

## **THE BERWYN FUNDS**

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**Berwyn Fund (BERWX)  
Berwyn Income Fund (BERIX)  
Berwyn Cornerstone Fund (BERCX)**

### **STATEMENT OF ADDITIONAL INFORMATION**

**May 1, 2012**

This Statement of Additional Information (“SAI”) is not a prospectus and should be read in conjunction with the prospectus of The Berwyn Funds (the “Trust”) dated May 1, 2012 and any supplements thereto. The audited financial statements of Berwyn Fund, Berwyn Income Fund and Berwyn Cornerstone Fund for the year ended December 31, 2011, and the report thereon of BBD, LLP, the Trust’s independent registered public accounting firm, included in the 2011 Annual Report of the Trust, are incorporated by reference in this SAI. The current prospectus and Annual Report are available without charge by writing to the Trust at the above address, by calling 800-992-6757 or on the Trust’s website at [www.theberwynfunds.com](http://www.theberwynfunds.com).

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## **BERWYN FUND**

### **Investment Policies and Risk Factors**

The following information supplements information contained in the Funds' prospectus:

Berwyn Fund ("BF") is a no-load, non-diversified series of shares of the Trust that seeks long term capital appreciation by investing in common stocks and fixed income securities that offer potential for capital appreciation. Current income is a secondary consideration.

Under normal market conditions, BF invests at least 80% of the value of its net assets in equity securities. BF invests in equity securities that The Killen Group, Inc. (the "Advisor") considers to be selling at undervalued prices. These may include stocks selling substantially below their book values or at low valuations to present earnings. They may also include stocks of companies believed to have above average growth prospects and to be selling at small premiums to book values or at modest valuations to their present earnings levels. The investment approach of BF may be deemed contrarian in that it may lead BF to select stocks that are not currently in favor with most other investors.

BF may invest in iShares Funds and other Exchange Traded Funds ("ETFs"). ETFs are shares of management investment companies that invest in portfolios designed to replicate various indices and trade on exchanges in the same manner as stocks. BF will not purchase shares of an iShares Fund if such purchase would cause the aggregate value of BF's investments in iShares to exceed 10% of BF's net assets and will limit its investments in other ETFs as required by the Investment Company Act of 1940 (the "1940 Act"). When BF invests in iShares Funds or other ETFs, BF will pay a management fee on such investments, in addition to its operating expenses. As of December 31, 2011, BF was not invested in ETFs.

While the portfolio of BF emphasizes common stocks, BF may also invest up to 20% of the value of its net assets in fixed income securities. The fixed income securities in which BF may invest include corporate bonds. BF selects fixed income securities that, in the judgment of the Advisor, have a potential for capital appreciation due to a decline in prevailing interest rates. Some of these fixed income securities may be convertible into common stock.

There are no restrictions on the Advisor as to the investment rating a fixed income security must have in order to be purchased by BF. BF may purchase fixed income securities in any rating category of Standard & Poor's Ratings Group ("S&P") or Moody's Investors Service, Inc. ("Moody's"). (See Appendix A for S&P and Moody's descriptions of bond ratings.) This means that BF may invest up to 20% of the value of its net assets in high yield, high risk corporate debt securities that are commonly referred to as "junk bonds." These are corporate debt securities that are rated lower than BBB by S&P or Baa by Moody's. These securities have a low rating due to the fact that the issuers of the securities are not considered as creditworthy as the issuers of investment grade bonds. There is the risk that the issuer of a lower-rated security may default in the payment of interest and repayment of principal. On the whole, these lower-rated securities are considered speculative investments. As of December 31, 2011, BF was not invested in fixed income securities.

BF may invest a portion of its assets in the shares of money market mutual funds to the extent permitted by applicable law. In addition, BF may, for temporary defensive purposes, invest all

or any portion of its assets in cash, cash equivalents, high quality money market instruments, money market funds and other short-term debt instruments. Investments by BF in money market funds will result in BF paying management fees and other fund expenses on its investments in such funds, in addition to the operating expenses of BF. As of December 31, 2011, BF had 3.3% of its net assets invested in money market funds.

