the Fund's money will be invested in the securities, and will not be related to the coupon rate of the purchased security. At the time a Fund enters into a repurchase agreement, the value of the underlying security, including accrued interest, will equal or exceed the value of the repurchase agreement, and, in the case of a repurchase agreement exceeding one day, the seller will agree that the value of the underlying security, including accrued interest, will at all times equal or exceed the value of the repurchase agreement. The collateral securing the seller's obligation must be of a credit quality at least equal to a Fund's investment criteria for portfolio securities and will be held by the custodian in the Federal Reserve Book Entry System.

**MONEY MARKET FUNDS.** Each Fund may, under certain circumstances, invest a portion of its assets in money market investment companies. Investment in a money market investment company involves payment by the Fund of its pro rata share of fees paid by such investment company, which are in addition to a Fund's own advisory and administrative fees.

**WARRANTS.** Each Fund may invest a portion of its assets in warrants, but only to the extent that such investments do not exceed 5% of a Fund's net assets at the time of purchase. A warrant gives the holder a right to purchase at any time during a specified period a predetermined number of shares of common stock at a fixed price. Unlike convertible debt securities or preferred stock, warrants do not pay a fixed coupon or dividend. Investments in warrants involve certain risks, including the possible lack of a liquid market for resale of the warrants, potential price fluctuations as a result of speculation or other factors, and failure of the price of the underlying security to reach or have reasonable prospects of reaching a level at which the warrant can be prudently exercised (in which event the warrant may expire without being exercised, resulting in the loss of a Fund's entire investment in the warrant).

**FOREIGN SECURITIES.** Subject to each Fund's investment policies and quality standards, each Fund may invest in the securities of foreign issuers. Because the Funds may invest in foreign securities, an investment in a Fund involves risks that are different in some respects from an investment in a fund that invests only in securities of U.S. issuers. Foreign investments may be affected favorably or unfavorably by changes in currency rates and exchange control regulations. There may be less publicly available information about a foreign company than about a U.S. company, and foreign companies may not be subject to accounting, auditing, and financial reporting standards and requirements that are comparable to those that are applicable to U.S. companies. There may be less governmental supervision of foreign securities markets and the brokers and issuers of foreign securities. Securities of some foreign companies are less liquid or more volatile than securities of U.S. companies, and foreign brokerage commissions and custodian fees are generally higher than those in the United States. Settlement practices may include delays and may differ from those customary in U.S. markets. Investments in foreign securities may also be subject to other risks that differ from those affecting U.S. investments, including political or economic developments; expropriation or nationalization of assets; restrictions on foreign investments and repatriation of capital; imposition of high (and potentially confiscatory) levels of foreign taxation, including foreign taxes withheld at the source; currency

blockage (which would prevent cash from being brought back to the United States); and the difficulty of enforcing legal rights outside the United States.

**OPTIONS.** Each Fund may buy and sell put and call options. Such options may relate to particular securities or indices, may or may not be listed on a domestic or non-U.S. securities exchange and may or may not be issued by the Options Clearing Corporation. A put option gives the purchaser the right to sell a security or other instrument to the writer of the option at a stated price during the term of the option. A call option gives the purchaser the right to purchase a security or other instrument from the writer of the option at a stated price during the term of the option. Each Fund may use put and call options for a variety of purposes. For example, if the portfolio manager wishes to hedge a security owned by a Fund against a decline in price, the portfolio manager may purchase a put option on the underlying security; *i.e.*, purchase the right to sell the security to a third party at a stated price. If the underlying security then declines in price, the portfolio manager can exercise the put option, thus limiting the amount of loss resulting from the decline in price. Similarly, if the portfolio manager intends to purchase a security at some date in the future, the portfolio manager may purchase a call option on the security today in order to hedge against an increase in its price before the intended purchase date.

Put and call options also can be used for speculative purposes. For example, if a portfolio manager believes that the price of stocks generally is going to rise, the portfolio manager may purchase a call option on a stock index, the components of which are unrelated to the stocks held or intended to be purchased.

In addition, put and call options may be used for income-generation purposes. For example, if a portfolio manager believes that the stock price of a high-quality company that a Fund is interested in acquiring is more likely to rise than fall, the manager may write a put option on the stock, securing the premium paid as income to the Fund, and taking the calculated risk that he may be forced to own shares of the company at the strike price. Similarly, if a portfolio manager believes that the price of a stock a Fund owns is likely to remain the same or fall, the manager may write a call option on the stock, securing the premium paid as income to the Fund, and taking the calculated risk that the Fund may have to sell its shares at the strike price if the stock price rises.

Currently, none of the Funds intend to invest more than 10% of the value of their net assets in options transactions, and therefore it will not constitute a principal investment strategy. However, a Fund may commit up to 30% of its net assets to option strategies.

**Purchasing Put and Call Options.** Each Fund may purchase put and call options. The purchase of a put option generally protects the value of portfolio holdings in a falling market, while the purchase of a call option generally protects cash reserves from a failure to participate in a rising market. By purchasing a put option, a Fund obtains the right (but not the obligation) to sell the option's underlying instrument at a fixed strike price. In return for this right, the Fund pays the current market price for the option (known as the option premium). Options have various types of underlying instruments, including specific securities and indexes of securities prices, among others. The Fund may terminate its position in a put option it has purchased by allowing it to expire, by exercising the option or if able, by selling the option. If the option is allowed to expire, the Fund will lose the entire premium it paid. If the Fund exercises the option, it completes the sale of the underlying instrument at the strike price. The Fund may also terminate a put option position by closing it out in the secondary market at its current price, if a liquid secondary market exists.

The buyer of a typical put option can expect to realize a gain if a security's price falls substantially. However, if the underlying instrument's price does not fall enough to offset the cost of purchasing the option, a put buyer can expect to suffer a loss (limited to the amount of the premium paid, plus related transaction costs).

The features of call options are essentially the same as those of put options, except that the purchaser of a call option obtains the right to purchase, rather than sell, the underlying instrument at the option's strike price. A call buyer typically attempts to participate in potential price increases of the underlying instrument with risk limited to the cost of the option (plus related transaction costs) if the security's price falls. At the same time, the buyer can expect to suffer a loss if the security's price does not rise sufficiently to offset the cost of the option.

**Writing Put and Call Options.** Each Fund may write (*i.e.*, sell) put and call options. When a Fund writes a put option, it takes the opposite side of the transaction from the option's purchaser. In return for receipt of the premium, the Fund assumes the obligation to pay the strike price for the option's underlying instrument if the other party to the option chooses to exercise it. The Fund may seek to terminate its position in put options it writes before exercise by closing out the option in the secondary market at its current price. The Fund could suffer a loss if the premium paid by the Fund in a closing transaction exceeds the premium income it received. In addition, if the secondary market is not liquid for put options the Fund has written, however, the Fund must continue to be prepared to pay the strike price while the option is outstanding, regardless of price changes, and must continue to set aside assets to cover its position. If the underlying security's price rises, however, a put writer would generally expect to profit, although its gain would be limited to the amount of the premium it received. When the Fund writes a call option, its ability to participate in the capital appreciation of the underlying obligation is limited.

If the security's price remains the same over time, it is likely that the put writer will also profit, because it should be able to close out the option at a lower price. If the security's price falls, the put writer would expect to suffer a loss. This loss should be less than the loss from purchasing the underlying instrument directly, however, because the premium received for writing the option should mitigate the effects of the decline.

Writing a call option obligates a Fund to sell or deliver the option's underlying instrument, in return for the strike price, upon exercise of the option. The characteristics of writing call options are similar to those of writing put options, except that writing calls generally is a profitable strategy if prices remain the same or fall. Through receipt of the option premium, a call writer mitigates the effects of a price decline. At the same time, because a call writer must be prepared to deliver the underlying instrument in return for the strike price, even if its current value is greater, a call writer gives up some ability to participate in the security's price increase.

Currently, it is contemplated that each Fund will write only "covered" put and call options, and not "naked" call options. A call option written by a Fund is "covered" if the Fund: (a) owns the underlying security covered by the call or has an absolute and immediate right to acquire that security without additional cash consideration upon conversion or exchange of other securities held in its portfolio; or (b) meets the asset coverage requirements described under "Asset Coverage for Futures and Options Positions" below.

A put option written by a Fund is "covered" if the Fund: (a) holds a put on the same security having the same principal amount as the put option it has written and the exercise price of the put held is

equal to or greater than the exercise price of the put written; or (b) meets the asset coverage requirements described under “Asset Coverage for Options Positions” below.

**OTC Options.** Each Fund may engage in over-the-counter (“OTC”) options transactions. Unlike exchange-traded options, which are standardized with respect to the underlying instrument, expiration date, contract size, and strike price, the terms of OTC options (options not traded on exchanges) generally are established through negotiation with the other party to the option contract. While this type of arrangement allows a Fund greater flexibility to tailor options to their needs, OTC options generally involve greater credit and default risk than exchange-traded options, which are guaranteed by the clearing organization of the exchanges where they are traded.

**Asset Coverage for Options Positions.** Each Fund will comply with guidelines established by the SEC with respect to coverage of options strategies by mutual funds, and, if the guidelines so require, will set aside appropriate liquid assets in a segregated custodial account in the amount prescribed. Securities held in a segregated account cannot be sold while the futures or options strategy is outstanding, unless they are replaced with other suitable assets. As a result, there is a possibility that segregation of a large percentage of a Fund’s assets could impede portfolio management or the Fund’s ability to meet redemption requests or other current obligations.

#### ***Additional Risks of Options***

**Market Risk.** Market risk is the risk that the value of the underlying assets may go up or down. Adverse movements in the value of an underlying asset can expose a Fund to losses. Market risk is the primary risk associated with derivative transactions, such as options. Derivative instruments may include elements of leverage and, accordingly, fluctuations in the value of the derivative instrument in relation to the underlying asset may be magnified. The successful use of options depends upon a variety of factors, particularly the portfolio manager’s ability to predict movements of the securities, currencies and commodities markets, which may require different skills than predicting changes in the prices of individual securities. There can be no assurance that any particular strategy adopted will succeed.

**Credit Risk.** Credit risk is the risk that a loss may be sustained as a result of the failure of a counterparty to comply with the terms of a derivative instrument. The counterparty risk for exchange traded derivatives is generally less than for privately-negotiated or OTC derivatives, since generally a clearing agency, which is the issuer or counterparty to each exchange-traded instrument, provides a guarantee of performance. For privately-negotiated instruments, there is no similar clearing agency guarantee. In all transactions, the Fund will bear the risk that the counterparty will default, and this could result in a loss of the expected benefit of the derivative transactions and possibly other losses to the Fund.

**Liquidity of Options and Futures Contracts.** The imperfect correlation in price movement between an option and the underlying financial instrument and/or the costs of implementing such an option may limit the effectiveness of the strategy. The Funds’ ability to establish and close out options positions will be subject to the existence of a liquid secondary market. Although the Fund generally will purchase or sell only those options for which there appears to be an active secondary market, there is no assurance that a liquid secondary market will exist for any particular option contract at any particular time. Options may have relatively low trading volume and liquidity if their strike prices are not close to the underlying instrument’s current price. In addition, exchanges may establish daily price fluctuation limits for options contracts, and may halt trading if a contract’s price moves upward or downward more than the limit in a given day. On volatile trading days when the price fluctuation limit

is reached or a trading halt is imposed, it may be impossible for the Fund to enter into new positions or close out existing positions. If the secondary market for a contract is not liquid because of price fluctuation limits or otherwise, it could prevent prompt liquidation of unfavorable positions, and potentially could require the Fund to continue to hold a position until delivery or expiration regardless of changes in its value. As a result, the Fund's access to other assets held to cover options positions could also be impaired.

