



HATTERAS
FUNDS

MANAGEMENT'S DISCUSSION OF PERFORMANCE

AS OF 12/31/11	4Q2011	1Y	2Y ¹	3Y ¹	5Y ¹	SINCE INCEPTION ^{1,2}
ALPHX	2.03%	0.47%	2.48%	7.70%	-1.55%	2.27%

Net Fund Operating Expenses are contractually capped at 3.99% excluding dividends on short positions and interest on borrowing as well as other extraordinary items disclosed in the prospectus. Total Annual Fund Operating Expenses are 4.97%. Performance data quoted represents past performance; past performance does not guarantee future results. 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 of the Funds may be lower or higher than the performance quoted. To obtain performance information current to the most recent month-end, please call 866.388.6292 or visit hatterasfunds.com.

1. Average annual total return
2. Fund inception date: 9/23/2002

ANNUAL COMMENTARY - CAPITAL MARKETS REVIEW

For many equity investors, 2011 was one of the more difficult years in a long time, not nearly as bad as the financial chaos and catastrophic performance of 2008, but in some ways, just as frustrating. Volatility was high throughout the year, and correlation of equity security prices was extremely high compared to historical levels. Similar to what occurred in the U.S. fixed income market, bigger was better than smaller, as large cap stocks outperformed their small cap brethren around the globe.

In the U.S., the equity market was characterized by early concepts of an improving economy, leading strong gains in Q1 only to sell mildly in Q2 (with a last week rebound in June) as the economic data worsened. Things got worse in the summer months as the data pointed towards a higher risk of a potential double dip recession, the European debt crisis seemingly spiraled out of control, and the Chinese and Indian economies showed evidence of slowing growth. These events caused equity markets worldwide to plummet, although the U.S. held up better than Asian and European markets.

Then, investors became more confident again in Q4, especially in regards to U.S. equities as the economic data seemed to improve throughout the latter part of the quarter. Surprisingly, international stocks, including emerging markets, did not increase nearly as rapidly as those in the U.S. due to continued concern with European sovereign debt, European banking weakness, and expected slowdown in major emerging economies.

In the U.S., larger cap stocks and growth stocks outperformed the smaller/mid and value brethren respectively. Some would argue that valuations, based on current earnings and expected 2012 earnings (even with estimates for growth slowing down) have become somewhat attractive for longer term investors.

On the fixed income side, investors clearly preferred the "safe havens" of U.S. Government Bonds, with longer duration securities providing almost unheard of returns. Municipal bonds that were criticized early in the year as public finances looked (and still look) somewhat unstable proved to be another "safe haven". High yield securities in the U.S. produced decent returns, but did not keep up with the high grade government, corporate, and municipal debt. Finally, consistent with the equity markets, foreign fixed income returns lagged those in the U.S., producing returns in the low to mid-single digits compared to high single digit to double digit returns in the U.S.

INDEX RETURNS

CUMULATIVE RETURNS	4Q11	3Q11	2Q11	1Q11
Equity				
S&P 500 Total Return Index	11.8%	-13.9%	0.1%	5.9%
MSCI EAFE Index	3.3	-19.0	1.6	3.4
MSCI Emerging Markets Index	4.4	-22.6	-1.2	2.1
Nikkei-225 Stock Average	-3.5	-11.4	0.63	-4.6
DAX Index	7.2	-25.4	4.8	1.8
Shanghai Stock Exchange Composite Index	-6.8	-14.6	-5.7	4.3
Bombay Stock Exchange Sensitive Index	-13.3	-20.2	-2.3	-4.9
Fixed Income				
Barclays Capital U.S. Aggregate Bond Index	1.1	3.8%	2.3%	0.4%
Bank of America Merrill Lynch High Yield Master II Index	6.2	-6.3	1.0	3.9
Bank of America Merrill Lynch 3-Month U.S. Treasury Note Index	0.0	0.0	0.0	0.1

Sources: Bloomberg, Hedge Fund Research, Inc., and Morningstar. All foreign index returns are priced in USD.

HEDGE FUND INDUSTRY REVIEW

From January 1 to December 31, hedge fund returns were generally disappointing. Broad based indices like the HFRI Fund Weighted Composite Index and the HFRI Fund of Funds Composite Index were both down about 5%. Strategies like long/short equity, emerging markets, and convertible arbitrage struggled, losing 8% (HFRI Equity Hedge Index), 13% (HFRI Emerging Markets Index), and 5% (HFRI RV – Fixed Income Convertible Arbitrage Index) respectively, while strategies such as asset-backed, more private/Reg. D, and merger arbitrage enjoyed decent years, returning 7% (HFRI RV – Fixed Income Asset Backed Index), 9% (HFRI ED: Private Issue Reg D Index), and 2% (HFRI Merger Arbitrage Index) respectively.