While BF invests primarily in U.S. companies, it may also invest in foreign securities in the form of American Depositary Receipts (“ADRs”). ADRs are receipts, typically issued by a U.S. bank or trust company, which evidence ownership of underlying securities issued by a foreign corporation or other entity. Generally, ADRs in registered form are designed for trading in U.S. securities markets. The underlying securities are not always denominated in the same currency as the ADRs. Although investing in the form of ADRs facilitates trading in foreign securities, it does not mitigate all the risks associated with investing in foreign securities.

ADRs are available through facilities which may be either "sponsored" or "unsponsored." Only sponsored ADRs may be listed on the New York Stock or American Stock Exchanges. If sponsored, the foreign issuer establishes the facility, pays some or all of the depository's fees, and usually agrees to provide shareholder communications. If unsponsored, the foreign issuer is not involved, and the ADR holders pay the fees of the depository. Sponsored ADRs are generally more advantageous to the ADR holders and the issuer than unsponsored arrangements. More and higher fees are generally charged in an unsponsored arrangement as compared to a sponsored arrangement. Unsponsored ADRs are generally considered more risky due to: (a) the additional costs involved; (b) the relative illiquidity of the issue in U.S. markets; and (c) the possibility of higher trading costs associated with trading in the over-the-counter market.

ADRs are subject to the risks associated with foreign securities and foreign securities markets. Foreign markets are generally not as developed or efficient as those in the United States. Securities of some foreign companies are less liquid and more volatile than securities of comparable U.S. companies. Similarly, volume and liquidity in most foreign securities markets is less than in the United States and, at times, volatility of price can be greater than in the United States. In addition, there may be less publicly available information about non-U.S. issuers, and non-U.S. issuers are not generally subject to uniform accounting and financial reporting standards, practices and requirements comparable to those applicable to U.S. issuers. Because stock certificates and other evidences of ownership of such securities may be held outside the United States, BF may be subject to additional risks. Risks could include possible adverse political and economic developments, possible seizure or nationalization of foreign deposits and possible adoption of governmental restrictions which might adversely affect the ability of BF to collect principal and interest obligations or to liquidate holdings, whether from currency blockage or otherwise. The risks discussed above are generally higher in less developed countries. As of December 31, 2011, BF was not invested in ADRs.

BF may also invest in Real Estate Investment Trusts (“REITs”). REITs are companies that invest in real estate, mortgages and construction loans. REITs normally do not pay federal income tax but distribute their income to their shareholders who become liable for the tax. Some REITs own properties and earn income from leases and rents. These types of REITs are termed Equity REITs. Other REITs hold mortgages and earn income from interest payments. These REITs are termed Mortgage REITs. Finally, there are Hybrid REITs that own properties and hold mortgages. BF may invest in any of the three types of REITs and may purchase common stocks, preferred stocks or bonds issued by REITs. BF will invest in REITs that generate income and that have, in the judgment of the Advisor, the potential for capital

appreciation. There are risks in investing in REITs. The property owned by a REIT could decrease in value and the mortgages and loans held by a REIT could become worthless. The Advisor, however, monitors the investment environment and BF's investments in REITs as a means of controlling exposure to these risks. As of December 31, 2011, BF was not invested in REITs.

BF may invest in repurchase agreements. In a repurchase agreement, a seller of securities, usually a banking institution or securities dealer, sells securities to BF and agrees with BF at the time of sale to repurchase the securities from BF at a mutually agreed upon time and price. BF intends to enter into repurchase agreements only with established banking institutions that deal in U.S. Treasury bills and notes. To the extent that it invests in repurchase agreements, BF intends to invest primarily in overnight repurchase agreements. In the event of the bankruptcy of the seller of a repurchase agreement or the failure of a seller to repurchase the underlying securities as agreed upon, BF could experience losses. Such losses could include a possible decline in the value of the underlying securities during the period while BF seeks to enforce its rights thereto and a possible loss of all or part of the income from such securities. BF would also incur additional expenses enforcing its rights. As of December 31, 2011, BF was not invested in repurchase agreements.

BF has established a line of credit with its custodian that permits BF to borrow up to 5% of its total assets, including the amount of such borrowing, to maintain necessary liquidity to make payments for redemptions of BF shares or for temporary emergency purposes; provided, however, that BF will not purchase any additional investments while such borrowings are outstanding. Borrowing involves the creation of a liability that requires BF to pay interest. As of December 31, 2011, BF had no outstanding borrowings.