**BORROWING.** Each Fund may borrow from banks for temporary or emergency purposes in an aggregate amount not to exceed 25% of its total assets. Borrowing magnifies the potential for gain or loss on the portfolio securities of a Fund and, therefore, if employed, increases the possibility of fluctuation in the Fund's net asset value. This is the speculative factor known as leverage. To reduce the risks of borrowing, each Fund will limit its borrowings as described above. Each Fund may pledge its assets in connection with borrowings. While a Fund's borrowings exceed 5% of its total assets, it will not purchase additional portfolio securities. However, no Fund uses reverse repurchase agreement.

The use of borrowing by a Fund involves special risk considerations that may not be associated with other funds having similar policies. Because substantially all of a Fund's assets fluctuate in value, whereas the interest obligation resulting from a borrowing will be fixed by the terms of the Fund's agreement with its lender, the net asset value per share of the Fund will tend to increase more when its portfolio securities increase in value and decrease more when its portfolio securities decrease in value than would otherwise be the case if the Fund did not borrow funds. In addition, interest costs on borrowings may fluctuate with changing market rates of interest and may partially offset or exceed the return earned on borrowed funds. Under adverse market conditions, a Fund might have to sell portfolio securities to meet interest or principal payments at a time when fundamental investment considerations would not favor such sales.

**LOANS OF PORTFOLIO SECURITIES.** Each Fund may lend its portfolio securities to banks, brokers, and dealers. Lending portfolio securities exposes a Fund to risks, including the risk that a borrower may fail to return the loaned securities or may not be able to provide additional collateral or that a Fund may experience delays in recovery of the loaned securities or loss of rights in the collateral if the borrower fails financially. To minimize these risks, the borrower must agree to maintain collateral, marked to market daily, in the form of cash and/or U.S. Government obligations, with the Funds' custodian in an amount equal to or greater than the market value of the loaned securities. Each Fund will limit loans of its portfolio securities to no more than 30% of the Fund's total assets. It is expected that the Funds will commit substantially less than 30% of their total assets to loans of portfolio securities.

For lending its securities, a Fund receives from the borrower one or more of (a) negotiated loan fees, and/or (b) interest on cash or securities used as collateral, or interest on short-term debt securities purchased with such collateral (either type of interest may be shared with the borrower). A Fund may also pay fees to placing brokers as well as to the custodian and administrator in connection with loans. The terms of a Fund's loans must meet applicable tests under the Internal Revenue Code of 1986, as amended (the "Code"), and must permit a Fund to reacquire loaned securities in time to vote on any important matter.

**ILLIQUID SECURITIES.** Each Fund may invest up to 15% of its net assets (determined at the time of the acquisition) in illiquid securities. Illiquid securities include securities subject to contractual or legal restrictions on resale because they have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), securities that are otherwise not readily marketable, and securities such

as repurchase agreements having a maturity of longer than seven days. Securities that have not been registered under the Securities Act are referred to as private placements or restricted securities and are purchased directly from the issuer or in the secondary market. Limitations on resale may have an adverse effect on the marketability of such securities and a mutual fund might be unable to dispose of restricted securities promptly or at reasonable prices due to reduced market demand for restricted securities. A mutual fund also might have to register such restricted securities in order to dispose of them, resulting in additional expense and delay. Adverse market conditions could impede a public offering of these securities and the mutual fund may experience difficulty satisfying redemption requirements due to delays or impediments discussed above.

In addition, each Fund may invest in illiquid securities that are venture capital investments. Such securities are extremely difficult to price for a variety of reasons. Because those securities are rarely traded, even among institutional investors, a reliable arms-length price often is not available as a pricing benchmark. Pricing of such a security is based on the Investment Adviser's analysis of its fair value. This is a highly subjective measure and will likely vary from the valuation accorded to the same security by other investors. Furthermore, the value of illiquid securities of private companies depends heavily on the complex legal rights attached to the securities themselves that are very difficult to evaluate and that, oftentimes, are different even among investors of the same company.

Furthermore, while the Investment Adviser frequently monitors each private equity investment to assess when to fair value such securities, it is possible that a delay may occur between the time when an event that may necessitate a repricing occurs and the time the Investment Adviser is informed of that event. Delays in repricing can also arise due to the time it takes the Investment Adviser to conduct its pricing analysis and for the Pricing Committee to convene, deliberate and decide on a final pricing decision.

Due to the inherent imprecision of pricing of illiquid securities and the variation of factors that might cause a repricing event, the Investment Adviser does not attempt to reprice based on a fixed time schedule, but, rather, reprices usually when material events, sufficient to warrant a repricing, have occurred. Even the determination of the occurrence of an event that necessitates a repricing is a subjective matter.

Recently, a large institutional market has developed for certain securities that are not registered under the Securities Act, including repurchase agreements, commercial paper, foreign securities, municipal securities, and corporate bonds and notes. Institutional investors depend on an efficient institutional market in which unregistered securities can be readily resold or on an issuer's ability to honor a demand for repayment. The fact that there are contractual or legal restrictions on resale to the general public or to certain institutions may not be indicative of the liquidity of such investments. The Investment Adviser and/or the Board of Trustees, using procedures adopted by the Board, may determine that such securities are not illiquid securities, notwithstanding their legal or contractual restrictions on resale. In all other cases, securities subject to restrictions on resale will be deemed illiquid. In addition, securities deemed to be liquid could become illiquid if, for a time, qualified institutional buyers become unavailable. If such securities become illiquid, they would be counted as illiquid when determining the limit on illiquid securities held in a Fund's portfolio.

**INVESTING IN OTHER INVESTMENT COMPANIES.** The Funds may invest in the securities of other investment companies and currently intend to limit their investments in securities issued by other investment companies in accordance with the limitations set forth in the 1940 Act, which requires that, as determined immediately after a purchase of such securities is made: (i) not more

than 5% of the value of any of the individual Fund's total assets will be invested in the securities of any one investment company; (ii) not more than 10% of a Fund's total assets will be invested in the aggregate in securities of investment companies as a group; and (iii) not more than 3% of the outstanding voting stock of any one investment company will be owned by the respective Fund.

As a shareholder of another investment company, a Fund would bear along with other shareholders, its pro rata portion of the investment company's expenses, including advisory fees. These expenses would be in addition to the advisory and other expenses that the Funds bear directly in connection with their own operations.

## **QUALITY RATINGS OF CORPORATE BONDS AND PREFERRED STOCKS**

**THE RATINGS OF MOODY'S AND STANDARD & POOR'S FOR CORPORATE BONDS IN WHICH THE FUNDS MAY INVEST ARE AS FOLLOWS. THE FUNDS MAY ALSO INVEST IN BONDS RATED BELOW THESE LEVELS AND UNRATED BONDS.**

### **MOODY'S**

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

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

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

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

### **STANDARD & POOR'S**

AAA - Bonds rated AAA have the highest rating assigned by Standard & Poor's to a debt obligation. Capacity to pay interest and repay principal is extremely strong.

AA - Bonds rated AA have a very strong capacity to pay interest and repay principal and differ from the highest-rated issues only to a small degree.

A - Bonds rated A have a strong capacity to pay interest and repay principal, although they are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than bonds in higher-rated categories.

BBB - Bonds rated BBB are regarded as having an adequate capacity to pay interest and repay principal. Whereas they normally exhibit adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for bonds in this category than for bonds in higher-rated categories.

**THE RATINGS OF MOODY'S AND STANDARD & POOR'S FOR PREFERRED STOCKS IN WHICH THE FUNDS MAY INVEST ARE AS FOLLOWS. THE FUNDS MAY ALSO INVEST IN PREFERRED STOCKS RATED BELOW THESE LEVELS AND UNRATED PREFERRED STOCKS.**

**MOODY'S**

Aaa - An issue that is rated Aaa is considered to be a top-quality preferred stock. This rating indicates good asset protection and the least risk of dividend impairment within the universe of preferred stocks.

Aa - An issue that is rated Aa is considered a high-grade preferred stock. This rating indicates that there is reasonable assurance that earnings and asset protection will remain relatively well maintained in the foreseeable future.

A - An issue that is rated A is considered to be an upper-medium-grade preferred stock. Although risks are judged to be somewhat greater than in the Aaa and Aa classifications, earnings and asset protection are, nevertheless, expected to be maintained at adequate levels.

Baa - An issue that is rated Baa is considered to be medium grade, neither highly protected nor poorly secured. Earnings and asset protection appear adequate at present but may be questionable over any great length of time.

**STANDARD & POOR'S**

AAA - This is the highest rating that may be assigned by Standard & Poor's to a preferred stock issue. This rating indicates an extremely strong capacity to pay the preferred stock obligations.

AA - A preferred stock issue rated AA also qualifies as a high-quality fixed-income security. The capacity to pay preferred stock obligations is very strong, although not as overwhelming as for issues rated AAA.

A - An issue rated A is backed by a sound capacity to pay the preferred stock obligations, although it is somewhat more susceptible to the diverse effects of changes in circumstances and economic conditions than preferred stocks in higher-rated categories.

BBB - An issue rated BBB is regarded as backed by an adequate capacity to pay the preferred stock obligations. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to make payments for a preferred stock in this category than for issues in the A category.

## INVESTMENT RESTRICTIONS

The Trust has adopted certain fundamental investment restrictions. These restrictions may not be changed with respect to any Fund without the affirmative vote of a majority of the outstanding voting securities of that Fund. No Fund shall:

1. Underwrite the securities of other issuers, except that a Fund may, as indicated in the Prospectus, acquire restricted securities under circumstances where, if such securities are sold, the Fund might be deemed to be an underwriter for purposes of the Securities Act.
2. Purchase or sell real estate or interests in real estate, but a Fund may purchase marketable securities of companies holding real estate or interests in real estate.
3. Purchase or sell commodities or commodity contracts, including futures contracts, except that Firsthand Technology Opportunities Fund, Firsthand Technology Leaders Fund, and Firsthand Alternative Energy Fund may purchase and sell futures contracts to the extent authorized by the Board of Trustees.
4. Make loans to other persons except (i) by the purchase of a portion of an issue of publicly distributed bonds, debentures or other debt securities or privately sold bonds, debentures or other debt securities immediately convertible into equity securities, such purchases of privately sold debt securities not to exceed 5% of a Fund's total assets, and (ii) the entry into portfolio lending agreements (*i.e.*, loans of portfolio securities) provided that the value of securities subject to such lending agreements may not exceed 30% of the value of a Fund's total assets.
5. Purchase securities on margin, but a Fund may obtain such short-term credits as may be necessary for the clearance of purchases and sales of securities.
6. Borrow money from banks except for temporary or emergency purposes, including the meeting of redemption requests that might otherwise require the untimely disposition of securities, in an aggregate amount not exceeding 25% of the value of a Fund's total assets at the time any borrowing is made. While a Fund's borrowings are in excess of 5% of its total assets, the Fund will not purchase portfolio securities.
7. Purchase or sell puts and call options on securities, except that Firsthand Technology Opportunities Fund, Firsthand Technology Leaders Fund, and Firsthand Alternative Energy Fund may purchase and sell puts and calls on stocks and stock indices.
8. Make short sales, except for the Firsthand Alternative Energy Fund which may engage in short sales.
9. Participate on a joint or joint-and-several basis in any securities trading account.
10. Purchase the securities of any other investment company except in compliance with the 1940 Act.

No Fund shall issue senior securities, except as permitted by its investment objective, policies, and restrictions, and except as permitted by the 1940 Act and rules, regulations, and interpretations of the Securities and Exchange Commission ("SEC"). The following transactions, for example, are among

activities that are currently permitted by the 1940 Act and will not be deemed to be senior securities: (1) the making of time or demand deposits with banks, (b) the issuance of additional series or classes of securities that the Board of Trustees may establish, (c) the Fund's futures, options and forward transactions that are fully collateralized with liquid assets, and (d) to the extent consistent with the 1940 Act and the applicable rules and policies adopted by the SEC, (i) the establishment or use of a margin account with a broker for the purpose of effecting securities transactions on margin and (ii) short sales.