In our experience, the smaller managers, especially in the long/short equity strategy, were more adept and produced better returns than the more established, larger managers. Fund of Funds allocating to the smaller managers seemed to have better returns during the year.

However, during the various short-term periods of market dislocations throughout the year, diversified hedge funds and hedge fund of funds we believe did a good job of preserving capital; one reason investors allocate to these strategies.

HEDGE FUND INDEX RETURNS

CUMULATIVE RETURNS	4Q11	3Q11	2Q11	1Q11
HFRI Fund of Funds Composite Index	-0.3%	-5.0%	-1.2%	0.9%
HFRX Global Hedge Fund Index	-0.5	-6.5	-2.5	0.4
HFRX Equity Hedge Index	-0.9	-11.0	-5.4	-3.1
HFRX Equity Market Neutral Index	0.6	-6.1	-0.1	2.8

HFRX Event Driven Index	0.6	-6.8	-1.0	2.4
HFRX Relative Value Arbitrage Index	0.1	-5.4	0.1	1.3
HFRX ED - Distressed Restructuring Index	-0.3	-8.4	-1.25	2.0
HFRX Convertible Arbitrage Index	-1.3	-3.3	-1.7	3.4
HFRX Merger Arbitrage Index	1.1	-4.1	-0.5	1.6

Source: Hedge Fund Research, Inc.

REVIEW OF HATTERAS ALPHA HEDGED STRATEGIES FUND'S PERFORMANCE

Hatteras Alpha Hedged Strategies Fund ("Alpha", ALPHX) returned 0.5% for 2011, outperforming the HFRI Fund of Funds Composite Index by a wide margin as that index lost -5.5%. The S&P 500 TR Index returned 2.1% for the year due to a significant rebound in Q4. Alpha's performance was positively impacted by strong performance from the long/short equity and event driven strategies. We are pleased with this performance overall, especially given the reduced volatility and good downside protection provided during the various short-term equity markets' corrections that took place in April-May, July-August, and September.

Alpha also benefited from an overweight position in health care, which was a strong performing sector in 2011. The largest sector allocation in 2011 was to information technology, which outperformed the S&P 500 TR Index and NASDAQ Index for the year.

At the end of Q3, we added managed futures as a dedicated strategy to Alpha, which clearly is a growing universe in the alternative investments area and we believe can bring excellent non-correlating benefits to the portfolio. As expected, managed futures underperformed equity markets during the Q4 rally, however, we are confident that this strategy could potentially provide diversification benefits to the portfolio and may help weather more volatile periods.

LONG/SHORT EQUITY*

Allocation: 32%

Strategic Range: 25%-45%

The *Long/Short Equity* strategy produced a return of 7.0% for the year, easily outdoing the HFRX Equity Hedge Index, which lost -19.1% and the S&P 500 TR Index, which returned 2.1%. We increased our allocation to this strategy from 29% to 32% during the year and benefitted from exposure to information technology and healthcare. Outperformance for the year was driven by good stock picking and the ability of our managers to adjust exposures quickly through an uncertain and volatile equity environment.

MARKET NEUTRAL*

Allocation: 14%

Strategic Range: 5%-25%

Our Market Neutral strategy slightly outperformed the hedged index, losing -2.5% versus a loss of -2.9% for the HFRX Equity Market Neutral Index. On an aggregate basis, our managers were beta-neutral to slightly net long in the information technology sector, net long energy, and neutral-to-net short basic materials during the year. This positioning worked well at times and detracted at times. Our quantitative market neutral manager was positioned beta-neutral for much of the year and ended flat. Altogether, the strategy detracted from overall performance but performed as expected during a period in equity markets marked by high correlations and low dispersion.

RELATIVE VALUE - LONG/SHORT DEBT*

Allocation: 24%

Strategic Range: 15%-35%

Relative Value - Long/Short Debt underperformed the hedged index, ending the year up 0.1% versus the HFRI Relative Value Fixed Income-Corporate Index which was up 0.7%. The key detractor for the strategy was a more recent allocation to an emerging market credit strategy that was negatively impacted by wide swings in spreads as a result of turmoil in Europe.

