

---

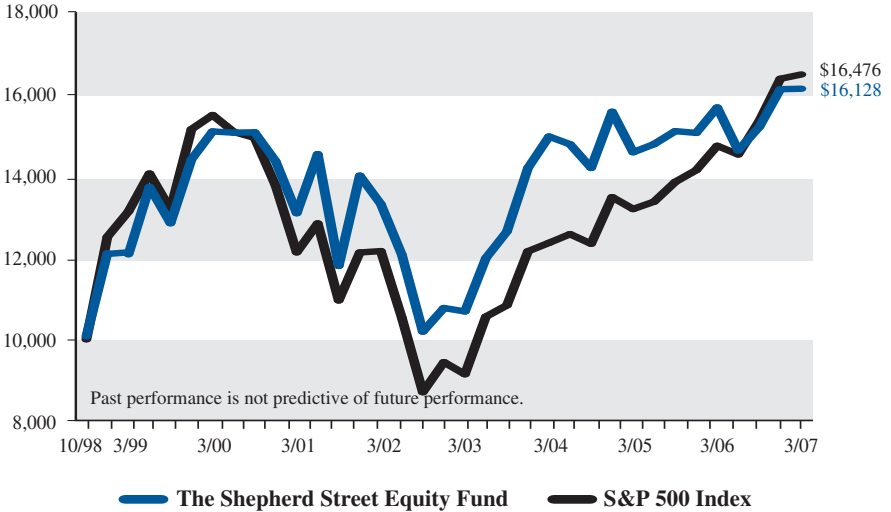
# SHEPHERD STREET EQUITY FUND

---

**THE SHEPHERD STREET FUNDS, INC.**  
**Semi-Annual Report**  
**March 31, 2007**  
**(Unaudited)**

# THE SHEPHERD STREET EQUITY FUND

## Comparison of the Change in Value of a \$10,000 Investment in The Shepherd Street Equity Fund and the Standard & Poor's 500 Index



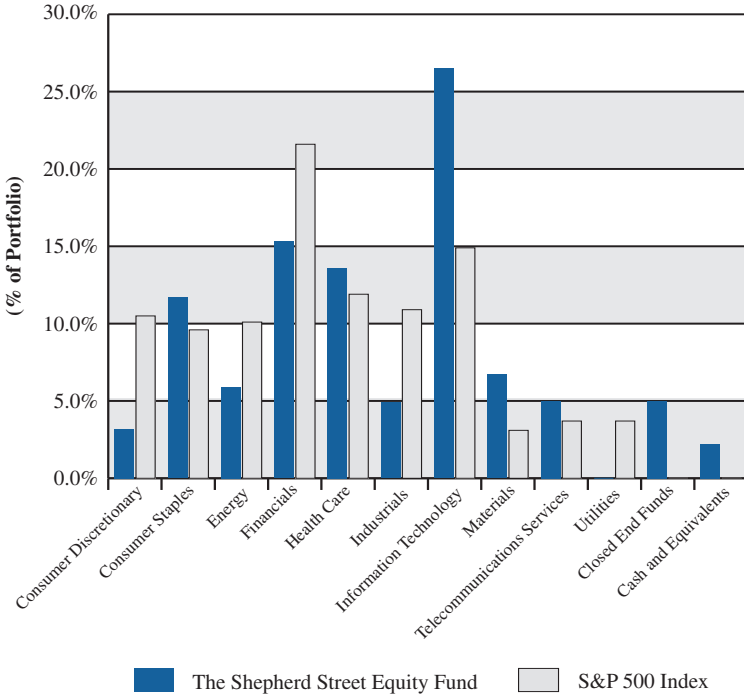
	Average Annual Total Returns <sup>(a)</sup> (for periods ended March 31, 2007)		
	<u>1 Year</u>	<u>5 Years</u>	<u>Since Inception*</u>
The Shepherd Street Equity Fund	2.92%	3.91%	5.79%
Standard & Poor's 500 Index	11.83%	6.27%	6.05%

\* Initial public offering of shares was October 2, 1998.

<sup>(a)</sup> The total returns shown do not reflect the deduction of taxes a shareholder would pay on Fund distributions or the redemption of Fund shares.