In addition, each Fund has adopted a fundamental policy of concentrating its investments in certain industries, as set forth in the table below:

| Fund                                    | Industries of Concentration   |
|---|---|
| Firsthand Technology Opportunities Fund | Computer<br>Computer peripheral<br>Internet<br>Mass Storage Device<br>Semiconductor<br>Software<br>Telecommunications |
| Firsthand Technology Leaders Fund       | Computer<br>Computer peripheral<br>Internet<br>Mass Storage Device<br>Semiconductor<br>Software<br>Telecommunications |
| Firsthand Alternative Energy Fund       | Alternative energy<br>Clean technology  |

Certain Funds have also adopted the non-fundamental investment restrictions set forth below. These restrictions may be changed by the affirmative vote of a majority of the Trustees.

1. Under normal circumstances each of the Firsthand Technology Opportunities Fund and Firsthand Technology Leaders Fund will invest at least 80% of its net assets in high-technology companies.
2. Under normal circumstances, Firsthand Alternative Energy Fund will invest at least 80% of its net assets in alternative energy companies.
3. Each Fund will provide 60 days' notice to its shareholders prior to changing its 80% policy set forth above.
4. The Funds will not hypothecate, mortgage, or pledge more than one-third of their respective assets.

5. The Funds will not invest in an illiquid security if, immediately after and as a result of the investment in such security, more than 15% of the Funds' net assets would be invested in illiquid securities.

With respect to the percentages adopted by each Fund as maximum limitations on a Fund's investment policies and restrictions, an excess above a fixed percentage (except for the percentage limitations relative to the borrowing of money) will not be a violation of the policy or restriction if the excess is a result of a change in market value. An excess that results immediately and directly from the acquisition of any security or the action taken will be a violation of any stated percentage limitation.

### **TRUSTEES AND OFFICERS**

The business of the Trust is managed under the direction of the Board of Trustees in accordance with the Declaration of Trust of the Trust. The Declaration of Trust has been filed with the SEC and is available upon request from the Trust. Pursuant to the Declaration of Trust, the Trustees have elected officers including a president, secretary, treasurer, and chief compliance officer. Under the Declaration of Trust, the Board of Trustees retains the power to conduct, operate, and carry on the business of the Trust and has the power to incur and pay any expenses, which, in the opinion of the Board of Trustees, are necessary or incidental to carry out any of the Trust's purposes. The Trustees, officers, employees, and agents of the Trust, when acting in such capacities, shall not be subject to any personal liability except for his or her own bad faith, willful misfeasance, gross negligence, or reckless disregard of his or her duties. Information about the Trustees and officers of the Funds is set forth in the following table.

| <b>Name, Year of Birth, Positions(s) Held With Funds and Address</b>                            | <b>Term of Office and Length of Time Served(1)</b> | <b>Principal Occupation(s) During Past Five Years</b>  | <b>Number of Funds in Fund Complex Overseen by Trustee</b> | <b>Other Trusteeships Held by Trustees</b> |
|---|--|--|--|--|
| <u>Disinterested Trustees:</u>  |  |  |  |  |
| Greg Burglin<br>(1960)<br>Trustee<br><br>150 Almaden Blvd.<br>Suite 1250<br>San Jose, CA 95113  | Since 2008   | Mr. Burglin is a Tax Consultant and has been for more than 5 years.  | Three  | One**                                      |
| Rodney D. Yee<br>(1960)<br>Trustee<br><br>150 Almaden Blvd.<br>Suite 1250<br>San Jose, CA 95113 | Since 2010   | Mr. Yee is Chief Operating Officer, Chief Financial Officer and Treasurer of ASA Limited (an SEC registered closed-end fund) from August 2010 to present. From November 2005 to August 2010, he served as and Chief Compliance Officer of CCM Partners (an SEC registered investment adviser). From 2004 to 2005, Mr. Yee served as Chief Financial Officer of | Three  | One**                                      |

| <b>Name, Year of Birth, Positions(s) Held With Funds and Address</b>   | <b>Term of Office and Length of Time Served(1)</b> | <b>Principal Occupation(s) During Past Five Years</b>   | <b>Number of Funds in Fund Complex Overseen by Trustee</b> | <b>Other Trusteeships Held by Trustees</b> |
|--|--|---|--|--|
|  |  | Matthews International Capital Management (an SEC registered adviser) and Treasurer of Matthews Asian Funds.  |  |  |
| <u>Interested Trustee:</u><br>Kevin Landis(2)<br>(1961)<br>Trustee/President<br><br>150 Almaden Blvd.<br>Suite 1250<br>San Jose, CA 95113    | Since 1994   | Mr. Landis is President and Chief Executive Officer of SiVest Group, Inc. and has been a portfolio manager with SiVest Group Inc. since August 2009. He was President and Chief Investment Officer and a Director of Firsthand Capital Management, Inc. and was a portfolio manager with Firsthand Capital Management, Inc. from May 1994 to August 2009. | Three  | One**±                                     |
| <u>Officers*:</u><br>Nicholas P. Petredis<br>(1951)<br>Chief Compliance Officer<br><br>150 Almaden Blvd.<br>Suite 1250<br>San Jose, CA 95113 | Since 2008   | Mr. Petredis has been a principal of Petredis Law Offices from 1993 to present. He was Managing Director and Senior Counsel of Firsthand Capital Management, Inc. from 2000 to 2001.  | N/A  | N/A  |
| Kevin Landis<br>(1961)<br>Secretary and Treasurer<br><br>150 Almaden Blvd.<br>Suite 1250<br>San Jose, CA 95113                               | Since 2009   | Mr. Landis is President and Chief Executive Officer of SiVest Group, Inc. and has been a portfolio manager with SiVest Group Inc. since August 2009. He was President and Chief Investment Officer and a Director of Firsthand Capital Management, Inc. and was a portfolio manager with Firsthand Capital Management, Inc. from May 1994 to August 2009. | N/A  | N/A  |

\* The term “officer” means the president, vice president, secretary, treasurer, chief compliance officer, controller, or any other officer who performs policy-making functions.

\*\* Messrs. Burglin and Landis each served as a Trustee of Black Pearl Funds, a registered investment company, from its inception in September, 2005 through its liquidation in August, 2008. Messrs. Burglin, Yee and Landis each serve as a Director of Firsthand Technology Value Fund, Inc., a closed-end investment

company that has elected to be treated as a “business development company” under the Investment Company Act of 1940.

± Mr. Landis also currently sits on the board of directors for two private companies: Silicon Genesis Corp. and UCT Coatings, Inc.

(1) Each Trustee shall serve for the lifetime of the Trust or until he dies, resigns, or is removed. Each officer shall serve a one-year term subject to annual reappointment by the Trustees.

(2) Mr. Landis is an interested person of the Funds by reason of his position with the Investment Adviser.

As of December 31, 2010, none of the disinterested Trustees had any ownership of securities of the Investment Adviser, ALPS Distributors, Inc. (the “Distributor”), or any affiliated person of the Investment Adviser or Distributor.

The following table sets forth information describing the dollar range of equity securities beneficially owned by each Trustee of the Trust as of December 31, 2010.

| <u>Name of Trustee</u>                  | <u>Dollar Range of Equity Securities Held in the Funds</u> | <u>Aggregate Dollar Range of Equity Securities in All Registered Investment Companies Overseen by Trustees in Family of Investment Companies</u> |
|---|--|--|
| <i><u>Interested Trustee:</u></i>       |  |  |
| Kevin Landis                            |  | Over \$100,000   |
| Firsthand Technology Opportunities Fund | Over \$100,000   |  |
| Firsthand Technology Leaders Fund       | Over \$100,000   |  |
| Firsthand Alternative Energy Fund       | \$50,001 - \$100,000                                       |  |
| <i><u>Disinterested Trustees:</u></i>   |  |  |
| Greg Burglin                            |  | None   |
| Firsthand Technology Opportunities Fund | None   |  |
| Firsthand Technology Leaders Fund       | None   |  |
| Firsthand Alternative Energy Fund       | None   |  |
| <br>                                    |  |  |
| Rodney D. Yee                           |  | None   |
| Firsthand Technology Opportunities Fund | None   |  |
| Firsthand Technology Leaders Fund       | None   |  |
| Firsthand Alternative Energy Fund       | None   |  |

**TRUSTEE COMPENSATION**

For the Year Ended December 31, 2010

| <u>Name and Position</u>          | <u>Aggregate Compensation From Funds</u> | <u>Pension or Retirement Benefits Accrued as Part of Funds' Expenses</u> | <u>Total Compensation From Funds and Fund Complex Paid to Trustees</u> |
|-----------------------------------|--|--|--|
| <i><u>Interested Trustee:</u></i> |  |  |  |

|                                    |          |      |          |
|------------------------------------|----------|------|----------|
| Kevin M. Landis, Trustee/President | None     | None | None     |
| <u>Disinterested Trustees:</u>     |          |      |          |
| Greg Burglin                       | \$16,400 | None | \$16,400 |
| Kevin P. Tanner(1)                 | \$8,200  | None | \$8,200  |
| Rodney Yee (2)                     | \$8,800  | None | \$8,800  |

(1) Mr. Tanner resigned on July 1, 2010.

(2) Mr. Yee was appointed by the Board of Trustees on July 1, 2010.

## STANDING COMMITTEES

The Board of Trustees has established various committees to facilitate the timely and efficient consideration of matters of importance to disinterested Trustees, the Trust, and the Trust's shareholders and to facilitate compliance with legal and regulatory requirements. Currently, the Board has an Audit Committee, a Nominating Committee, and a Pricing Committee.

The Audit Committee is composed of all the disinterested Trustees. The Audit Committee meets twice a year, or more often as required, in conjunction with meetings of the Board of Trustees. The Audit Committee oversees and monitors the Trust's internal accounting and control structure, its auditing function, and its financial reporting process. The Audit Committee recommends to the full Board of Trustees the appointment of auditors for the Trust. The Audit Committee also reviews audit plans, fees, and other material arrangements with respect to the engagement of auditors, including permissible non-audit services performed. It reviews the qualifications of the auditor's key personnel involved in the foregoing activities and monitors the auditor's independence. During the fiscal year ended December 31, 2010, the Audit Committee held two meetings.

The Nominating Committee is composed of all the disinterested Trustees. The Nominating Committee is responsible for nominating for election as Trustees candidates who may be either interested persons or disinterested persons of the Trust. The Trust does not have a formal policy for considering nominees to the Board of Trustees recommended by shareholders. The Nominating Committee meets as is required. During the fiscal year ended December 31, 2010, the Nominating Committee did not meet.

The Pricing Committee is composed of (i) at least one disinterested Trustee, (ii) any two officers of the Trust, and (iii) the principal portfolio manager for each Fund that holds the security or securities being valued. The Pricing Committee is responsible for the valuation and revaluation of any portfolio investment for which market quotations or sale prices are not readily available. The Pricing Committee meets as is required. During the fiscal year ended December 31, 2010, the Pricing Committee held 15 meetings.

## Additional Information Concerning Our Board of Trustees

### *The Role of the Board*

The Board of Trustees ("Board") oversees the management and operations of the Trust. Like most mutual funds, the day-to-day management and operation of the Trust is performed by various service providers to the Trust, such as the Trust's Investment Adviser, the Portfolio Managers, the Distributor, Administrator, Sub-Administrator, Custodian, and Transfer Agent, each of which is

discussed in greater detail in this Statement of Additional Information. The Board has appointed senior employees of certain of these service providers as officers of the Trust, with responsibility to monitor and report to the Board on the Trust's operations. The Board receives regular reports from these officers and service providers regarding the Trust's operations. For example, the Treasurer provides reports as to financial reporting matters and investment personnel report on the performance of each Fund. The Board has appointed a Chief Compliance Officer who administers the Trust's compliance program and regularly reports to the Board as to compliance matters. Some of these reports are provided as part of formal "Board Meetings" which are typically held quarterly, in person, and involve the Board's review of recent Trust operations. From time to time, one or more members of the Board may also meet with management in less formal settings, between scheduled "Board Meetings", to discuss various topics. In all cases, however, the role of the Board and of any individual Trustee is one of oversight and not of management of the day-to-day affairs of the Trust and its oversight role does not make the Board a guarantor of any Fund's investments, operations or activities.