The risks of borrowing include a higher volatility of the net asset value of BF's shares and the relatively greater effect on the net asset value of the shares caused by declines in the prices of BF's investments, adverse market movements and increases in the cost of borrowing. The effect of borrowing in a declining market could be a greater decrease in net asset value per share than if BF had not borrowed money. In an extreme case, if BF's current investment income were not sufficient to meet the interest expense of borrowing, it could be necessary for BF to liquidate certain of its portfolio securities at an inappropriate time.

### **Investment Restrictions**

The investment restrictions set forth below are fundamental policies of BF. Fundamental policies may not be changed without approval by vote of a majority of BF's outstanding shares. Under the 1940 Act, such approval requires the affirmative vote at a meeting of shareholders of the lesser of (a) more than 50% of BF's outstanding shares, or (b) at least 67% of shares present or represented by proxy at the meeting, provided that the holders of more than 50% of BF's outstanding shares are present in person or represented by proxy.

When investing its assets, BF will not:

- (1) purchase more than 10% of the outstanding voting securities of a single issuer;
- (2) invest more than 25% of the value of its total assets in any one industry;
- (3) lend money, provided that for purposes of this restriction, the acquisition of publicly distributed corporate bonds, and investment in U.S. government obligations,

short-term commercial paper, certificates of deposit and repurchase agreements shall not be deemed to be making a loan;

- (4) buy or sell real estate, real estate mortgage loans, commodities, commodity futures contracts, puts, calls and straddles;
- (5) underwrite securities of other issuers, except as BF may be deemed to be an underwriter under the Securities Act of 1933, as amended (the "1933 Act") in connection with the purchase and sale of portfolio securities in accordance with its objectives and policies;
- (6) make short sales or purchase securities on margin;
- (7) borrow money, except that BF may borrow up to 5% of the value of its total assets at the time of such borrowing from banks for temporary or emergency purposes (the proceeds of such loans will not be used for investment or to purchase securities, but will be used to pay expenses);
- (8) invest for the purposes of exercising control or management;
- (9) invest in restricted securities (securities that must be registered under the 1933 Act before they may be offered and sold to the public);
- (10) participate in a joint investment account; or
- (11) issue senior securities.

In addition, BF has adopted the following investment restrictions that are not fundamental policies:

- (1) With respect to 50% of its assets, BF will not at the time of purchase invest more than 5% of its gross assets, at market value, in the securities of any one issuer (except the securities of the United States government);
- (2) With respect to the other 50% of its assets, BF will not invest at the time of purchase more than 15% of the market value of its total assets in any single issuer;
- (3) BF will not invest in real estate limited partnerships or in oil, gas or other mineral leases; and
- (4) BF's investments in warrants will not exceed 5% of its net assets.

Restrictions that are not fundamental may be changed by a vote of the majority of the Board of Trustees, but if any of these nonfundamental restrictions are changed, BF will give shareholders at least 60 days' written notice.

### **Investment Advisory Arrangements**

The Killen Group, Inc. is the investment advisor to BF. Robert E. Killen is Chairman, Chief Executive Officer, majority shareholder and a Director of the Advisor. In addition, Robert E. Killen is President and Chairman of the Board of Trustees of the Trust.

The Advisor provides BF with investment management services. Under a Contract for Investment Advisory Services between the Trust, on behalf of BF, and the Advisor (the "Contract") dated

April 28, 1999, the Advisor provides BF with advice and recommendations with respect to investments, investment policies, the purchase and sale of securities and the management of BF's portfolio. In addition, employees of the Advisor oversee and coordinate BF's other service providers, including the administrator, fund accountant, transfer agent and custodian.

The Contract must be approved annually by a majority of the Trustees, and separately by a majority of the Trustees who are not "interested persons" of the Trust, as defined by the 1940 Act, cast in person at a meeting called for the purpose of voting on such approval. BF may terminate the Contract on sixty days' written notice to the Advisor, without payment of any penalty, provided such termination is authorized by the Board of Trustees or by a vote of a majority of the outstanding shares of BF. The Advisor may terminate the Contract on sixty days' written notice to BF without payment of any penalty. The Contract will be automatically and immediately terminated in the event of its assignment by the Advisor.

As compensation for its investment management services to BF under the Contract, the Advisor is entitled to receive monthly compensation at the annual rate of 1.00% of the average daily net assets of BF. The fee is computed daily by multiplying the net assets for a day by 1.00% and dividing the result by 365. At the end of each month, the daily fees are added and the resulting sum is paid to the Advisor.