# THE SHEPHERD STREET EQUITY FUND

## The Shepherd Street Equity Fund vs S&P 500 Index Sector Diversification March 31, 2007 (Unaudited)



## Top Ten Holdings March 31, 2007 (Unaudited)

<u>Security Description</u>	<u>% of Net Assets</u>
NovaGold Resources, Inc.	6.7%
FX Energy, Inc.	6.0%
Berkshire Hathaway, Inc. - Class A	5.1%
Cisco Systems, Inc.	5.1%
Ishares MSCI Emerging Markets Index Fund	5.0%
Nokia Oyj - ADR	5.0%
Citigroup, Inc.	4.7%
Pfizer, Inc.	4.7%
Pepsico, Inc.	4.5%
Google, Inc.	4.5%

# THE SHEPHERD STREET EQUITY FUND

## SCHEDULE OF INVESTMENTS

March 31, 2007 (Unaudited)

<u>Shares</u>		<u>Value</u>
	<b>COMMON STOCKS — 92.9%</b>	
	<b>Consumer Discretionary — 3.2%</b>	
26,000	Lowe's Companies, Inc. ....	\$ 818,740
	<b>Consumer Staples — 11.7%</b>	
18,175	PepsiCo, Inc. ....	1,155,203
16,000	Procter & Gamble Company (The) .....	1,010,560
17,000	Wal-Mart Stores, Inc. ....	798,150
		<u>2,963,913</u>
	<b>Energy — 6.0%</b>	
200,000	FX Energy, Inc. <sup>(a)</sup> .....	<u>1,516,000</u>
	<b>Financials — 15.3%</b>	
12	Berkshire Hathaway, Inc. - Class A <sup>(a)</sup> .....	1,307,880
4,500	Capital One Financial Corporation .....	339,570
23,333	Citigroup, Inc. ....	1,197,916
3,000	Goldman Sachs Group, Inc. ....	619,890
10,000	Triad Guaranty, Inc. <sup>(a)</sup> .....	414,100
		<u>3,879,356</u>
	<b>Health Care — 13.6%</b>	
19,000	Johnson & Johnson .....	1,144,940
47,000	Pfizer, Inc. ....	1,187,220
14,000	WellPoint, Inc. <sup>(a)</sup> .....	1,135,400
		<u>3,467,560</u>
	<b>Industrials — 4.9%</b>	
2,000	Boeing Company .....	177,820
30,000	General Electric Company .....	<u>1,060,800</u>
		<u>1,238,620</u>
	<b>Information Technology — 26.5%</b>	
10,000	Automatic Data Processing, Inc. ....	484,000
51,000	Cisco Systems, Inc. <sup>(a)</sup> .....	1,302,030
40,000	Dell, Inc. <sup>(a)</sup> .....	928,400
90,400	FalconStor Software, Inc. <sup>(a)</sup> .....	941,968
2,500	Google, Inc. <sup>(a)</sup> .....	1,145,400
50,000	Intel Corporation .....	956,500
35,000	Microsoft Corporation .....	975,450
		<u>6,733,748</u>
	<b>Materials — 6.7%</b>	
100,000	NovaGold Resources, Inc. <sup>(a)</sup> .....	<u>1,695,000</u>

# THE SHEPHERD STREET EQUITY FUND

## SCHEDULE OF INVESTMENTS (Continued)

<u>Shares</u>	<b>COMMON STOCKS — 92.9% (Continued)</b>	<u>Value</u>
	<b>Telecommunications Services — 5.0%</b>	
55,000	Nokia Oyj - ADR .....	<u>\$ 1,260,600</u>
	<b>Total Common Stocks (Cost \$18,804,085)</b> .....	<u>\$23,573,537</u>
<u>Shares</u>	<b>CLOSED END FUNDS — 5.0%</b>	<u>Value</u>
11,000	iShares MSCI Emerging Markets Index Fund (Cost \$964,667) .....	<u>\$ 1,279,190</u>
<u>Shares</u>	<b>MONEY MARKET SECURITIES — 0.0%</b>	<u>Value</u>
49	First American Treasury Obligations Fund - Class A (Cost \$49) .....	<u>\$ 49</u>
	<b>Total Investments at Value — 97.9%</b> (Cost \$19,768,801) .....	<u>\$24,852,776</u>
	<b>Other Assets in Excess of Liabilities — 2.1%</b> .....	<u>544,503</u>
	<b>Net Assets — 100.0%</b> .....	<u>\$25,397,279</u>

ADR - American Depositary Receipt

<sup>(a)</sup> Non-income producing security.