#### *Board Structure, Leadership*

The Board has structured itself in a manner that it believes allows it to perform its oversight function effectively. It has established three standing committees, an Audit Committee, a Nominating Committee and a Pricing Committee, as discussed above. Two out of three Trustees of the Trust are Independent Trustees and each of the Audit and Nominating Committee is comprised entirely of Independent Trustees. The Chairman of the Board is the Chairman and Chief Executive Officer of SiVest Group, Inc. The Independent Trustees have engaged their own independent counsel to advise them on matters relating to their responsibilities in connection with the Trust. The Board reviews its structure annually. In developing its structure, the Board has determined that the function and composition of the Audit, Nominating and Pricing Committees are appropriate means to provide effective oversight on behalf of Fund shareholders and address any potential conflicts of interest that may arise from the Chairman's status as an Interested Trustee.

#### *Board Oversight of Risk Management*

As part of its oversight function, the Board of Trustees receives and reviews various risk management reports and assessments and discusses these matters with appropriate management and other personnel. Because risk management is a broad concept comprised of many elements, Board oversight of different types of risks is handled in different ways. For example, the Board receives periodic reports on compliance and operational risks as well as reports from the Chief Compliance Officer on risks. The Audit Committee also meets periodically with the Adviser and the Trust's independent public accounting firm to discuss, among other things, the internal control structure of the Trust's financial reporting function and operational and business risks issues. The full Board receives reports from the Adviser and Portfolio Managers as to investment risks as well as other risks that may be also discussed in the Audit Committee.

The Board has delegated the day-to-day activities of the Funds to the Adviser and other service providers and maintains risk management oversight. However, even though this practice could mitigate the identified risks, it would not be able to eliminate all risks. Not all risks that may affect a Fund can be identified or processes and controls developed to eliminate or mitigate their occurrence or effects, and some risks are simply beyond any control of a Fund or the Adviser, its affiliates or other service providers.

#### *Information about Each Trustee's Qualification, Experience, Attributes and Skills*

The Board believes that each of the Trustees has the qualifications, experience, attributes and skills (“Trustee Attributes”) appropriate to their continued service as a Trustee of the Trust in light of the Trust’s business and structure. In addition to a demonstrated record of business and/or professional accomplishment, each of the Trustees has either served on the board for another mutual fund trust affiliated with the Adviser: Black Pearl Funds or otherwise has mutual fund industry experience. In addition, in their service to the Trust, they have gained substantial insight as to the operation of the Trust and have demonstrated a commitment to discharging oversight duties as trustees in the interests of shareholders. The Board annually conducts a “self-assessment” wherein the effectiveness of the Board of Trustees is reviewed.

### **PROXY VOTING POLICIES**

Proxy voting policies and procedures for the Trust and the Investment Adviser are attached to this SAI as Appendix A and Appendix B, respectively.

Information regarding how the Investment Adviser voted proxies during the one-year period ended June 30, 2010 is available by calling 1.888.884.2675. The Funds’ voting record is also available on the Fund’s website at [www.firsthandfunds.com/proxy](http://www.firsthandfunds.com/proxy) and on the SEC’s website at <http://www.sec.gov>.

### **DISCLOSURE OF PORTFOLIO HOLDINGS**

The Board of Trustees has adopted a Portfolio Holdings Disclosure Policy (the “Policy”) to protect the confidentiality of client holdings and prevent the selective disclosure of non-public information concerning the Funds. No information concerning the portfolio holdings of the Funds may be disclosed to any third party (including individual investors, institutional investors, intermediaries, third-party service providers to the Investment Adviser or the Funds, rating and ranking organizations, and affiliated persons of the Funds or the Investment Adviser) unless such disclosure is compliant with the Policy. The Policy is overseen by the Funds’ Chief Compliance Officer (“CCO”) and provides that the Funds will disclose their holdings on the Funds’ website [www.firsthandfunds.com](http://www.firsthandfunds.com) per the following schedule:

|  | <b>Disclosure Frequency</b> | <b>Disclosure Delay</b> |
|--|-----------------------------|-------------------------|
| Full Portfolio for each Fund   | Quarterly                   | 45 days                 |
| Top 10 Holdings for each Fund  | Quarterly                   | 45 days                 |
| Portfolio Statistics ( <i>e.g.</i> , total net assets, number of holdings, market capitalization, R <sup>2</sup> and beta) | Quarterly                   | 45 days                 |

The Funds periodically disclose portfolio holdings on a confidential basis to service providers that require such information in connection with their performance of services for the Funds. Such service providers include, among others, the Investment Adviser, administrator, sub-administrator, fund accountant, underwriter/distributor, transfer agent, outside auditors, and legal counsel. Such service providers may receive the information on a real-time or delayed basis, depending on the type of services they perform for the Funds. In addition, the Funds may distribute portfolio holdings to mutual fund evaluation services and due diligence departments of broker-dealers and wirehouses,

provided that each such third party signs a confidentiality agreement and agrees not to disseminate the portfolio holdings to third parties likely to trade on this information. In addition, the Funds, the Investment Adviser, or their affiliates may disclose portfolio holdings that have already been made public on the Funds' website or SEC filing in marketing literature or to the media, brokers, or other interested persons.

The Policy is designed to ensure that disclosure of information regarding the Funds' portfolio holdings is in the best interests of shareholders, including any potential conflicts of interest between the Funds' shareholders and the Investment Adviser, principal underwriter, or affiliated person thereof. The Board of Trustees has authorized the senior officers of the Funds and the senior officers of the Investment Adviser to disclose portfolio holdings in conformity with such procedures. In the event a material issue, conflict of interest, or other exception to the Policy is identified, the CCO will address the matter and report to the Board of Trustees at their next regular quarterly meeting.

The Policy may not be waived, and exceptions cannot be made to allow disclosure of nonpublic portfolio information, without the consent of the Investment Adviser's Chief Compliance Officer or the Trust's Chief Executive Officer or Chief Legal Officer, in cases that they deem necessary or appropriate. All waivers or exceptions made relating to the Funds will be disclosed to the Trust's Board of Trustees no later than its next regularly scheduled quarterly meeting. Furthermore, nobody is allowed to accept compensation in connection with disclosure of nonpublic portfolio information.

### **CODE OF ETHICS**

The Trust and the Investment Adviser have adopted a joint code of ethics, which contains policies on personal securities transactions by "access persons." These policies comply with Rule 17j-1 under the 1940 Act. The code of ethics, among other things, permits access persons to invest in certain securities, subject to various restrictions and requirements. More specifically, the code of ethics prohibits access persons from purchasing or selling securities that may be purchased or held by a Fund unless certain conditions are satisfied. For purposes of the code of ethics, an access person means (i) a director, a trustee, or an officer of a fund or an investment adviser; (ii) any employee of a fund or investment adviser (or any company in a control relationship to a fund or an investment adviser) who, in connection with his or her regular functions or duties, makes, participates in, or obtains information about the purchase or sale of securities by a fund, or whose functions relate to the making of any recommendations with respect to the purchases or sales; and (iii) any natural person in a control relationship to a fund or an investment adviser who obtains information concerning recommendations made to a fund regarding the purchase or sale of securities. Portfolio managers and other persons who assist in the investment process are subject to additional restrictions. The above restrictions do not apply to purchases or sales of certain types of securities, including mutual fund shares, money market instruments, and certain U.S. Government securities. To facilitate enforcement, the code of ethics generally requires that an access person, other than "disinterested" directors or trustees, submit reports to a designated compliance person regarding transactions involving securities that are eligible for purchase by a Fund. The code of ethics for the Trust and the Investment Adviser is on public file with, and is available from, the SEC.

The principal underwriter has adopted a code of ethics pursuant to the requirements of Rule 17j-1 of the 1940 Act ("Code of Ethics"). The Code of Ethics permits Fund personnel to invest in securities for their own accounts and are on file with, and available from, the SEC.

## PORTFOLIO MANAGERS

### OTHER ACCOUNTS MANAGED BY INVESTMENT ADVISER OF FIRSTHAND FUNDS

#### SiVest Group, Inc.

The following tables provide information about the registered investment companies and other pooled investment vehicles and accounts managed by the Investment Adviser as of December 31, 2010.

#### *Other Accounts Managed – Total*

| Portfolio Manager | Other Registered Investment Companies |              | Other Pooled Investment Vehicles |              | Other Accounts |              |
|-------------------|---------------------------------------|--------------|----------------------------------|--------------|----------------|--------------|
|                   | Number                                | Total Assets | Number                           | Total Assets | Number         | Total Assets |
| Kevin Landis      | None                                  | \$0          | None                             | \$0          | None           | \$0          |
| Nick Schwartzman  | None                                  | \$0          | None                             | \$0          | None           | \$0          |
| Han Lee           | None                                  | \$0          | None                             | \$0          | None           | \$0          |

#### *Other Accounts Managed – Of Total listed above, those for which advisory fee is based on performance*

| Portfolio Manager | Registered Investment Companies |              | Other Pooled Investment Vehicles |              | Other Accounts |              |
|-------------------|---------------------------------|--------------|----------------------------------|--------------|----------------|--------------|
|                   | Number                          | Total Assets | Number                           | Total Assets | Number         | Total Assets |
| Kevin Landis      | None                            | \$0          | None                             | \$0          | None           | \$0          |
| Nick Schwartzman  | None                            | \$0          | None                             | \$0          | None           | \$0          |
| Han Lee           | None                            | \$0          | None                             | \$0          | None           | \$0          |

The above information are current as of December 31, 2010. As of April 15, 2011, Firsthand Technology Value Fund, a series of the Trust, was reorganized into a newly formed registered investment company called Firsthand Technology Value Fund, Inc. Kevin Landis managed Firsthand Technology Value Fund, Inc. A portion of the advisory fee for that account is based on performance. As of December 31, 2010, Firsthand Technology Value Fund had approximately \$128 million in assets under management.

### **POTENTIAL CONFLICTS OF INTEREST**

#### **SiVest Group, Inc.**

SiVest's portfolio managers are responsible for portfolios in several different investment styles and investment accounts, including mutual funds, hedge funds, and separate accounts. Each portfolio manager makes investment decisions for his portfolio based on that portfolio's investment objectives, strategies, and policies. However, because of differences in investment objectives, strategies, and restrictions, account size, and fee structure (performance-based vs. fixed), conflicts of interest may exist. As a result, a portfolio manager may purchase securities for one portfolio and not another and may, in fact, purchase a security for one portfolio while appropriately selling the same security for another portfolio. In addition, some of these portfolios have fee structures that result in higher fees than those paid by the Funds to SiVest Group, Inc.

SiVest’s objective is to provide the same high-quality investment services to all clients, while meeting our fiduciary obligations to treat all clients fairly. SiVest has adopted and implemented policies and procedures, including brokerage and trade allocation policies and procedures, that it believes address the potential conflicts that may arise from managing multiple accounts for multiple clients. Firsthand monitors a variety of areas, including compliance with the firm’s Code of Ethics, trade and IPO allocation, and compliance with the Fund’s objective, policies, and procedures.