BF paid the Advisor investment advisory fees of \$2,090,393, \$1,593,407 and \$1,154,658 with respect to the fiscal years ended December 31, 2011, 2010 and 2009.

### **Expense Limitation**

The Contract provides that the Advisor's fee payable by BF will be reduced in any fiscal year by the amount necessary to limit BF's expenses (excluding taxes, interest, brokerage commissions, Acquired Fund Fees and Expenses and extraordinary expenses, but inclusive of the Advisor's fee payable by BF) to 2.00% of the average daily net assets of BF when BF's net assets are \$100 million or less, and 1.50% of the average daily net assets of BF when BF's net assets exceed \$100 million. The Contract provides that the Advisor will not be responsible for reimbursing other expenses exceeding the advisory fee payable by BF under the Contract. During the fiscal year ended December 31, 2011, BF's ratio of expenses to average net assets was 1.21%.

### **Portfolio Transactions and Brokerage Commissions**

Subject to policies established by the Trust's Board of Trustees, the Advisor is responsible for BF's portfolio decisions and placing orders for the purchase and sale of BF's portfolio securities. In executing such transactions, the Advisor seeks to obtain the best net results for BF, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution, operational facilities and capabilities of the firm involved. While the Advisor generally seeks reasonably competitive commission rates, the Advisor is authorized to pay a broker a brokerage commission in excess of that which another broker might have charged for effecting the same transaction, in recognition of the value of brokerage and research services provided by the broker that effects the transaction.

The Advisor may select brokers who, in addition to meeting the primary requirements of execution and price, have furnished statistical or other factual information and services which, in the opinion of the Board, are reasonable and necessary to the decision-making responsibilities of the Advisor for BF. The services provided by these brokerage firms may also be used in dealing with the portfolio transactions of the Advisor's other clients, and not all such services may be

used by the Advisor in connection with BF. These services may include economic studies, industry studies, security analyses or reports and statistical services furnished either directly to BF or to the Advisor. No effort is made in any given circumstance to determine the value of these materials or services or the amount by which they might have reduced expenses of the Advisor.

BF paid total brokerage commissions of \$266,222, \$240,782 and \$241,157 during the fiscal years ended December 31, 2011, 2010 and 2009, respectively.

The Board has adopted procedures pursuant to Rule 17e-1 under the 1940 Act that permit portfolio transactions to be executed through an affiliated broker. Berwyn Financial Services Corp. (“Berwyn Financial”) is an affiliated broker that BF may utilize to execute portfolio transactions. Berwyn Financial is affiliated with BF because certain officers and a Trustee of the Trust and a Director and certain officers of the Advisor are officers, Directors and shareholders of Berwyn Financial. During the fiscal years ended December 31, 2011, 2010 and 2009, BF paid brokerage commissions of \$83,800, \$74,109 and \$75,462, respectively, to Berwyn Financial. During the fiscal year ended December 31, 2011, Berwyn Financial received 31.5% of BF’s aggregate brokerage commissions for effecting 30.1% of the aggregate dollar amount of transactions involving brokerage commissions.

## **BERWYN INCOME FUND**

### **Investment Policies and Risk Factors**

The following information supplements information contained in the Funds’ prospectus:

Berwyn Income Fund (“BIF”) is a no-load, diversified series of shares of the Trust that seeks to provide investors with current income while seeking to preserve capital by taking, in the opinion of the Advisor, reasonable risks. To achieve its objective, BIF invests in investment grade corporate debt securities, securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities, mortgage-backed securities, high yield, high risk corporate debt securities (also known as “junk bonds”), unrated corporate debt securities, asset-backed securities, municipal bonds, and preferred and common stocks of primarily domestic issuers. The Advisor determines the percentage of each category of securities to purchase and hold based upon the prevailing economic and market conditions. This means that BIF could invest up to 100% of its net assets in high yield, high risk corporate debt securities. However, BIF will not make an investment in common stocks if such investment would cause the aggregate value of the common stocks in BIF’s portfolio to exceed 30% of the value of BIF’s net assets.