See accompanying notes to financial statements.

# THE SHEPHERD STREET EQUITY FUND

## STATEMENT OF ASSETS AND LIABILITIES

March 31, 2007 (Unaudited)

### ASSETS

Investments in securities:

At acquisition cost .....	\$ 19,768,801
At market value (Note 1) .....	\$ 24,852,776
Receivable for capital shares sold .....	62,908
Receivable for investment securities sold .....	741,359
Dividends receivable .....	21,636
<b>TOTAL ASSETS</b> .....	<u>25,678,679</u>

### LIABILITIES

Line of credit payable (Note 4) .....	257,000
Due to Advisor (Note 3) .....	18,432
Accrued distribution fees (Note 3) .....	5,397
Other liabilities .....	571
<b>TOTAL LIABILITIES</b> .....	<u>281,400</u>

**NET ASSETS** .....

\$ 25,397,279

Net assets consist of:

Common stock (500,000,000 shares (\$.0001 par value) authorized, 1,666,254 shares outstanding) .....	\$ 167
Additional paid-in capital .....	19,773,233
Accumulated undistributed net investment income .....	18,526
Accumulated net realized gains from security transactions .....	521,378
Net unrealized appreciation on investments .....	5,083,975
Net assets .....	<u>\$ 25,397,279</u>
Shares of common stock outstanding .....	<u>1,666,254</u>
Net asset value and offering price per share <sup>(a)</sup> .....	<u>\$ 15.24</u>

<sup>(a)</sup> Redemption price varies based on length of time held (Note 1).

See accompanying notes to financial statements.

# THE SHEPHERD STREET EQUITY FUND

---

## STATEMENT OF OPERATIONS

For the Six Months Ended March 31, 2007 (Unaudited)

### INVESTMENT INCOME

Dividends . . . . . \$ 183,354

### EXPENSES

Investment advisory fees (Note 3) . . . . . 52,617

Service fees (Note 3) . . . . . 65,771

Distribution fees (Note 3) . . . . . 32,885

Interest expense (Note 4) . . . . . 685

Total expenses . . . . . 151,958

Expenses reimbursed by the Advisor (Note 3) . . . . . ( 685 )

Net expenses . . . . . 151,273

NET INVESTMENT INCOME . . . . . 32,081

### REALIZED AND UNREALIZED GAINS ON INVESTMENTS

Net realized gains from security transactions . . . . . 707,291

Net change in unrealized appreciation/depreciation on investments . . . . . 842,533

NET REALIZED AND UNREALIZED GAINS ON INVESTMENTS . . . . . 1,549,824

NET INCREASE IN NET ASSETS FROM OPERATIONS . . . . . \$ 1,581,905

See accompanying notes to financial statements.

# THE SHEPHERD STREET EQUITY FUND

## STATEMENTS OF CHANGES IN NET ASSETS

	<b>Six Months Ended March 31, 2007 (Unaudited)</b>	<b>Year Ended September 30, 2006</b>
<b>FROM OPERATIONS</b>		
Net investment income .....	\$ 32,081	\$ 16,839
Net realized gains from security transactions .....	707,291	189,928
Net change in unrealized appreciation/depreciation on investments .....	842,533	( 118,084)
Net increase in net assets from operations .....	<u>1,581,905</u>	<u>88,683</u>
<b>FROM DISTRIBUTIONS TO SHAREHOLDERS</b>		
From net investment income .....	( 30,394)	—
From net realized gains on investments .....	( 98,304)	—
Total distributions .....	<u>( 128,698)</u>	<u>—</u>
<b>FROM CAPITAL SHARE TRANSACTIONS</b>		
Proceeds from shares sold .....	758,472	2,249,958
Net asset value of shares issued in reinvestment of distributions to shareholders .....	128,573	—
Proceeds from redemption fees collected (Note 1) .....	34	535
Payment for shares redeemed .....	( 2,700,005)	( 6,390,430)
Net decrease in net assets from capital share transactions .....	<u>( 1,812,926)</u>	<u>( 4,139,937)</u>
Total decrease in net assets .....	( 359,719)	( 4,051,254)
<b>NET ASSETS</b>		
Beginning of period .....	<u>25,756,998</u>	<u>29,808,252</u>
End of period .....	<u>\$ 25,397,279</u>	<u>\$ 25,756,998</u>
<b>ACCUMULATED UNDISTRIBUTED</b>		
<b>NET INVESTMENT INCOME</b> .....	<u>\$ 18,526</u>	<u>\$ 16,839</u>
<b>CAPITAL SHARE ACTIVITY</b>		
Sold .....	49,671	157,559
Reinvested .....	8,442	—
Redeemed .....	( 177,002)	( 452,118)
Net decrease in shares outstanding .....	( 118,889)	( 294,559)
Shares outstanding at beginning of period .....	<u>1,785,143</u>	<u>2,079,702</u>
Shares outstanding at end of period .....	<u>1,666,254</u>	<u>1,785,143</u>