**COMPENSATION**

**SiVest Group, Inc.**

Compensation for portfolio managers and members of the portfolio management team contains both fixed and variable components. The fixed component consists of a competitive salary and benefits. The variable component consists of periodic bonuses, which are based on the portfolio manager’s or team member’s investment performance (both individually and as part of a team), and qualitative elements such as teamwork, compliance, effort, and quality of research. The annual bonus pool for portfolio managers and other investment professionals is determined by the Investment Adviser and is based on the overall performance of its managed portfolios, the overall performance of the company, and assets under management. Individuals who do not carry portfolio manager titles, such as analysts who are members of a portfolio management team, may receive portfolio management bonuses in addition to other bonuses not related to portfolio management.

**DISCLOSURE OF SECURITIES OWNERSHIP**

The table below sets forth the amount of shares beneficially owned by each portfolio manager in each Fund(s) for which he serves as portfolio manager as of December 31, 2010, stated as one of the following dollar ranges: None; \$1-\$10,000; \$10,001-\$50,000; \$50,001-\$100,000; \$100,001-\$500,000; \$500,001-\$1,000,000; or over \$1,000,000.

| Portfolio Manager | Dollar Range of Fund          |                         |                         |
|-------------------|-------------------------------|-------------------------|-------------------------|
|                   | Technology Opportunities Fund | Technology Leaders Fund | Alternative Energy Fund |
| Kevin Landis      | \$100,001 - \$500,000         | \$100,001 - \$500,000   | \$50,001 - \$100,000    |
| Nick Schwartzman  | N/A                           | N/A                     | N/A                     |
| Han Lee           | N/A                           | N/A                     | N/A                     |

**INVESTMENT ADVISORY AND OTHER SERVICES**

SiVest Group, Inc., 150 Almaden Blvd., Suite 1250, San Jose, California 95113, is registered as an investment adviser with the SEC. The Investment Adviser is controlled by Kevin M. Landis. Prior to August 3, 2009, Firsthand Capital Management, Inc. was the Investment Adviser.

Under the terms of the Investment Advisory Agreement (the “Advisory Agreement”) between the Trust and the Investment Adviser, the Investment Adviser shall provide each Fund with investment research, advice, management, and supervision and shall manage the investment and reinvestment of the assets of each Fund consistent with each Fund’s investment objective, policies, and limitations.

Prior to August 3, 2009, pursuant to the Advisory Agreement for Firsthand Technology Opportunities Fund and Firsthand Technology Leaders Fund, each Fund paid to Firsthand Capital Management, Inc., as the Investment Adviser, on a monthly basis, an advisory fee at an annual rate of 1.50% of its average daily net assets. The Advisory Agreement required the Investment Adviser to waive fees and/or, if necessary, reimburse expenses of the Funds to the extent necessary to limit each Fund's total operating expenses to 1.95% of its average net assets up to \$200 million, 1.90% of such assets from \$200 million to \$500 million, 1.85% of such assets from \$500 million to \$1 billion, and 1.80% of such assets in excess of \$1 billion.

Prior to August 3, 2009, pursuant to the Advisory Agreement for Firsthand Alternative Energy Fund, the Fund paid to Firsthand Capital Management, Inc. on a monthly basis, an advisory fee at an annual rate of 1.65% of its average daily net assets. The Advisory Agreement required the Investment Adviser to waive fees and/or, if necessary, reimburse expenses of the Fund to the extent necessary to limit the Fund's total operating expenses to 2.10% of its average net assets up to \$200 million, 2.05% of such assets from \$200 million to \$500 million, 2.00% of such assets from \$500 million to \$1 billion, and 1.95% of such assets in excess of \$1 billion. The Investment Adviser also agreed to donate a portion of its management fees collected, amounting to 0.20% of Firsthand Alternative Energy Fund's average daily net assets, to various non-profit organizations as elected by Fund shareholders.

Under the Administration Agreement, the Fund's Administrator assumed responsibility for payment of all of the Fund's operating expenses excluding certain expenses, for example, brokerage and commission expenses, short sale expenses, litigation costs, and any extraordinary and non-recurring expenses. The Advisory Agreement continues from year to year, provided that its continuance is approved at least annually by the Board and the disinterested trustees.

Effective August 3, 2009, pursuant to the Advisory Agreement for Firsthand Technology Opportunities Fund and Firsthand Technology Leaders Fund, each Fund pays to SiVest as the Investment Adviser, on a monthly basis, an advisory fee at an annual rate of 1.40% of its average daily net assets. The Advisory Agreement requires the Investment Adviser to waive fees and/or, if necessary, reimburse expenses of the Funds to the extent necessary to limit each Fund's total operating expenses to 1.85% of its average net assets up to \$200 million, 1.80% of such assets from \$200 million to \$500 million, 1.75% of such assets from \$500 million to \$1 billion, and 1.70% of such assets in excess of \$1 billion.

Effective August 3, 2009, pursuant to the Advisory Agreement for Firsthand Alternative Energy Fund, the Fund pays to SiVest as the Investment Adviser, on a monthly basis, an advisory fee at an annual rate of 1.53% of its average daily net assets. The Advisory Agreement requires the Investment Adviser to waive fees and/or, if necessary, reimburse expenses of the Fund to the extent necessary to limit the Fund's total operating expenses to 1.98% of its average net assets up to \$200 million, 1.93% of such assets from \$200 million to \$500 million, 1.88% of such assets from \$500 million to \$1 billion, and 1.83% of such assets in excess of \$1 billion. The Investment Adviser has also agreed to donate a portion of its management fees collected, amounting to 0.20% of Firsthand Alternative Energy Fund's average daily net assets, to various non-profit organizations as elected by Fund shareholders.

Under the Administration Agreement, the Fund's Administrator has assumed responsibility for payment of all of the Fund's operating expenses excluding certain expenses, for example, brokerage and commission expenses, short sale expenses, litigation costs, and any extraordinary and non-recurring expenses. The Advisory Agreement continues from year to year, provided that its continuance is approved at least annually by the Board and the disinterested trustees.

For the fiscal years ended December 31, 2010, 2009, and 2008 Firsthand Technology Opportunities Fund paid advisory fees of \$681,038, \$377,268 and \$437,521, respectively. For the fiscal years ended December 31, 2010, 2009 and 2008, Firsthand Technology Leaders Fund paid advisory fees of \$502,574, \$493,053 and \$687,460, respectively. For the fiscal years ended December 31, 2010, 2009, and 2008, Firsthand Alternative Energy Fund paid advisory fees of \$98,234, \$84,569, and \$56,141, respectively.

By its terms, the Advisory Agreement with SiVest remains in force for one year initially and from year to year thereafter, subject to annual approval by (a) the Board of Trustees or (b) a vote of the majority of a Fund's outstanding voting securities, provided that in either event continuance is also approved by a majority of the Trustees who are not interested persons of the Trust, by a vote cast in person at a meeting called for the purpose of voting on such approval. The Advisory Agreement may be terminated at any time, on 60 days' written notice, without the payment of any penalty, by the Board of Trustees, by a vote of the majority of a Fund's outstanding voting securities, or by the Investment Adviser. The Advisory Agreement automatically terminates in the event of its assignment, as defined by the 1940 Act and the rules thereunder. At each quarterly meeting of the Board of Trustees, the Board reviews the performance information and nature of services provided by the Investment Adviser.

The Board of Trustees of the Trust has approved an Administration Agreement with the Investment Adviser for each Fund wherein the Investment Adviser is responsible for the provision of administrative and supervisory services to the Funds. Pursuant to the Administration Agreement, the Investment Adviser, at its expense, shall supply the Trustees and the officers of the Trust with all statistical information and reports reasonably required by it and reasonably available to the Investment Adviser. The Investment Adviser shall oversee the maintenance of all books and records with respect to the Funds' security transactions and the Funds' books of account in accordance with all applicable federal and state laws and regulations. The Investment Adviser will arrange for the preservation of the records required to be maintained by the 1940 Act.

Pursuant to the Administration Agreement for Firsthand Technology Opportunities Fund, Firsthand Technology Leaders Fund, and Firsthand Alternative Energy Fund, each Fund pays to the Investment Adviser, on a monthly basis, a fee equal to 0.45% per annum of its average daily net assets up to \$200 million, 0.40% of such assets from \$200 million to \$500 million, 0.35% of such assets from \$500 million to \$1 billion, and 0.30% of such assets in excess of \$1 billion. The compensation payable under the Administration Agreement to the Investment Adviser in each year shall be reduced by the amount of compensation paid by the Trust during such year to the disinterested Trustees for their services.

For the fiscal years ended December 31, 2010, 2009, and 2008, Firsthand Technology Opportunities Fund paid administrative fees of \$218,905, \$117,136, and \$131,256, respectively. For the fiscal years ended December 31, 2010, 2009, and 2008, Firsthand Technology Leaders Fund paid administrative fees of \$161,541, \$152,655, and \$206,238, respectively. For the fiscal years ended December 31, 2010, 2009 and 2008, Firsthand Alternative Energy Fund paid administrative fees of \$28,893, \$23,909, and \$15,311, respectively.

The Administration Agreement may be terminated by the Trust at any time, on 60 days' written notice to the Investment Adviser, without penalty, either (a) by vote of the Board of Trustees or (b) by vote

of a majority of the outstanding voting securities of a Fund. It may be terminated at any time by the Investment Adviser on 60 days' written notice to the Trust.

### **THE DISTRIBUTOR**

ALPS Distributors, Inc., 1290 Broadway, Suite 1100, Denver, CO 80203, serves as principal underwriter for the Trust pursuant to a distribution agreement ("Distribution Agreement"). Shares are sold on a continuous basis by the Distributor. The Distributor has agreed to use its best efforts to solicit orders for the sale of Trust shares, but it is not obligated to sell any particular amount of shares. The Distribution Agreement provides that it will continue in effect for two years initially and from year-to-year thereafter, subject to annual approval by (a) the Board of Trustees or (b) a vote of the majority of a Fund's outstanding voting securities, provided that in either event continuance is also approved by a majority of the Trustees who are not interested persons of the Trust or of the Distributor by vote cast in person at a meeting called for the purpose of voting on such approval.

The Distribution Agreement may be terminated on 60 days' notice, without the payment of any penalty, by the Board of Trustees, by vote of a majority of the outstanding shares of the Funds, or by the Distributor. The Distribution Agreement automatically terminates in the event of its assignment, as defined by the 1940 Act and the rules thereunder.

### **SECURITIES TRANSACTIONS**

The Investment Adviser furnishes advice and recommendations with respect to the Funds' portfolio decisions and, subject to the supervision of the Board of Trustees of the Trust, determines the broker to be used in each specific transaction. In executing the Funds' portfolio transactions, the Investment Adviser seeks to obtain the best net results for the Funds, taking into account such factors as the overall net economic result to the Funds (involving both price paid or received and any commissions and other costs paid), the efficiency with which the specific transaction is effected, the ability to effect the transaction when a large block of securities is involved, the known practices of brokers and the availability to execute possibly difficult transactions in the future, and the financial strength and stability of the broker. While the Investment Adviser generally seeks reasonably competitive commission rates, the Funds do not necessarily pay the lowest commission or spread available.

Subject to approval and review by the Board and the Trust's soft-dollar policy and procedures then in effect, the Investment Adviser may direct the Funds' portfolio transactions to persons or firms because of research and investment services provided by such persons or firms if the amount of commissions in effecting the transactions is reasonable in relationship to the value of the investment information provided by those persons or firms. Selecting a broker-dealer in recognition of services or products other than transaction execution is known as paying for those services or products with "soft dollars."