EVENT DRIVEN*

Allocation: 18%

Strategic Range: 5%-25%

The *Event-Driven* strategy dramatically out-performed the hedged index, returning 4.1% versus the HFRX Event Driven index losing -4.9%. The strategy benefitted from an active M&A market in the first half of the year and good security selection the second half of the year.

MANAGED FUTURES*

Allocation: 12%

Strategic Range: 0%-20%

Our new *Managed Futures* strategy ended the quarter (and inception) down -2.5% compared to the HFRX Systematic Diversified CTA Index down -2.7% for the quarter. The best performer was a counter-trend manager while trend and momentum strategies detracted from performance.

FUND OUTLOOK

After a careful review of 2011 and lengthy discussions among our team and underlying sub-advisers, our outlook remains cautious, but with a slight improvement in optimism. Our cautious stance stems from continued global macro headwinds including uncertainty on a number of fronts in Europe, growing U.S. fiscal deficits, and the upcoming 2012 Presidential election, as well as the slowing economies of Brazil, China and India, and their impact on global growth. In addition, we believe there is risk associated with a potential “topping out” of earnings and profit margins for U.S. companies in this cycle, although that risk may be less than it was 3-4 months ago.

The recent positive economic data in the U.S. could help spur further investment into U.S. equity markets, and place a larger emphasis on individual security level fundamentals as correlations decrease among individual securities. Furthermore, relatively low expected default rates, combined with current widened credit spreads among lower rated fixed income securities, could create a good environment for tactical credit managers.

We believe with strong balance sheets and large amounts of cash, companies will be looking for opportunities to enhance revenue growth through acquisitions which will result in a moderate level of corporate deal activity, allowing for event driven type managers to benefit. If for some reason the global macro headwinds become less of a risk in investors’ minds (which we do not believe will happen anytime soon), then deal activity would become more robust.

In closing, we would like to again thank our investors for the confidence you have placed in the Hatteras Funds team. We are happy with the risk-adjusted performance of the Fund since we entered into an agreement to acquire the Fund’s advisor in July 2009, but know the current environment is very challenging for all investors and therefore, we will continue our hard work and focus to meet your expectations.

* The asset class and strategy return figures presented for the Hatteras Alpha Hedged Strategies Fund indicate how each strategy performed on a stand-alone basis and are not guaranteed as to accuracy. The strategies are part of an Underlying Fund Trust (“UFT”) structure. Individual investors may not invest directly in the UFT. The return figures are net of all underlying manager fees and expenses and UFT level fees. However, the strategy return figures do not reflect Hatteras Alpha Hedged Strategies Fund expenses, including fund administration fees, custody fees, fund accounting fees, etc., which would reduce the figures shown. Consequently, the information above was included for educational purposes only and should not be used to evaluate any Hatteras Alpha Hedged Strategies Fund performance. Past performance does not guarantee future results.

DEFINITIONS

Bank of America Merrill Lynch 3-Month U.S. Treasury Note Index: The Index is comprised of a single issue purchased at the beginning of the month and held for a full month. Each month, the Index is rebalanced and the issue selected is the outstanding Treasury Bill that matures closest to, but not beyond 3 months from the rebalancing date.

Bank of America Merrill Lynch High Yield Master II Index provides a broad-based measure of the performance of the non-investment grade U.S. domestic bond market. The Index is "rules-based" which means that issues must conform to the following criteria: be in the form of publicly placed nonconvertible, coupon-bearing U.S. domestic debt or Yankee bonds, carry a term to maturity of at least one year and have at least \$100 million face value outstanding. A bond's weight in the Index is based on its total outstanding capitalization (total face value currently outstanding times price plus accrued interest). The Index is rebalanced on the last calendar day of the month.

Barclays Capital U.S. Aggregate Bond Index: The Index represents securities that are SEC-registered, taxable, and dollar denominated. It covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

Bombay Stock Exchange Sensitive Index ("Sensex"): The Index is a cap-weighted index representing the composite value of shares of 30 selected companies traded on India's Bombay Stock Exchange. The selection of members has been made on the basis of liquidity, depth and floating-stock-adjustment depth, and industry representation.

DAX Index: The German Stock Index is a total return index of 30 selected German blue chip stocks traded on the Frankfurt Stock Exchange. The equities use free float shares in the index calculation. It has a base value of 1,000 as of December 31, 1987. As of June 18, 1999, only XETRA equity prices are used to calculate all DAX indices.