See accompanying notes to financial statements.

# THE SHEPHERD STREET EQUITY FUND

## FINANCIAL HIGHLIGHTS

Selected Per Share Data and Ratios for a Share Outstanding Throughout Each Period

	Six Months Ended March 31, 2007 (Unaudited)	Year Ended Sept. 30, 2006	Year Ended Sept. 30, 2005	Year Ended Sept. 30, 2004	Year Ended Sept. 30, 2003	Year Ended Sept. 30, 2002
Net asset value at						
beginning of period . . . . .	\$ 14.43	\$ 14.33	\$ 13.51	\$ 12.03	\$ 9.70	\$ 11.23
Income (loss) from investment operations:						
Net investment income (loss) . . .	0.03	0.01	0.04	(0.02)	(0.02)	(0.04)
Net realized and unrealized gains						
(losses) on investments . . . . .	0.86	0.09	0.82	1.50	2.35	(1.49)
Total from investment operations . .	0.89	0.10	0.86	1.48	2.33	(1.53)
Less distributions:						
From net investment income . . . . .	(0.02)	—	(0.04)	—	—	—
In excess of net						
investment income . . . . .	—	—	(0.00) <sup>(a)</sup>	—	—	—
From net realized gains						
on investments . . . . .	(0.06)	—	—	—	—	—
Total distributions . . . . .	(0.08)	—	(0.04)	—	—	—
Proceeds from redemption						
fees collected (Note 1) . . . . .	0.00 <sup>(a)</sup>	0.00 <sup>(a)</sup>	0.00 <sup>(a)</sup>	—	—	—
Net asset value at end of period . . .	\$ 15.24	\$ 14.43	\$ 14.33	\$ 13.51	\$ 12.03	\$ 9.70
Total return <sup>(b)</sup> . . . . .	6.13% <sup>(c)</sup>	0.70%	6.33%	12.30%	24.02%	(13.62%)
Net assets at end						
of period (000's) . . . . .	\$ 25,397	\$ 25,757	\$ 29,808	\$ 25,722	\$ 21,145	\$ 11,385
Ratio of total expenses to						
average net assets <sup>(c)</sup> . . . . .	1.15% <sup>(d)</sup>	1.15%	1.15%	1.15%	1.15%	1.15%
Ratio of net investment income						
(loss) to average net assets . . . . .	0.24% <sup>(d)</sup>	0.06%	0.23%	(0.13%)	(0.17%)	(0.33%)
Portfolio turnover rate . . . . .	43% <sup>(e)</sup>	99%	76%	87%	70%	65%

<sup>(a)</sup> Less than \$0.01 per share.

<sup>(b)</sup> Total return is a measure of the change in value of an investment in the Fund over the periods covered, which assumes any dividends or capital gains distributions are reinvested in shares of the Fund. Returns shown do not reflect the deduction of taxes a shareholder would pay on Fund distributions or the redemption of Fund shares.

<sup>(c)</sup> Absent expense reimbursements by the Advisor, the ratio of net expenses to average net assets would have been 1.16%<sup>(d)</sup>, 1.16% and 1.15% for the periods ended March 31, 2006, September 30, 2006 and 2005, respectively. Prior to October 1, 2004, there were no expense reimbursements by the Advisor.

<sup>(d)</sup> Annualized.

<sup>(e)</sup> Not annualized.

See accompanying notes to financial statements.

