

Change Agents

In the turbulent seas of investing, companies need to change with the tides of market currents. The Olstein Strategic Opportunities Fund screens the marketplace for out-of-favor players suffering temporary setbacks or in need of a turnaround because of their failure to keep up with changing conditions. Portfolio manager Eric Heyman and his team look to invest in companies that are poised for transformation and have the financial strength to reenergize their business and earnings.

What is history of the fund and the company?

Olstein Capital Management was started in 1995 and currently manages \$700 million of assets in two mutual funds. The Olstein Strategic Opportunities Fund was launched in 2006 with assets of \$20 million to specifically focus on small- to mid-cap companies.

What is the fund's main objective?

This fund seeks long-term capital appreciation by investing in undervalued securities of small to mid-cap companies that face temporary problems or strategic challenges. It may also engage in shareholder activism as a form of value investing. To this end, the fund may invest in public companies that are undervalued in our assessment and may also seek ways to influence managements to increase shareholder value by undertaking specific steps.

How do you define your investment philosophy?

We opportunistically engage as an activist investor only in situations where we believe that such an approach will add value to the investment process.

A company's stock price usually falls below its market due to a temporary problem or when the company performs poorly for an extended period of time. We seek to identify companies that we believe are suffering the effects of temporary problems that can be corrected in a reasonable period of time. We identify such situations through quantitative and qualitative screening and analysis. We conduct a forensic analysis of financial statements to evaluate a company's performance. Thus, we are able to identify the nature of its problems and the sources of hidden value and if any prospect of a turnaround exists. We value companies based on free cash flow and we seek to invest in companies selling at a significant discount to our determination of their intrinsic value so that we have adequate margin of safety in our investments.

Reliable valuations always require determining if a company's accounting policies reflect the economic reality of the business and its operations. As our first step, we assess a company's quality of earnings and make adjustments to eliminate any management bias we identify in their reporting. Our objective is to identify all relevant factors that may affect the future cash flow of the company.

As a second step, we evaluate the activist elements of a company to assess the feasibility of an activist approach for a potential investment. We study the legal and corporate governance structure. We also look at the shareholder base and the capabilities of the existing management.

Our third step is to develop an activist plan. The foundation of an activist plan is to determine what changes or set of circumstances are likely to get the company back on track to unlock the value we have identified.

Once we have completed these due diligence steps, we accumulate significant position in the company with the intent of communicating our recommendations to company management. Then, if needed, we will work with them in implementing plans to unlock value and put the company on track to improved performance.

How does an activist seek to influence management?

An activist investor asserts their intent to influence management of a target company by filing a schedule 13D (mandated under section 13(d) of the 1934 Exchange Act) within 10 days of acquiring more than 5% of any class of the target company's securities. As an activist, our goal is to create a catalyst or trigger an event that we believe will increase shareholder value.

How do you identify corporate turnaround investment opportunities?

The first step in this process would be to



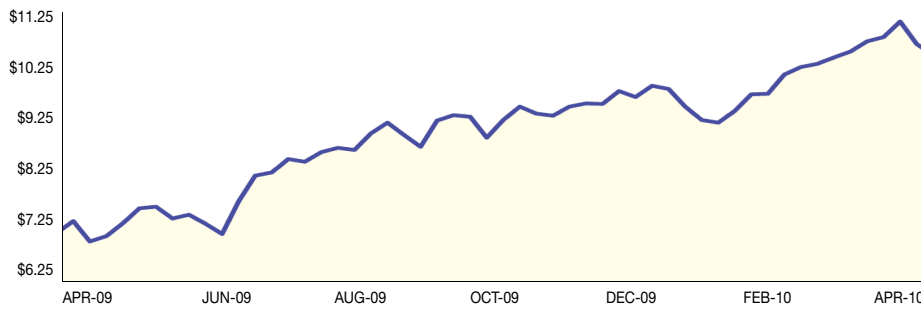
ERIC R. HEYMAN is Senior Vice President, Director of Research and co-Portfolio Manager of the Olstein All Cap Value and the Olstein Strategic Opportunities funds. He joined Olstein Capital Management, LP, in 1996, within months of the firm's inception. Heyman has served as a Research Analyst and was named Director of Research in 2005. He has been co-Portfolio Manager of the Olstein Strategic Opportunities Fund since its inception in November 2006 and co-Portfolio Manager of the Olstein All Cap Value Fund since October 2008.

Previously, he was an Accountant with Norstar Energy, a subsidiary of Orange and Rockland Utility. Heyman holds a BBA in Accounting from Pace University.

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Performance - Price History N.A.V.

OLSTEIN STRATEGIC OPPORTUNITIES FUND (OFSAX)



	2007	2008	2009
Russell 2500 Index	1.38%	-36.79%	34.39%
S&P 500 Index	5.49%	-37.00%	26.46%
Olstein Strategic Opportunities Fund	-5.17%	-38.11%	48.51%

identify if the company is well positioned to achieve the type of transformation that creates shareholder value. We try to determine if the target company has a viable core business with a sustainable competitive advantage that is facing a temporary setback or if the company's performance has eroded over a prolonged period as its products, services or operating methods have become less relevant to the market. It is possible for a company with a viable core business to thrive again while a company experiencing a prolonged decline may face uncertain outcomes when implementing a turnaround strategy.