There are no restrictions on the Advisor as to the investment rating a fixed income security must have in order to be purchased by BIF. BIF may purchase fixed income securities in any rating category of S&P or Moody’s. (See Appendix A for S&P and Moody’s descriptions of bond ratings.) Securities rated BBB or higher by S&P or Baa or higher by Moody’s are considered investment grade corporate debt securities. Securities rated lower than BBB or Baa by these services are considered high yield, high risk securities (“junk bonds”). These securities have a low rating due to the fact that the issuers of the securities are not considered as creditworthy as the issuers of investment grade bonds. There is the risk that the issuer of a lower-rated security may default in the payment of interest and repayment of principal. On the whole, these lower-rated securities are considered speculative investments. As of December 31, 2011, 24.2% of BIF’s net assets were invested in corporate debt securities rated below investment grade.

BIF may invest in fixed income securities that are not rated. BIF will invest only in unrated securities that have a creditworthiness, in the opinion of the Advisor, that is equal to or better than the creditworthiness of fixed income securities with an S&P rating of CC or a Moody's rating of Caa.

BIF may also purchase certain securities that have not been registered with the U.S. Securities and Exchange Commission (the "SEC") under the 1933 Act. There are risks associated with investing in such "Rule 144A" securities. The securities may become illiquid if qualified institutional buyers are not interested in acquiring the securities. Although Rule 144A securities may be resold in negotiated transactions, the price realized from these sales could be less than the price originally paid by BIF or less than what may be considered the fair value of such securities. Furthermore, if such securities are required to be registered under the securities laws of one or more jurisdictions before being resold, BIF may be required to bear the expense of registration. In an effort to minimize the risks associated with these securities, BIF will purchase only Rule 144A securities of U.S. companies that have publicly traded securities outstanding, have been in business a minimum of five years, and have a market capitalization of at least \$100 million.

In addition to corporate debt securities, BIF may invest in the securities issued or guaranteed by the U.S. Government and its agencies, asset-backed and mortgage-backed securities and municipal bonds and in preferred and common stocks. The securities of the U.S. Government in which BIF may invest include U.S. Treasury bonds and notes and debt securities, including mortgage-backed securities, issued by U.S. Government agencies or by instrumentalities of the U.S. Government. Some of the U.S. Government agencies that issue or guarantee securities include, among others, the Export-Import Bank of the United States, the Farmers Home Administration, the Federal Housing Administration, the Maritime Administration, the Small Business Administration and the Tennessee Valley Authority. An instrumentality of the U.S. Government is a government agency organized under Federal charter with government supervision. Instrumentalities issuing or guaranteeing securities include, among others, the Federal Home Loan Banks, the Federal Land Banks, the Central Bank for Cooperatives, the Federal Intermediate Credit Banks and the Federal National Mortgage Association.

U.S. Treasury bonds and notes are backed by the full faith and credit of the U.S. Government. Securities issued by U.S. Government agencies or instrumentalities may or may not be backed by the full faith and credit of the United States. In the case of securities not backed by the full faith and credit of the United States, an investor must look to the specific issuing agency or instrumentality for repayment.

Asset-backed securities are debt securities that represent partial ownership interests in pools of consumer or commercial loans, such as motor vehicle installment sales contracts, credit card receivables or trade receivables. Asset-backed securities are generally issued by special purpose entities, but their ultimate value is dependent upon the repayment of the underlying borrowers.

Mortgage-backed securities are debt securities that represent ownership in large, diversified pools of mortgage loans. The pools generally contain mortgages of similar rates and terms and are structured as pass-throughs, meaning the monthly payments of principal and interest from the underlying mortgage loans are passed through to the investor. Most mortgage-backed securities are issued by and/or guaranteed by Government National Mortgage Association (Ginnie Mae), which is an agency of the U.S. government, or by government sponsored enterprises, such as the

Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). Mortgage-backed securities may also be issued by private entities and backed by either residential or commercial mortgages.

Asset-backed and mortgage-backed securities are subject to prepayment risk, which is the risk that the loans that form the pools will be paid prior to maturity. This risk makes it difficult to predict the actual life of the security. During periods of falling interest rates, prepayments may accelerate, subjecting BIF to the risk of reinvesting the proceeds at lower interest rates. During periods of rising interest rates, the prices of asset-backed and mortgage-backed securities may decline due to a slowdown in prepayments and subsequent lengthening of maturities. Although generally rated investment grade, these securities could become illiquid or experience losses if borrowers default or if guarantors or insurers default.