# THE SHEPHERD STREET EQUITY FUND

---

## NOTES TO THE FINANCIAL STATEMENTS

March 31, 2007 (Unaudited)

### 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Shepherd Street Funds, Inc. (the “Company”) was incorporated under the laws of the state of Maryland on July 16, 1998, and currently offers one series of shares, The Shepherd Street Equity Fund (the “Fund”). The Company is registered as a no-load, open-end diversified management investment company under the Investment Company Act of 1940. The Fund’s investment objective is growth of capital. The Fund’s registration statement became effective with the Securities and Exchange Commission on October 1, 1998 and the Fund commenced operations on October 2, 1998.

The following is a summary of the Fund’s significant accounting policies. These policies are in conformity with accounting principles generally accepted in the United States of America.

**Securities valuation** — Common stocks and other equity-type securities listed on a securities exchange are valued at the last quoted sales price on the day of the valuation. Price information on listed stocks is taken from the exchange where the security is primarily traded. Securities that are listed on an exchange but which are not traded on the valuation date are valued at the most recent bid prices. Securities which are quoted by NASDAQ are valued at the NASDAQ Official Closing Price. Other assets and securities for which no quotations are readily available or for which quotations the Advisor believes do not reflect market value are valued at fair value as determined in good faith by the Advisor under the supervision of the Board of Directors. Factors in determining portfolio investments subject to fair value determination include, but are not limited to, the following: only a bid price or an asked price is available; the spread between bid and asked prices is substantial; infrequency of sales; the thinness of the market; the size of reported trades; a temporary lapse in the provision of prices by any reliable pricing source; and actions of the securities or futures markets, such as the suspension or limitation of trading. Short-term instruments (those with remaining maturities of 60 days or less) are valued at amortized cost, which approximates market value.

**Share valuation** — The net asset value per share of the Fund is calculated daily by dividing the total value of the Fund’s assets, less liabilities, by the number of shares outstanding. The offering price and redemption price per share of the Fund is equal to the net asset value per share, except that shares of the Fund are subject to a redemption fee of 0.5% if redeemed within six months of the date of purchase. For the periods ended March 31, 2007 and September 30, 2006, proceeds from redemption fees totaled \$34 and \$535, respectively.

**Security transactions and investment income** — Security transactions are accounted for on trade date. Gains and losses on securities sold are determined on a specific identification basis. Interest income is accrued as earned. Dividend income is recorded on the ex-dividend date.

**Distributions to shareholders** — Dividends arising from net investment income, if any, are declared and paid annually to shareholders of the Fund. Net realized short-term capital gains, if any, may be distributed throughout the year and net realized long-term capital gains,

# THE SHEPHERD STREET EQUITY FUND

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

if any, are distributed at least once each year. Income distributions and capital gain distributions are determined in accordance with income tax regulations which may differ from accounting principles generally accepted in the United States of America. The tax character of distributions paid during the period ended March 31, 2007 was ordinary income. There were no distributions paid during the year ended September 30, 2006.

Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Federal income tax — It is the Fund's policy to comply with the special provisions of Subchapter M of the Internal Revenue Code applicable to regulated investment companies. As provided therein, in any fiscal year in which a Fund so qualifies and distributes at least 90% of its taxable net income, the Fund (but not the shareholders) will be relieved of federal income tax on the income distributed. Accordingly, no provision for income taxes has been made.

In order to avoid imposition of the excise tax applicable to regulated investment companies, it is also the Fund's intention to declare as dividends in each calendar year at least 98% of its net investment income (earned during the calendar year) and 98% of its net realized capital gains (earned during the twelve months ended October 31) plus undistributed amounts from prior years.

The tax character of distributable earnings at March 31, 2007 was as follows:

Cost of portfolio investments	<u>\$ 19,824,956</u>
Gross unrealized appreciation	\$ 5,342,558
Gross unrealized depreciation	<u>( 314,738 )</u>
Net unrealized appreciation	\$ 5,027,820
Capital loss carryforwards	( 31,454 )
Other income/gains	<u>627,513</u>
Total distributable earnings	<u>\$ 5,623,879</u>

The difference between the federal income tax cost of portfolio investments and the financial statement cost is due to certain timing differences in the recognition of capital losses under income tax regulations and accounting principles generally accepted in the United States of America. These "book/tax" differences are temporary in nature and are primarily due to the tax deferral of losses on wash sales.

As of September 30, 2006 the Fund had a capital loss carryforward of \$31,454, of which \$28,164 expires September 30, 2011 and \$3,290 expires September 30, 2014. These capital loss carryforwards may be utilized in the current and future years to offset net realized capital gains, if any, prior to distributing such gains to shareholders.