We start by analyzing internal, company-specific factors. A very important part of this analysis is to understand the severity of the company's problems. Some of the factors contributing to these problems could be internal like a weak management, lack of management expertise, unrealistic accounting practices, failure to keep pace with market trends, too much debt, inept allocation of capital or insufficient operating controls.

Among outside factors that affect company performance could be economic shifts creating headwinds for the business, social and technological changes and, last but not least, regulatory constraints.

Since free cash flow is the lifeblood of any company, a healthy balance sheet with

solid free cash flow potential is very important requisite for a successful turnaround. The balance sheet must be healthy enough to withstand the rocky turnaround period when some of these strategic actions can have very severe short-term market implications.

We feel that for a corporate turnaround to succeed, the target company must be willing to identify realistic and achievable alternatives for correcting its course. The company may also be required to redefine its business boundaries, strategies, operations, financial management and sometimes the organizational structure.

When we are certain that the target company has the potential for a turnaround, we proceed to acquire the stock as long as it is priced at a 40% discount to our estimate of its intrinsic value.

What is your investment process?

Our qualitative and quantitative screening process helps us narrow our focus to a workable list of companies. At this stage the real core of our forensic analysis comes in to play. We comb through financial statements, footnotes, shareholder letters, press releases and other regulatory filings to assess the quality of a company's earnings and estimate its free cash flow under normalized conditions. We analyze the balance sheet to understand what they are doing with their

debt, how they are controlling their inventory and how they are using their free cash flow. We spend a lot of time sifting through these details to understand the company's business model, and sustainability of earnings from operations so that we can arrive at our estimate of the company's intrinsic value

Let's take Ruby Tuesday, Inc. as an example. We first began to follow the company, whose concept we found appealing, about three years ago when the stock was in the high \$20 range. Over the past three years we have seen a very clear change in their strategic direction as we read their letters to shareholders. We could see that Ruby Tuesday set out to reimagine their restaurants and make them more relevant in light of existing market conditions. The company had changed their menu in line with the times and we also found that they were focusing on driving same store sales. Even though they were generating a lot of free cash, they were not using it to pursue a growth strategy of opening new stores, instead they used their free cash flow over the past few years to refurbish their image. Now their current capital spending is down to maintenance levels, which we believe is ideally suited for today's challenging economic environment.

At their current market capitalization, their free cash flow yield is around 11%. Since we felt that they had the right concept with manageable debt, we believe that investing in Ruby Tuesday with an 11% free cash flow yield at a 40% discount to intrinsic value makes for a better investment than investing in a risk-free Treasury.

Another example would be Teleflex Inc., a company in the industrial sector with a small medical division. They had a terrific balance sheet and in 2007 they made a conscious decision to shift towards the medical segment and divest some of their cyclical businesses. With this strategy in mind in 2007, they acquired Arrow International, Inc., a firm that specialized in catheter-based disposable medical supplies, urology sutures, chest drains, etc. Teleflex also started divesting some of their cyclical businesses and, even though

The performance data quoted represents past performance and does not guarantee future results. The Olstein Strategic Opportunities Class A return as of 06/30/11 for the three-year period, one-year period and since inception date of 11/01/06 assuming deduction of the Olstein Strategic Opportunities Class A maximum sales charge of 5.50% was 10.24%, 29.99%, and 2.47% respectively. As of 10/31/10, the gross expense ratio for the Olstein Strategic Opportunities Fund Class A Share was 2.31% and the net expense ratio was 1.60% after contractual expense waiver and/or reimbursement. Expense ratios for other share classes will vary. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than performance quoted. To obtain performance data current to the most recent month end please go to our website at www.olsteinfunds.com. Performance for other share classes will vary due to differences in sales charge structure and class expenses.

they were still seen as an industrial company, they had more sustainable cash flows from the medical business.

With the free cash flow generated from the medical business they started paying down their debt, thus creating increased earnings power. Although they are still seen as an industrial business, the market is bound to wake up to the new reality of this company and the stock price should benefit. Currently, it is trading at \$58 per share and we value the company under normalized conditions at around \$90 per share, giving us a greater than 30% discount.

How far ahead do you project to get your intrinsic value?

We project the free cash flow over a five- to ten-year timeframe before discounting it back to a company's intrinsic value.

At what rate do you discount the figure?

Our discount rate is usually two times the 10-year treasury yield. We want to make sure that we are getting a substantially better return than the prevailing risk-free rate for taking the risk in investing in the equity market.

How many names do you typically have in the portfolio?

We tend to have about 40 names in the Strategic Opportunities Fund portfolio.

What is the average annual turnover in the portfolio?

It is now around 67% since we have been presented with a lot of buying opportunities due to the recent bear market.

What is the fund's benchmark index?

As bottom-up stock pickers we build our portfolio one company at a time based on the values we see in the market rather than imitating the construction of any benchmark index. That being said, we define our investable universe and compare our performance to the Russell 2500 Index, which currently has an average weighted market cap of \$2.6 billion


and a market cap range of up to \$10 billion.