The Investment Adviser will make decisions involving the research and investment services provided by the brokerage houses in a manner that satisfies the requirements of the "safe harbor" provided by Section 28(e) of the Securities Exchange Act of 1934. Such research and investment services are those that brokerage houses customarily provide to institutional investors and include statistical and economic data and research reports on particular companies and industries. These services may be used by the Investment Adviser in connection with all of its investment activities, and some of the services obtained in connection with the execution of transactions for the Funds may be used in managing the Investment Adviser's other investment accounts. The Funds may deal in some instances in securities that are not listed on a national securities exchange but are traded in the over-the-counter

market. The Funds may also purchase listed securities through the “third market” (*i.e.*, other than on the exchanges on which the securities are listed). When transactions are executed in the over-the-counter market or the third market, the Investment Adviser will seek to deal with primary market makers and to execute transactions on the Funds’ own behalf, except in those circumstances where, in the opinion of the Investment Adviser, better prices and executions may be available elsewhere. The Board of Trustees reviews periodically the allocation of brokerage orders to monitor the operation of these transactions.

Firsthand Technology Opportunities Fund paid brokerage commissions of \$149,913, \$14,847, and \$28,228 during the fiscal years ended December 31, 2010, 2009, and 2008, respectively. Firsthand Technology Leaders Fund paid brokerage commissions of \$46,053, \$22,755, and \$73,038 during the fiscal years ended December 31, 2010, 2009, and 2008, respectively. Firsthand Alternative Energy Fund paid brokerage commissions of \$6,577, \$9,966, and \$8,453 during the fiscal years ended December 31, 2010, 2009, and 2008, respectively. The higher commission paid by Firsthand Technology Opportunities Fund in 2010 is caused by an increased turnover rate of its portfolio and also more investment made in options.

### **PORTFOLIO TURNOVER**

A Fund’s portfolio turnover rate is calculated by dividing the lesser of purchases or sales of portfolio securities for the fiscal year by the monthly average of the value of the portfolio securities owned by the Fund during the fiscal year. High portfolio turnover involves correspondingly greater brokerage commissions and other transaction costs, which will be borne directly by a Fund and could reduce a Fund’s returns. High portfolio turnover can also result in adverse tax consequences to a Fund’s shareholders. A 100% turnover rate would occur if all of a Fund’s portfolio securities were replaced once within a one-year period.

Generally, each Fund intends to invest for long-term purposes. However, the rate of portfolio turnover will depend upon market and other conditions, and it will not be a limiting factor when the Investment Adviser believes that portfolio changes are appropriate.

### **PURCHASE, REDEMPTION, AND PRICING OF SHARES**

**PURCHASE OF SHARES.** Properly completed orders for shares that are received by Shareholder Services prior to the close of business on the New York Stock Exchange (the “NYSE”) are priced at the net asset value per share computed as of the close of the regular session of trading on the NYSE on that day. Properly completed orders received after the close of the NYSE, or on a day the NYSE is not open for trading, are priced at the net asset value at the close of the NYSE on the next day on which the NYSE is open for trading.

As stated in the Prospectus for the Funds dated April 30, 2011, under the “Orders Through Your Broker” section, the Trust has authorized brokers to accept on its behalf purchase and redemption orders. These brokers are authorized to designate other intermediaries to accept purchase and redemption orders on the Trust’s behalf. Shareholder Services will be deemed to have received a purchase or redemption order when an authorized broker or, if applicable, a broker’s authorized designee, accepts the order. A customer order placed through an authorized broker or the broker’s authorized designee will be priced at the Fund’s net asset value next computed after the order is accepted by the broker or the broker’s designee.

The Distributor has entered into an agreement, on behalf of the Trust, with each so-called “financial intermediary” (typically, a broker-dealer, bank or retirement plan administrator) that holds shares of a Fund in its name rather than the name of the ultimate beneficial shareholder. Under that agreement, the financial intermediary is required to provide certain information to the Funds and the Distributor about the identity of, and transactions effected by, the underlying shareholder upon request. Normally, the Funds or the Distributor would request that information if disruptive or short-term trading is suspected. The agreement also requires the financial intermediary, upon the request of the Funds or the Distributor, to refuse to execute purchases or exchanges by a shareholder believed to have engaged in such disruptive trading.

**REDEMPTION OF SHARES.** The payment of a redemption may not be postponed for more than seven calendar days after the receipt of a shareholder’s redemption request is made in accordance with the procedures set forth in the “Exchanging and Selling Shares” section of the Prospectus, (and the right of redemption may not be suspended), except (a) for any period during which the NYSE is closed (other than customary weekend and holiday closing) or during which the SEC determines that trading on the NYSE is restricted, (b) for any period during which an emergency (as determined by the SEC) exists as a result of which disposal by the Fund of securities owned by it is not reasonably practicable or as a result of which it is not reasonably practicable for the Fund to fairly determine the value of its net assets, or (c) for any other period that the SEC may by order permit for your protection.

When you request a redemption, the Trust will redeem all or any portion of your shares of a Fund in accordance with the procedures set forth in the “Exchanging and Selling Shares” section of the Prospectus.

**CALCULATION OF SHARE PRICE.** The share price (net asset value) of the shares of each Fund is determined as of the close of the regular session of trading on the NYSE (currently 4:00 P.M., Eastern Time), on each day the Trust is open for business. The Trust is open for business on every day except Saturdays, Sundays, and the following holidays: New Year’s Day; Martin Luther King, Jr. Day; President’s Day; Good Friday; Memorial Day; Independence Day; Labor Day; Thanksgiving; and Christmas. Because a Fund may have portfolio securities that are listed on foreign exchanges that may trade on weekends or other days when a Fund does not price its shares, the net asset value of a Fund’s shares may change on days when shareholders will not be able to purchase or redeem shares. For a description of the methods used to determine the share price, see “Pricing of Fund Shares” in the Prospectus.

## **TAXES**

The Trust intends to continue to qualify each Fund as a “regulated investment company” under Subchapter M of the Internal Revenue Code. Each Fund will be treated as a separate entity for federal income tax purposes. Thus, the provisions of the Code applicable to regulated investment companies generally will apply separately to each Fund rather than to the Trust as a whole. Furthermore, each Fund will separately determine its income, gains, losses and expenses for federal income tax purposes.

In order to qualify as a regulated investment company under the Code, each Fund must, among other things, derive at least 90% of its annual gross income from dividends, interest, certain payments with respect to securities loans, gains from the sale or other disposition of stock, securities or foreign currencies, and other income attributable to its business of investing in such stock, securities, or foreign currencies (including, but not limited to, gains from options, futures or forward contracts).

Pursuant to future regulations, the Internal Revenue Service (“IRS”) may limit qualifying income from foreign currency gains to the amount of such currency gains which are directly related to a Fund’s principal business of investing in stock or securities. Each Fund must also diversify its holdings so that, at the end of each quarter of the taxable year: (i) at least 50% of the fair market value of its assets consists of (A) cash and cash items (including receivables), government securities and securities of other regulated investment companies, and (B) securities of any one issuer (other than those described in clause (A)) to the extent such securities do not exceed the greater of 5% of the Fund’s total assets and not more than 10% of the outstanding voting securities of such issuer, and (ii) not more than 25% of the value of the Fund’s total assets consists of the securities of any one issuer (other than those described in clause (i)(A)), or in two or more issuers the Fund controls and which are engaged in the same or similar trades or businesses.

In addition, each Fund generally must distribute to its shareholders at least 90% of its investment company taxable income, which generally includes its ordinary income and the excess of any net short-term capital gain over net long-term capital loss, as well as 90% of its net tax-exempt income earned in each taxable year. A Fund generally will not be subject to federal income tax on the investment company taxable income and net capital gain (*i.e.*, the excess of net long-term capital gain over net short-term capital loss) it distributes to its shareholders. For this purpose, a Fund generally must make the distributions in the same year that it realizes the income and gain. However, in certain circumstances, a Fund may make the distributions in the following taxable year. Furthermore, if a Fund declares a distribution to shareholders of record in October, November, or December of one year and pays the distribution by January 31 of the following year, the Fund and its shareholders will be treated as if the Fund paid the distribution by December 31 of the first taxable year. Each Fund intends to distribute its net income and gain in a timely manner to maintain its status as a regulated investment company and eliminate Fund-level federal income taxation of such income and gain. However, no assurance can be given that a Fund will not be subject to federal income taxation.

If, in any taxable year, a Fund fails to qualify as a regulated investment company under the Code or fails to meet the distribution requirements, such Fund would be taxed in the same manner as an ordinary corporation without any deduction for distributions to shareholders, and all distributions from the Fund’s earnings and profits (including any distributions of net tax-exempt income and net long-term capital gains) to its shareholders would be taxable as ordinary income. To qualify again to be taxed as a regulated investment company in a subsequent year, the Fund may be required to distribute to its shareholders its earnings and profits attributable to non-regulated investment company years reduced by an interest charge on 50% of such earnings and profits payable by the Fund to the IRS. In addition, if the Fund failed to qualify as a regulated investment company for a period greater than two taxable years, the Fund may be required to recognize and pay tax on any net built-in gain (the excess of aggregate gain, including items of income, over aggregate loss that would have been realized if the Fund had been liquidated) or, alternatively, be subject to taxation on such built-in gain recognized for a period of ten years, in order to qualify as a regulated investment company in a subsequent year.

A 4% nondeductible excise tax will be imposed on each Fund’s net income and gains (other than to the extent of its tax-exempt interest income, if any) to the extent it fails to distribute during each calendar year at least 98% of its ordinary income (excluding capital gains and losses), at least 98% of its net capital gains (adjusted for ordinary losses) for the 12-month period ending on October 31, and all of its ordinary income and capital gains from previous years that were not distributed during such years. Each Fund intends to actually or be deemed to distribute substantially all of its net income and gains, if any, by the end of each calendar year and, thus, expects not to be subject to the excise tax. However, no assurance can be given that a Fund will not be subject to the excise tax.

Under the Code, the Funds may use the so-called “equalization method” of accounting to allocate a portion of its “earnings and profits,” which generally equals a Fund’s undistributed net investment income and realized capital gains, with certain adjustments, to redemption proceeds. This method permits a Fund to achieve more balanced distributions for both continuing and redeeming shareholders. Although using this method generally will not affect a Fund’s total returns, it may reduce the amount that the Fund would otherwise distribute to continuing shareholders by reducing the effect of purchases and redemptions of Fund shares on Fund distributions to shareholders. However, the IRS may not have expressly sanctioned the equalization accounting method used by the Funds, and thus the use of this method may be subject to IRS scrutiny.

Subject to limitation and other rules, a corporate shareholder of a Fund may be eligible for the dividends-received deduction on Fund distributions attributable to dividends received by the Fund from domestic corporations, which, if received directly by the corporate shareholder, would qualify for such deduction. In general, a distribution by a Fund attributable to dividends of a domestic corporation will only be eligible for the deduction if: (i) the corporate shareholder holds the Fund shares upon which the distribution is made for at least 46 days during the 91 day period beginning 45 days prior to the date upon which the shareholder becomes entitled to the distribution; and (ii) the Fund holds the shares of the domestic corporation producing the dividend income in an unleveraged position for at least 46 days during the 91 day period beginning 45 days prior to the date upon which the Fund becomes entitled to such dividend income. A longer holding period applies to investments in preferred stock.

Current federal income tax law provides for a maximum individual federal income tax rate applicable to “qualified dividend income” of 15%. In general, “qualified dividend income” is income attributable to dividends received from certain domestic and foreign corporations on or after January 1, 2003, as long as certain holding period requirements are met. A Fund will only be treated as realizing qualified dividend income to the extent it receives dividends from certain domestic and foreign corporations and the Fund has held the shares of the stock producing the dividend for at least 61 days during the 121-day period beginning on the date that is 60 days before the date on which such shares became ex-dividend. A longer holding period applies to investments in preferred stock. (Only dividends from direct investments will qualify. Payments received by a Fund from securities lending, repurchase and other derivative transactions ordinarily will not.) Furthermore, an individual Fund shareholder can only treat a Fund distribution designated as qualified dividend income as such if he or she has held the Fund shares producing the distribution for at least 61 days during the 121-day period beginning on the date that is 60 days before the date on which such shares became ex-dividend. No assurance can be given as to what portion, if any, of a Fund’s dividend income distributed to shareholders will qualify for the reduced rate of taxation.