# THE SHEPHERD STREET EQUITY FUND

---

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2. INVESTMENT TRANSACTIONS

During the six months ended March 31, 2007, cost of purchases and proceeds from sales and maturities of investment securities, excluding short-term investments and U.S. government securities, amounted to \$11,184,211 and \$13,085,833, respectively.

### 3. ADVISORY FEE AND OTHER RELATED PARTY TRANSACTIONS

The Fund has entered into an Advisory Agreement with Salem Investment Counselors, Inc. (the "Advisor") to provide investment management services to the Fund. Pursuant to the Advisory Agreement, the Advisor receives a fee, calculated daily and paid monthly, at the annual rate of 0.40% of the Fund's average daily net assets. For the six months ended March 31, 2007, the Advisor received fees of \$52,617 under the Advisory Agreement and voluntarily reimbursed the Fund for borrowing costs of \$685.

The Fund has entered into an Operating Services Agreement (the "Servicing Agreement") with the Advisor to provide or arrange for day-to-day operational services to the Fund. Pursuant to the Servicing Agreement, the Advisor receives a fee, calculated daily and paid monthly, at the annual rate of 0.50% of the Fund's average daily net assets. For the six months ended March 31, 2007, the Advisor received fees of \$65,771 under the Servicing Agreement. The Advisor pays all of the operating expenses of the Fund except brokerage, taxes, borrowing costs, extraordinary expenses and distribution and/or service related expenses incurred pursuant to Rule 12b-1.

The Fund has adopted a Plan of Distribution under which it may finance activities primarily intended to result in the sale or retention of Fund shares. Under the Plan, the Advisor is reimbursed for distribution-related expenditures made pursuant to the Plan at an annual rate of 0.25% of the Fund's average daily net assets. For the six months ended March 31, 2007, the Advisor received payments from the Fund of \$32,885.

The Fund and the Advisor are parties to mutual fund services agreements with Ultimus Fund Solutions, LLC ("Ultimus"), under which Ultimus provides day-to-day operational services to the Fund including, but not limited to, accounting, administrative, transfer agent, dividend disbursing, and recordkeeping services. The fees payable to Ultimus are paid by the Advisor (not the Fund).

The Fund and the Advisor are parties to a Distribution Agreement with Ultimus Fund Distributors, LLC (the "Distributor"), under which the Distributor provides distribution services to the Fund and serves as principal underwriter to the Fund.

Certain directors and officers of the Fund are directors and/or officers of the Advisor or of Ultimus.

### 4. BANK LINE OF CREDIT

The Fund has an unsecured \$200,000 bank line of credit. Borrowings under this arrangement bear interest at a rate per annum equal to the Prime Rate at the time of borrowing. During the six months ended March 31, 2007, the Fund incurred \$685 of interest expense related to borrowings. Average debt outstanding during the six months ended March 31, 2007 was

# THE SHEPHERD STREET EQUITY FUND

---

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

\$16,347. As of March 31, 2007, the Fund had an outstanding borrowings of \$257,000.

### 5. CONTINGENCIES AND COMMITMENTS

The Fund indemnifies the Company's officers and directors for certain liabilities that might arise from their performance of their duties to the Fund. Additionally, in the normal course of business the Fund enters into contracts that contain a variety of representations and warranties and which provide general indemnifications. The Fund's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Fund that have not yet occurred. However, based on experience, the Fund expects the risk of loss to be remote.

### 6. ACCOUNTING PRONOUNCEMENTS

On July 13, 2006, the Financial Accounting Standards Board (FASB) released FASB Interpretation No. 48 (FIN 48) "Accounting for Uncertainty in Income Taxes." FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken in the course of preparing the Fund's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. Adoption of FIN 48 is required for fiscal years beginning after December 15, 2006 and is to be applied to all open tax years as of the effective date. Recent SEC guidance allows implementing FIN 48 in fund NAV calculations as late as the fund's last NAV calculation in the first required financial statement reporting period. As a result, the Fund will incorporate FIN 48 in its Semi-Annual Report on March 31, 2008.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement on Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements." This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. SFAS No. 157 applies to fair value measurements already required or permitted by existing standards. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The changes to current generally accepted accounting principles from the application of SFAS No. 157 relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. As of March 31, 2007, the Fund does not believe the adoption of SFAS No. 157 will impact the amounts reported in the financial statements, however, additional disclosures may be required about the inputs used to develop the measurements and the effect of certain of the measurements reported on the statement of changes in net assets for a fiscal period.