HFRI Fund of Funds Composite Index: Funds included in the Index invest with multiple managers through funds or managed accounts. The strategy designs a diversified portfolio of managers with the objective of significantly lowering the risk (volatility) of investing with an individual manager. The fund of funds manager has discretion in choosing which strategies to invest in for the portfolio. A manager may allocate funds to numerous managers within a single strategy, or with numerous managers in multiple strategies. The minimum investment in a fund of funds may be lower than an investment in an individual hedge fund or managed account. The investor has the advantage of diversification among managers and styles with significantly less capital than investing with separate managers. The HFRI are updated three times a month: Flash Update (5th business day of the month), Mid Update (15th of the month), and End Update (1st business day of the following month). The current month and the prior three months are left as estimates and are subject to change. All performance prior to that is locked and is no longer subject to change.

HFRI Fund Weighted Composite Index is an equally weighted performance index of the HFRI hedge fund strategy indices. The HFRI hedge fund strategy indices are broken down into 32 different indices (the fund of funds indices are not included in the HFRI Fund Weighted Composite Index) and are not investable. To be included in this index, the hedge funds must fulfill the following criteria: Report monthly returns to HFRI, Report net of all fees returns, Report assets in USD. There is no required asset-size minimum to be included in the HFRI Fund Weighted Composite Index; the names of the individual hedge funds are not disclosed and there is no requirement for a certain track record length to be part of the index. A fund that does not report any longer will have its past returns kept in the index but will not be used in the future (possible survivorship bias).

HFRI ED: Merger Arbitrage Index is an unmanaged index comprised of strategies which employ an investment process primarily focused on opportunities in equity and equity related instruments of companies which are currently engaged in a corporate transaction.

HFRI ED: Private Issue/Regulation D Index is an unmanaged index comprised of strategies which employ an investment process primarily focused on opportunities in equity and equity related instruments of companies which are primarily private and illiquid in nature.

HFRI Emerging Markets Index is an unmanaged index comprised of strategies which employ an investment process primarily focused on opportunities in emerging markets with no greater than 50% exposure in any specific emerging market.

HFRI Equity Hedge Index data is sourced from Hedge Funds Research, Inc. Equity Hedge strategies maintain positions both long and short in primarily equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalization and valuation ranges of typical portfolios. Equity Hedge managers would typically maintain at least 50%, and may in some cases be substantially entirely invested in equities, both long and short.

HFRI RV: Fixed Income - Convertible Arbitrage Index is an unmanaged index comprised of strategies in which the investment thesis is predicated on realization of a spread between related instruments in which one or multiple components of the spread is a convertible fixed income instrument.

HFRX Equity Hedge Index data is sourced from Hedge Funds Research, Inc. Equity Hedge strategies maintain positions both long and short in primarily equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalization and valuation ranges of typical portfolios. Equity Hedge managers would typically maintain at least 50%, and may in some cases be substantially entirely invested in equities, both long and short.

HFRX EH: Equity Market Neutral Index is an unmanaged index comprised of strategies that employ sophisticated quantitative techniques of analyzing price data to ascertain information about future price movement and relationships between securities, select securities for purchase and sale. These can include both Factor-based and Statistical Arbitrage/Trading strategies.

HFRX Event Driven Index is an unmanaged index comprised of managers that maintain positions in companies currently or prospectively involved in corporate transactions of a wide variety including but not limited to mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance or other capital structure adjustments.

HFRX RV: Fixed Income - Asset Backed Index is an unmanaged index comprised of includes strategies in which the investment thesis is predicated on realization of a spread between related instruments in which one or multiple components of the spread is a fixed income instrument backed physical collateral or other financial obligations (loans, credit cards) other than those of a specific corporation.

HFRX Macro: Systematic Diversified CTA Index is an unmanaged index comprised of Strategies that have investment processes typically as function of mathematical, algorithmic and technical models, with little or no influence of individuals over the portfolio positioning. Strategies which employ an investment process designed to identify opportunities in markets exhibiting trending or momentum characteristics across individual instruments or asset classes.

HFRI Relative Value Arbitrage Index is an unmanaged index comprised of investment managers who maintain positions in which the investment thesis is predicated on realization of a valuation discrepancy in the relationship between multiple securities. Managers employ a variety of fundamental and quantitative techniques to establish investment theses, and security types range broadly across equity, fixed income, derivative or other security types.

MSCI EAFE Index: The Morgan Stanley Capital International Europe, Australia, Far East Index is a benchmark of foreign stocks. Compiled by Morgan Stanley, the Index is an aggregate of 22 individual country indices that collectively represent many of the major markets of the world, including: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. Most international mutual funds measure their performance against this index. It is a market-capitalization weighted index.