Amounts realized by the Fund from sources within foreign countries may be subject to withholding and other taxes imposed by such countries. Tax conventions between the United States and certain countries may reduce or eliminate such taxes. If more than 50% of the value of the Fund’s total assets at the close of its taxable year consists of securities of non-U.S. corporations, the Fund will be eligible to file an annual election with the IRS pursuant to which the Fund may pass-through to its shareholders on a pro rata basis foreign income and similar taxes paid by the Fund, which may be claimed, subject to certain limitations, either as a tax credit or deduction by the shareholders.

In general, an individual with \$300 or less of creditable foreign taxes may elect to be exempt from the foreign source taxable income and qualified dividend income limitations if the individual has no foreign source income other than qualified passive income. This \$300 threshold is increased to \$600

for joint filers. A deduction for foreign taxes paid may only be claimed by shareholders that itemize their deductions.

If a Fund purchases shares in a “passive foreign investment company” (“PFIC”), the Fund may be subject to federal income tax and an interest charge imposed by the IRS on certain “excess distributions” received from the PFIC or on gain from the sale of stock in the PFIC, even if all income or gain actually received by the Fund is timely distributed to its shareholders. A Fund will not be permitted to pass through to its shareholders any credit or deduction for taxes and interest charges incurred with respect to PFICs. Elections may be available that would ameliorate these adverse tax consequences, but such elections could require a Fund to recognize taxable income or gain without the concurrent receipt of cash. Investments in PFICs could also result in the treatment of associated capital gains as ordinary income. The Funds may limit and/or manage their holdings in PFICs to minimize their tax liability or maximize their returns from these investments. Because it is not always possible to identify a foreign corporation as a PFIC in advance of acquiring shares in the corporation, however, a Fund may incur the tax and interest charges described above in some instances.

Foreign exchange gains and losses realized by a Fund in connection with certain transactions involving foreign currency-denominated debt securities, certain options and futures contracts relating to foreign currency, foreign currency forward contracts, foreign currencies, or payables or receivables denominated in a foreign currency are subject to Section 988 of the Code, which generally causes such gains and losses to be treated as ordinary income and losses and may affect the amount and timing of recognition of the Fund’s income. Under future Treasury Regulations, any such transactions that are not directly related to a Fund’s investments in stock or securities (or its options contracts or futures contracts with respect to stock or securities) may have to be limited in order to enable the Fund to satisfy the 90% income test described above. If the net foreign exchange loss for a year exceeds a Fund’s investment company taxable income (computed without regard to such loss), the resulting ordinary loss for such year will not be deductible by the Fund or its shareholders in future years.

Gains recognized on the disposition of a debt obligation (including a municipal obligation) purchased by a Fund at a market discount, generally at a price less than its principal amount, generally will be treated as ordinary income to the extent of the portion of market discount which accrued, but was not previously recognized pursuant to an available election, during the term that the Fund held the debt obligation.

If an option granted by a Fund lapses or is terminated through a closing transaction, such as a repurchase by the Fund of the option from its holder, the Fund will realize a short-term capital gain or loss, depending on whether the premium income is greater or less than the amount paid by the Fund in the closing transaction. Some capital losses may be deferred if they result from a position that is part of a “straddle,” discussed below. If securities are sold by a Fund pursuant to the exercise of a call option granted by it, the Fund will add the premium received to the sale price of the securities delivered in determining the amount of gain or loss on the sale. If securities are purchased by a Fund pursuant to the exercise of a put option written by it, the Fund will subtract the premium received from its cost basis in the securities purchased.

Distributions designated by a Fund as a capital gain distribution will be taxed to shareholders as long-term capital gain (to the extent such distributions do not exceed the Fund’s actual net long-term capital gain for the taxable year), regardless of how long a shareholder has held Fund shares. Each Fund will designate capital gains distributions, if any, in a written notice mailed by the Fund to its shareholders not later than 60 days after the close of the Fund’s taxable year.

Any dividend or distribution received shortly after a share purchase will have the effect of reducing the net asset value of such shares by the amount of such dividend or distribution. Such dividend or distribution is fully taxable. Accordingly, prior to purchasing shares of the Funds, an investor should carefully consider the amount of dividends or capital gains distributions that are expected to be or have been announced.

Generally, the Code's rules regarding the determination and character of gain or loss on the sale of a capital asset apply to a sale, an exchange, a redemption, or a repurchase of shares of the Funds that are held by the shareholder as capital assets. However, if a shareholder sells or exchanges shares of the Funds that he or she has held for less than six months and on which he or she has received distributions of capital gains (unless otherwise disallowed), any loss on the sale or exchange of such shares must be treated as long-term capital loss to the extent of such distributions. These loss disallowance rules do not apply to losses realized under a periodic redemption plan. Any loss realized on the disposition of shares of the Funds will be disallowed by the "wash sale" rules to the extent the disposed shares are replaced (including through the receipt of additional shares through reinvested distributions) within a period of time beginning 30 days before and ending 30 days after the shares are sold. In such a case, the basis of the shares acquired will be adjusted to reflect the disallowed loss.

Under certain circumstances, U.S. shareholders will be subject to "back-up" withholding on their income, and, potentially, capital gain dividends and redemption proceeds, attributable to their shares of the Fund.

Provided that a Fund qualifies as a regulated investment company under the Code, it will not be liable for California corporate taxes, other than a minimum franchise tax, if all of its income is distributed to shareholders for each taxable year. Shareholders, however, may be liable for state and local income taxes on distributions from the Funds.

Prospective shareholders should be aware that the investments made by the Funds may involve sophisticated tax rules that may result in income or gain recognition by the Funds without corresponding current cash receipts. Although each Fund seeks to avoid significant non-cash income, such non-cash income could be recognized by the Fund, in which case a Fund may distribute cash derived from other sources in order to meet the minimum distribution requirements described above. A Fund could be required at times to liquidate investments prematurely in order to satisfy a Fund's minimum distribution requirements.

The above discussion and the related discussion in the Prospectus are not intended to be complete discussions of all federal tax consequences applicable to an investment in the Funds. Nonresident aliens and foreign persons are subject to different tax rules, and may be subject to withholding of up to 30% on certain payments received from the Funds. Shareholders are advised to consult with their own tax advisers concerning the application of foreign, federal, state, and local taxes to an investment in the Funds.

### **PRINCIPAL SECURITY HOLDERS**

As of April 1, 2011, the following persons owned of record or beneficially 5% or more of the shares of the Funds:

**FIRSTHAND TECHNOLOGY OPPORTUNITIES FUND:**

| <u>NAME AND ADDRESS</u>  | <u>% OWNERSHIP</u> |
|--|--------------------|
| CHARLES SCHWAB CO., INC.<br>101 MONTGOMERY STREET<br>SAN FRANCISCO, CA 94104-4122    | 29.97%             |
| NATIONAL FINANCIAL SERVICES CORP.<br>200 LIBERTY STREET<br>NEW YORK, NY 10281-1003   | 22.07%             |
| PRUDENTIAL INVESTMENT MANAGEMENT SERVICES<br>100 MULBERRY STREET<br>NEWARK, NJ 07102 | 9.73%              |
| AMERITRADE INC.<br>PO BOX 2226<br>OMAHA, NE 68103-2226                               | 8.79%              |

**FIRSTHAND TECHNOLOGY LEADERS FUND:**

| <u>NAME AND ADDRESS</u>   | <u>% OWNERSHIP</u> |
|---|--------------------|
| CHARLES SCHWAB CO., INC.<br>101 MONTGOMERY STREET<br>SAN FRANCISCO, CA 94104-4122 | 30.11%             |
| NATIONAL FINANCIAL SERVICES CORP.<br>200 LIBERTY STREET<br>NEW YORK, NY 10281     | 16.32%             |
| AMERITRADE INC.<br>PO BOX 2226<br>OMAHA, NE 68103-2226                            | 7.76%              |

**FIRSTHAND ALTERNATIVE ENERGY FUND:**

| <u>NAME AND ADDRESS</u>  | <u>% OWNERSHIP</u> |
|--|--------------------|
| NATIONAL FINANCIAL SERVICES CORP.<br>200 LIBERTY STREET<br>NEW YORK, NY 10281  | 43.16%             |
| CHARLES SCHWAB & CO., INC.<br>101 MONTGOMERY STREET<br>SAN FRANCISCO, CA 94104 | 20.43%             |
| AMERITRADE INC.<br>PO BOX 2226<br>OMAHA, NE 68103-2226                         | 11.51%             |

For purposes of voting on matters submitted to shareholders, any person who owns more than 50% of the outstanding shares of a Fund generally would be able to cast the deciding vote.

As of April 1, 2011, the Trustees and officers of the Trust as a group beneficially owned less than 1% of the outstanding shares of each Fund, except that the officers and Trustees of the Trust as a group beneficially owned [1.35% of Firsthand Technology Leaders Fund and 1.23% of Firsthand Alternative Energy Fund].

### **CUSTODIAN**

The Bank of New York Mellon (“BNY Mellon”), One Wall Street, New York, NY 10286, is the Custodian for each Fund’s investments. BNY Mellon acts as each Fund’s depository, safe-keeping the portfolio securities, collecting all income and other payments with respect to the Fund, disbursing funds as instructed, and maintaining records in connection with its duties.

### **LEGAL COUNSEL AND INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The law firm of Paul, Hastings, Janofsky & Walker LLP, 55 Second Street, San Francisco, CA 94105, acts as legal counsel for the Trust.

The firm of Tait, Weller & Baker LLP is the Trust’s independent registered public accounting firm. Tait, Weller & Baker LLP performs an annual audit of the Trust’s financial statements and advises the Trust as to certain accounting matters.

### **BNY MELLON GLOBAL INVESTMENT SERVICING (U.S.) INC.**

BNY Mellon (formerly, PNC Global Investment Servicing (U.S.) Inc.), 4400 Computer Drive, Westborough, Massachusetts 01581 provides sub-administrative and accounting services to each Fund. For the performance of sub-administrative and accounting services, the Investment Adviser pays an asset-based fee computed daily and paid monthly. For the fiscal years ended December 31, 2010 and 2009, BNY Mellon received \$235,061 and \$26,711 for these services from the Investment Adviser. Prior to November 23, 2009, Citi Fund Services Ohio, Inc. (“Citi”) (the Fund’s former service provider) received \$268,082 for sub-administrative and accounting services from the Investment Adviser and the Trust’s former investment adviser, Firsthand Capital Management, Inc. For the fiscal year ended December 2008, Citi received \$359,426 from the Trust’s former investment adviser, Firsthand Capital Management, Inc. for sub-administrative and fund accounting services. BNY Mellon also performs transfer agent services for each Fund. For the performance of these transfer agent services, the Investment Adviser pays BNY Mellon per-account fees for each shareholder account and certain other related fees.

### **FINANCIAL STATEMENTS**

Financial statements for Firsthand Technology Opportunities Fund, Firsthand Technology Leaders Fund, and Firsthand Alternative Energy Fund, for the fiscal year ended December 31, 2010 as contained in the Firsthand Funds’ Annual Report to Shareholders, are incorporated herein by reference.

## APPENDIX A

### **FIRSTHAND FUNDS PROXY VOTING POLICIES AND PROCEDURES**

The Board of Trustees of Firsthand Funds (the “Trust”) has determined that it is in the best interests of the Trust and its respective series (each, a “Fund” and collectively, the “Funds”) for the Trust to adopt the following policy and procedures with respect to voting proxies relating to portfolio securities held by certain of the Funds.