# THE SHEPHERD STREET EQUITY FUND

---

## ABOUT YOUR FUND'S EXPENSES (Unaudited)

We believe it is important for you to understand the impact of costs on your investment. As a shareholder of the Fund, you incur two types of costs: (1) transaction costs, including redemption fees; and (2) ongoing costs, including management fees, distribution (12b-1) fees, and other Fund expenses. The following examples are intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with ongoing costs of investing in other mutual funds.

A mutual fund's ongoing costs are expressed as a percentage of its average net assets. This figure is known as the expense ratio. The expenses in the table below are based on an investment of \$1,000 made at the beginning of the most recent semi-annual period (October 1, 2006) and held until the end of the period (March 31, 2007).

The table following illustrates the Fund's costs in two ways:

Actual fund return – This section helps you to estimate the actual expenses that you paid over the period. The “Ending Account Value” shown is derived from the Fund's actual return, and the third column shows the dollar amount of operating expenses that would have been paid by an investor who started with \$1,000 in the Fund. You may use the information here, together with the amount you invested, to estimate the expenses that you paid over the period.

To do so, simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number given for the Fund under the heading “Expenses Paid During Period.”

Hypothetical 5% return – This section is intended to help you compare the Fund's costs with those of other mutual funds. It assumes that the Fund had an annual return of 5% before expenses during the period shown, but that the expense ratio is unchanged. In this case, because the return used is not the Fund's actual return, the results do not apply to your investment. The example is useful in making comparisons because the Securities and Exchange Commission requires all mutual funds to calculate expenses based on a 5% return. You can assess the Fund's costs by comparing this hypothetical example with the hypothetical examples that appear in shareholder reports of other funds.

Note that expenses shown in the table are meant to highlight and help you compare ongoing costs only. The Fund does not charge a front-end sales load. However, a redemption fee of 0.5% is applied on the sale of shares held for less than six months.

# THE SHEPHERD STREET EQUITY FUND

## ABOUT YOUR FUND'S EXPENSES (Unaudited) (Continued)

The calculations assume no shares were bought or sold during the period. Your actual costs may have been higher or lower, depending on the amount of your investment and the timing of any purchases or redemptions.

More information about the Fund's expenses, including historical annual expense ratios, can be found in this report. For additional information on operating expenses and other shareholder costs, please refer to the Fund's prospectus.

	Beginning Account Value Oct. 1, 2006	Ending Account Value Mar. 31, 2007	Expenses Paid During Period*
Based on Actual Fund Return	\$1,000.00	\$1,061.30	\$ 5.91
Based on Hypothetical 5% Return (before expenses)	\$1,000.00	\$1,019.20	\$ 5.79

\* Expenses are equal to the Fund's annualized expense ratio of (1.15%) for the period, multiplied by the average account value over the period, multiplied by 182/365 (to reflect the one-half year period).

**Investment Advisor:**

Salem Investment Counselors, Inc.  
480 Shepherd Street  
Winston-Salem, North Carolina 27103

**Shareholder Services:**

Ultimus Fund Solutions, LLC  
225 Pictoria Drive, Suite 450  
Cincinnati, Ohio 45246  
1-888-575-4800

**Legal Counsel:**

Kilpatrick Stockton LLP  
1001 West Fourth Street  
Winston-Salem, NC 27101-2400

A description of the policies and procedures the Fund uses to determine how to vote proxies relating to portfolio securities is available without charge upon request by calling toll-free 1-888-575-4800, or on the Securities and Exchange Commission's (SEC) website at <http://www.sec.gov>. Information regarding how the Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is also available without charge upon request by calling toll-free 1-888-575-4800, or on the SEC's website at <http://www.sec.gov>.

The Company files a complete listing of portfolio holdings for the Fund with the SEC as of the first and third quarters of each fiscal year on Form N-Q. The filings are available free of charge, upon request, by calling 1-888-575-4800. Furthermore, you may obtain a copy of the filing on the SEC's website at <http://www.sec.gov>. The Company's Forms N-Q may also be reviewed and copied at the SEC's Public Reference Room in Washington, DC, and information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.