MSCI Emerging Markets Index: The Morgan Stanley Capital International Emerging Markets Index is designed to measure equity market performance in global emerging markets. The Index is a float-adjusted market capitalization index. As of May 2005, it consisted of indices in the following 21 emerging economies: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

Nikkei-225 Stock Average

The Average is a price-weighted average of 225 top rated Japanese companies listed in the First Section of the Tokyo Stock Exchange. It was first published on May 16, 1949, when the average price was ¥176.21 with a divisor of 225.

Shanghai Stock Exchange Composite Index: The Shanghai Stock Exchange Composite Index is a capitalization-weighted index. The index tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange. The index was developed on December 19, 1990 with a base value of 100. Index trade volume on Q is scaled down by a factor of 1000.

Standard & Poor's (S&P) 500 Total Return Index: An index 500 stocks chosen for market size, liquidity, and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. Companies included in the index are selected by the S&P Index Committee, a team of analysts and economists at Standard & Poor's. The S&P 500 is a market value weighted index – each stock's weight in the index is proportionate to its market value.

DISCLAIMER

The opinions expressed in this report are subject to change without notice. This material has been prepared or is distributed solely for informational purposes and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. The opinions discussed in the letter are solely those of the Investment Manager and may contain certain forward-looking statements about the factors that may affect the performance of the Hatteras Funds in the future. These statements are based on the Investment Manager's predictions and expectations concerning certain future events and their expected impact on the Hatteras Funds, such as performance of the economy as a whole and of specific industry sectors, changes in the levels of interest rates, the impact of developing world events, and other factors that may influence the future performance of the funds. Management believes these forward-looking statements to be reasonable, although they are inherently uncertain and difficult to predict. Actual events may cause adjustments in portfolio management strategies from those currently expected to be employed. It is intended solely for the use of the person to whom it is given and may not be reproduced or distributed to any other person. This should be read in conjunction with or preceded by a current prospectus. The information and statistics in this report are from sources believed to be reliable, but are not warranted by Hatteras to be accurate or complete.

IMPORTANT DISCLOSURES AND KEY RISK FACTORS

The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The summary prospectus and prospectus contain this and other important information about the investment company, and may be obtained by calling.877.569.2382 or visiting www.hatterasfunds.com. Read it carefully before investing.

Certain hedging techniques and leverage employed in the management of the Fund may accelerate the velocity of possible losses. Short selling involves the risk of potentially unlimited increase in the market value of the security sold short, which could result in potentially unlimited loss for

the Fund. Derivatives involve investment exposure that may exceed the original cost and a small investment in derivatives could have a large potential impact on the performance of the Fund. Options held in the Fund may be illiquid and the fund manager may have difficulty closing out a position. Fixed Income instruments are exposed to credit and interest rate risks. Investing in lower-rated ("high-yield") debt securities involves special risks in addition to the risks associated with investments in higher-rated debt securities, including a high degree of credit risk and liquidity risk. The Fund may also invest in:

- smaller capitalized companies - subject to more abrupt or erratic market movements than larger, more established companies;
- foreign securities, which involve currency risk, different accounting standards and are subject to political instability;
- securities limited to resale to qualified institutional investors, which can affect their degree of liquidity;
- shares of other investment companies that invest in securities and styles similar to the Fund, resulting in a generally higher investment cost than from investing directly in the underlying shares of these funds.

The Fund intends to utilize these individual securities and hedging techniques in matched combinations that are designed to neutralize or offset the individual risks of employing these techniques separately. Some of these matched strategies include merger arbitrage, long/short equity, convertible bond arbitrage and fixed-income arbitrage. There is no assurance that these strategies will protect against losses. The Fund is non-diversified and therefore may invest in the securities of fewer issuers than diversified funds at any one time; as a result, the gains and losses of a single security may have a greater impact on the Fund's share price.

Because the Fund is a fund-of-funds, your cost of investing in the Fund will generally be higher than the cost of investing directly in the shares of the mutual funds in which it invests. By investing in the Fund, you will indirectly bear your share of any fees and expenses charged by the underlying funds, in addition to indirectly bearing the principal risks of the funds. Please refer to the summary prospectus or prospectus for more information about the Fund, including risks, fees and expenses.

While the Fund is a no-load fund, management fees and other expenses still apply. Mutual fund investing involves risk; loss of principal is possible. Please consult an investment professional for advice regarding your particular circumstances. An investment in the Fund may not be suitable for all investors.

The Fund is distributed by Hatteras Capital Distributors, LLC, an affiliate of Hatteras Alternative Mutual Funds by virtue of common control or ownership.