What is your sell discipline?

We sell positions as they reach our valuation levels unless we see a reason to revalue the company or modify our intrinsic value based on what the company is doing. Every quarter we review our entire portfolio from top to bottom using the most recent quarterly filings to judge whether or not our portfolio companies are performing according to our criteria and initial investment thesis. We will sell a position outright if we see that our thesis is being proved wrong.

What are some of the risks that you consider and how do you mitigate them?

First of all, we think that the best way to mitigate risk is through ongoing company due diligence. The more confidence we have that we understand a company's business, understand the sources of its free cash flow, and understand management's strategic direction and skill, that tends to put the odds in our favor that our investment thesis is going to be proven correct within a reasonable period of time. If we buy a company that we understand thoroughly at a material discount to its intrinsic value, well that's another risk control that we have built in for protecting on the downside.

More specifically, we manage risk by the size of the position depending on the discount to intrinsic value that we're getting in the market. As the discount to intrinsic value or free cash flow widens we may look to take a bigger position. When that valuation gap closes or the market starts to realize that this company is successfully transforming itself as evidenced by increasing or stable free cash flows, the market will eventually pay a higher price for a business that we own. We reduce a position in the fund as it approaches its intrinsic value. That is how the size of the position, the discount we are getting and the concentration in the portfolio serve as ways for us to try to mitigate some of the risks in the portfolio. 

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Olstein Strategic Opportunities Fund

Symbol **OFSAX** (A Class)
OFSCX (C Class)
Website www.olsteinfunds.com
Address The Olstein Funds
4 Manhattanville Road
Purchase, New York 10577
Telephone 800-799-2113
Inception 11/01/2006

INVESTMENT INFORMATION	
New Investment	Open
Minimum Initial Purchase	\$1,000

PORTFOLIO CHARACTERISTICS	
Total Net Assets *	\$17.2
Wtd. Average Market Cap *	\$2,853
Number of Holdings	43

MARKET CAPITALIZATION BREAKDOWN (% OF EQUITY)	
Large Cap (>\$10Bn - \$100Bn)	1.29%
Mid Cap (>\$2Bn - \$10Bn)	56.09%
Small Cap (\$100MM - \$2Bn)	42.62%
Micro Cap (<\$100MM)	0.00%

PERFORMANCE VS. RUSSELL 2500 INDEX		
	OFSAX	Index
1 Year (Cum.)	49.86%	50.39%
3 Years (Ann.)	-2.50%	-2.48%
Since Inception	1.12%	0.25%

PERFORMANCE VS. S&P 500 INDEX		
	OFSAX	Index
1 Year (Cum.)	49.86%	38.85%
3 Years (Ann.)	-2.50%	-5.05%
Since Inception	1.12%	-2.06%

FEES & EXPENSES	
Expense Ratio - Class A	1.61%
Expense Ratio - Class C	2.36%

PORTFOLIO MANAGER	
Robert A. Olstein	2006
Eric R. Heyman	2006

* millions
04/30/2010; Source: Company Documents

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Each Q&A article covers investment philosophy and strategy, research process, portfolio construction and risk control for funds. These interviews uncover strategies and techniques that help to generate long-term investment goals.

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Disclosure Statement

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An investment in a portfolio containing small- and mid-cap companies is subject to additional risks, as the share prices of small- and mid-cap companies are often more volatile than those of larger companies due to several factors, including limited trading volumes, products, financial resources, management inexperience and less publicly available information. Investing in a non-diversified, narrowly focused fund may entail greater risks than is normally associated with more widely diversified funds.

There is no assurance that the Olstein Funds will achieve their investment objective. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The activist strategy invests in stocks of underperforming companies and any shareholder activism might not result in a change in performance or corporate governance. These stocks could also experience less liquidity and higher share price and trading volume volatility than stocks of other companies.

The Standard & Poors 500 Index is an unmanaged index that includes a representative sample of 500 leading companies in leading industries in the U.S. economy and is considered to represent overall U.S. stock-market performance. The Russell 2500 Index is composed of the smallest 2500 securities in the Russell 3000 Index. The Russell 2500 is constructed to provide a comprehensive and unbiased barometer for the small to mid-cap segment of the U.S. equity universe. Investors cannot actually make investments in either index.

As of 06/30/11, the Olstein Strategic Opportunities Fund maintained a position in the following securities mentioned, and is subject to change: Ruby Tuesdays (4.90%) and Teleflex (4.50%). The references to securities are not buy or sell recommendations. The references are intended to be descriptive examples of the Olstein Strategic Opportunities Fund's investment philosophy. Do not make investments based on the securities referenced above.

The above represents opinion, and is not intended to be a forecast of future events, a guarantee of future results, or investment advice. This information should be preceded or accompanied by a current prospectus, which contains more complete information, including investment objectives, risks, charges and expenses of the Olstein Funds and should be read carefully before investing. A current prospectus may be obtained by calling (800) 799-2113 or visiting the Olstein Funds' website at www.olsteinfunds.com.

NOT FDIC INSURED	NOT BANK-GUARANTEED	MAY LOSE VALUE
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