#### **I. Policy**

It is the policy of the Trust to delegate the responsibility for voting proxies relating to portfolio securities held by the Funds to SiVest Group, Incorporated (the “Adviser”) as a part of the Adviser’s general management of the Funds’ portfolios, subject to the Board’s continuing oversight. The Board of Trustees of the Trust (the “Board”) hereby delegates such responsibility to the Adviser, and directs the Adviser to vote proxies relating to portfolio securities held by each Fund consistent with the duties and procedures set forth below. The Adviser may retain one or more vendors to review, monitor and recommend how to vote proxies in a manner consistent with the duties and procedures set forth below, to ensure that such proxies are voted on a timely basis and to provide reporting and/or record retention services in connection with proxy voting for the Funds.

#### **II. Fiduciary Duty**

The right to vote a proxy with respect to portfolio securities held by a Fund is an asset of such Fund. The Adviser, to which authority to vote on behalf of the Funds is delegated, acts as a fiduciary of the Funds and must vote proxies in a manner consistent with the best interest of the Funds and their shareholders. In discharging this fiduciary duty, the Adviser must maintain and adhere to its policies and procedures for addressing conflicts of interest and must vote proxies in a manner substantially consistent with its policies, procedures and guidelines, as presented to the Board.

#### **III. Procedures**

The following are the procedures adopted by the Board for the administration of this policy:

A. Review of Adviser Proxy Voting Procedures. The Adviser shall present to the Board its policies, procedures and other guidelines for voting proxies at least annually, and must notify the Board promptly of material changes to any policies and procedures.

B. Voting Record Reporting. The Adviser shall provide the voting record information necessary for the completion and filing of Form N-PX to the Trust at least annually. Such voting record information shall be in a form acceptable to the Trust and shall be provided at such time(s) as are required for the timely filing of Form N-PX and at such additional time(s) as the Trust and the Adviser may agree to from time to time. With respect to those proxies that the Adviser has identified as involving a conflict of interest<sup>1</sup>, the Adviser shall submit a

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<sup>1</sup> As it is used in this document, the term “conflict of interest” refers to a situation in which the principal underwriter, Adviser or affiliated persons of the principal underwriter or Adviser have an interest in a matter presented by a proxy other than the obligation it incurs as a service provider to the Funds which could potentially compromise the principal underwriter’s or Adviser’s independence of judgment and action with respect to the voting of the proxy.

separate report indicating the nature of the conflict of interest and how that conflict was resolved with respect to the voting of the proxy.

C. Record Retention. The Adviser shall maintain such records with respect to the voting of proxies as may be required by the Investment Advisers Act of 1940 and the rules promulgated thereunder or by the Investment Company Act of 1940 and the rules promulgated thereunder.

D. Conflicts of Interest. Any actual or potential conflicts of interest between a Fund's principal underwriter or Adviser and the applicable Fund's shareholders arising from the proxy voting process will be addressed by the Adviser and the Adviser's application of its proxy voting procedures pursuant to the delegation of proxy voting responsibilities to the Adviser. In the event that the Adviser notifies the officer(s) of the Trust that a conflict of interest cannot be resolved under the Adviser's Proxy Voting Procedures, such officer(s) are responsible for notifying the Audit Committee of the Trust of the irreconcilable conflict of interest and assisting the Audit Committee with any actions it determines are necessary.

#### **IV. Revocation**

The delegation by the Board of the authority to vote proxies relating to portfolio securities of the Funds is entirely voluntary and may be revoked by the Board, in whole or in part, at any time.

#### **V. Annual Filing**

The Trust shall file an annual report of each proxy voted with respect to portfolio securities of the Funds during the twelve-month period ended June 30 on Form N-PX not later than August 31 of each year.

#### **VI. Disclosures**

A. The Trust shall include in its registration statement:

1. A description of this policy and of the policies and procedures used by the Adviser to determine how to vote proxies relating to portfolio securities; and
2. A statement disclosing that information regarding how the Trust voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available without charge, upon request, by calling the Trust's toll-free telephone number; or through a specified Internet address; or both; and on the Securities and Exchange Commission's (the "SEC") website.

B. The Trust shall include in its annual and semi-annual reports to shareholders:

1. A statement disclosing that a description of the policies and procedures used by or on behalf of the Trust to determine how to vote proxies relating to portfolio securities of the Funds is available without charge, upon request, by calling the Trust's toll-free telephone number; through a specified Internet address, if applicable; and on the SEC's website; and

2. A statement disclosing that information regarding how the Trust voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available without charge, upon request, by calling the Trust's toll-free telephone number; or through a specified Internet address; or both; and on the SEC's website.

**VII. Review of Policy**

The Board shall review this policy to determine its sufficiency and shall make and approve any changes that it deems necessary from time to time.

## **APPENDIX B**

### **SIVEST GROUP, INCORPORATED PROXY VOTING POLICIES AND PROCEDURES**

#### **I. Introduction**

The following shall represent the proxy voting policies and procedures of SiVest Group, Incorporated (the “Adviser”) with respect to the voting of shares owned by advisory clients on the relevant record dates over which it has discretionary voting authority (“Proxies”).

#### **II. Duty of the Adviser And General Policy**

The right to vote Proxies with respect to portfolio securities held by an advisory client is an asset of the client. The Adviser, to which authority to vote on behalf of the advisory client is delegated, shall act as a fiduciary of such client. Decisions regarding the voting of Proxies shall be made solely in the best interest of the advisory client considering all relevant factors and without undue influence from individuals or groups who may have an economic interest in the outcome of a Proxy vote and without regard to its own self interest or that of its affiliates. The exclusive purpose shall be to provide benefits to the advisory client by considering those factors that affect the value of the security with respect to which a Proxy is issued. With respect to potential conflicts of interest, the Adviser will vote proxies in accordance with the Adviser’s predetermined policies and guidelines.

The Adviser has adopted the following guidelines to provide a framework within which the Proxies will be voted.

#### **III. Proxy Voting Guidelines**

As a general rule the Adviser shall cause the Proxies to be voted in the same manner as the issuer’s management, unless there are compelling reasons not to do so, because confidence in management is one of the factors considered in making an investment. The Adviser shall take into consideration, however, that certain proposals in the area of corporate governance, anti-takeover measures, capitalization changes and compensation programs may not be in the best interests of the advisory client and, therefore, provide reasons for voting against management.

1. Voting rights shall be exercised on all decisions that the Adviser has determined have a material effect on the value of the security.
2. Voting rights shall be exercised so as to maximize and protect the value of the security, looking at both the short-term and longer-term consequences.
3. Voting rights shall be exercised to give the greatest benefit to the advisory client. This includes considering the advisory client’s existing rights and ability to participate in corporate decisions.

#### **IV. Proxy Committee**

The Proxy Committee (the “Committee”) meets as needed to administer the Adviser’s proxy review and voting process and to revise and update the policies as new issues arise. The Committee may cause the Adviser to retain one or more vendors to review, monitor and recommend how to vote Proxies in a manner substantially consistent with the policies and then ensure such Proxies are voted

on a timely basis. The Committee is comprised of two members of the Adviser's portfolio management and research departments.

## **V. Procedures**

1. As described above, the Adviser may designate a third party agent to recommend votes and/or cast such votes on behalf of the advisory client (the "Proxy Administrator"). If the Adviser has engaged a Proxy Administrator, then the Proxy Administrator shall recommend the vote to be cast with respect to each Proxy proposal and forward in a timely manner to the Committee a report summarizing the proposal and how the Proxy Administrator intends to vote. At least annually, the Committee will review the Proxy Administrator's proxy voting guidelines to confirm that they are consistent with the Adviser's policies and procedures.
2. The Committee shall review each report forwarded by the Proxy Administrator, if applicable, and may direct changes to be made. The Committee will promptly communicate to the Proxy Administrator the Committee's views on the Proxy Administrator's recommendation.
3. In the event that the Committee does not object to the voting method proposed by the Proxy Administrator, the matters shall be voted as proposed.
4. In the event that the Committee objects to the voting method proposed by the Proxy Administrator, the matters shall be voted as described below under Section VI.
5. The Committee shall monitor implementation of Proxy voting and, in the event that the Adviser has retained a Proxy Administrator, the Committee shall monitor the performance of the Proxy Administrator.
6. If the Adviser does not retain a Proxy Administrator, then the Adviser shall designate one or more of its employees to recommend specific Proxy votes and policies.

## **VI. Overriding the Proxy Administrator's Recommendations**

From time to time, a portfolio manager, an analyst or other member of the Committee may disagree with the Proxy Administrator's recommendation on how to vote Proxies for one or more resolutions. All requests to change a vote must be given to a member of the Committee for independent review by the Committee. Following receipt of such request, the Committee shall follow the following process:

1. Complete a Proxy Override Request Form which contains (a) information regarding the resolution in question, (b) the rationale for why the Adviser should not follow the Proxy Administrator's recommendation, and (c) the identification of any potential conflicts between the Adviser and the advisory client with respect to the voting of a Proxy. Examples of conflicts of interest include situations where:
  - a. The Adviser seeks to manage the assets of a company whose securities are held by an advisory client; and
  - b. The Adviser or senior executives of the Adviser may have personal or other business relationships with participants in proxy contests, corporate directors, candidates for corporate directorships, or any other matter coming before

shareholders – for example, an executive of the Adviser may have a spouse or other relative who serves as a director of a company or who is employed by the company.

2. The completed Proxy Override Request Form is then submitted to the Committee for review and approval. The Committee must approve the override request for it to be implemented.
  - a. The Committee will review the override request and supporting documentation to determine whether the requested override is in the best interests of the advisory client holding the Proxy and review for any potential conflicts of interest.
  - b. An override request may be approved by the Committee if it believes any potential conflicts of interest do not outweigh the business rationale for the override or the Proxy Administrator’s determination is already being overridden.
3. If the Committee approves the request to override the Proxy Administrator’s recommendation, the Committee will memorialize the approval on the Proxy Override Request Form and communicate the revised voting instruction to the Proxy Administrator.
4. The Committee will preserve a copy of each submitted Proxy Override Request Form, whether or not approved, and supporting documentation with the records of the Committee and in accordance with the recordkeeping requirements contained herein.

## **VII. Recordkeeping**

The Adviser shall make and retain the following documentation:

1. All proxy voting policies and procedures;
2. A copy of each proxy statement it receives regarding advisory client securities<sup>1</sup>;
3. A record of each vote cast by the Adviser (or its designee) on behalf of an advisory client;
4. A record of all oral and a copy of all written communications received and memoranda or similar documents created by the Adviser that were material to making a decision on voting advisory client securities; and
5. A record of each advisory client’s request for proxy voting information and the Adviser’s response, including the date of the request, the name of the advisory client and date.

All books and records required to be maintained hereunder, shall be maintained and preserved in an easily accessible place, which may include the Proxy Administrator’s offices, for a period of not less than five years from the end of the fiscal year during which the last entry was made on such record, the first two years in an appropriate office of the Adviser.

## **VIII. Review of Policy**

The Committee shall review this policy to determine its sufficiency and shall make and approve any changes that it deems necessary from time to time.

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<sup>1</sup> If necessary, the Adviser will normally have access to such proxy statements through the Securities and Exchange Commission’s website, [www.sec.gov](http://www.sec.gov). Similarly, the Proxy Administrator will retain records of each vote cast on behalf of Adviser clients.

## PROXY OVERRIDE REQUEST FORM

Date:

Company:

Date of Proxy:

Date of Meeting:

Person Requesting Override:

Is the Company or one of its affiliates a client or actively solicited prospective client of the Adviser?

No:

Yes: (identify and explain):

Other Potential Conflicts:

Did anyone contact the Adviser to change its vote?

No:

Yes (identify and explain)

Override vote for:

All client accounts holding a Company proxy; or

Specific accounts (identify):

Please override ISS's recommendation and vote the following resolutions as indicated (attach additional sheets of paper if more space is needed).

Resolution:

Rationale:

Approval:

Date:

(Note: attach a record of all oral, and a copy of all written, communications received and memoranda or similar documents created that were material to making a decision on the resolution in question.)