Municipal bonds are interest bearing securities issued by state and local governments to support their financial needs or to finance public projects. The interest on municipal bonds is exempt from federal income taxes, and in some cases, from state and local taxes. As a result of this tax-exempt feature, municipal bonds generally yield less than corporate bonds of comparable maturity and credit quality.

Municipal bonds, like most other debt securities, are subject to interest rate risk, call risk and credit risk. During periods of rising interest rates, the prices of municipal bonds will likely decline. Should interest rates decline, many municipal bonds are subject to call risk, meaning they may be retired prior to their final maturity and BIF would have to reinvest the proceeds at lower interest rates. Municipal bonds are also subject to credit risk, the risk that the issuer will default and not be able to pay interest on the principal. In some instances, the payment of interest and principal on a bond issue is tied directly to a particular project's revenues. In such cases, the credit risk may be greater than that of the governmental entity issuing the bonds. In addition to the above risks, municipal bonds may be subject to illiquidity risks in that many municipal bond offerings are relatively small in size and, as a result of the special local nature of the bond issue, have limited interest among investors.

BIF may invest in preferred stocks that, in the opinion of the Advisor, are offering an above average yield in comparison to preferred stocks of the same quality or in preferred stocks offering a potential for capital appreciation. BIF may also purchase preferred stocks that are restricted securities subject to the limitations under Rule 144A, as described above. As of December 31, 2011, BIF had 3.4% of its net assets invested in preferred stocks.

BIF will invest in common stocks that it considers to be selling at undervalued prices. The investment approach of BIF may be deemed "contrarian" in its selection of common stocks due to the fact that this approach may lead BIF to select stocks not currently in favor with other investors. BIF will only purchase common stocks if they pay cash dividends. BIF will not purchase a common stock if it would cause the aggregate value of the common stocks owned by BIF to exceed 30% of its net assets. As of December 31, 2011, BIF had 26.9% of its net assets invested in common stocks.

BIF may invest in iShares Funds and other Exchange Traded Funds ("ETFs"). ETFs are shares of management investment companies that invest in portfolios designed to replicate various indices and trade on exchanges in the same manner as stocks. BIF will not purchase shares of an

iShares Fund if such purchase would cause the aggregate value of BIF's investments in iShares Funds to exceed 15% of BIF's net assets and will limit its investments in other ETFs as required by the 1940 Act. When BIF invests in iShares Funds or other ETFs, BIF will pay a management fee on the money so invested, in addition to its operating expenses. As of December 31, 2011, BIF was not invested in ETFs.

BIF may also invest in Real Estate Investment Trusts ("REITs"). REITs are companies that invest in real estate, mortgages and construction loans. REITs normally do not pay federal income tax but distribute their income to their shareholders who become liable for the tax. Some REITs own properties and earn income from leases and rents. These types of REITs are termed Equity REITs. Other REITs hold mortgages and earn income from interest payments. These REITs are termed Mortgage REITs. Finally, there are Hybrid REITs that own properties and hold mortgages. BIF may invest in any of the three types of REITs and may purchase common stocks, preferred stocks or bonds issued by REITs. BIF will invest in REITs that generate income and that have, in the judgment of the Advisor, the potential for capital appreciation. There are risks in investing in REITs. The property owned by a REIT could decrease in value and loans held by a REIT could become worthless. The Advisor, however, monitors the investment environment and BIF's investments in REITs as a means of controlling the exposure to these risks. BIF intends to limit its investments in REITs to no more than 15% of the value of its net assets. As of December 31, 2011, BIF had 2.3% of its net assets invested in the securities of REITs.

BIF may directly invest a portion of its total assets in the equity or debt securities of Master Limited Partnerships ("MLPs"). MLPs are limited partnerships in which the ownership units are publicly traded. MLP units are registered with the SEC and are freely traded on a securities exchange or in the OTC market. MLPs often own several properties or businesses (or own interests) that are related to real estate development and oil and gas industries, but they also may finance motion pictures, research and development and other projects. Generally, a MLP is operated under the supervision of one or more managing general partners. Limited partners are not involved in the day-to-day management of the partnership. The risks of investing in a MLP are generally those involved in investing in a partnership as opposed to a corporation. For example, state law governing partnerships is often less restrictive than state law governing corporations. Accordingly, there may be fewer protections afforded investors in a MLP than investors in a corporation. Additional risks involved with investing in a MLP are risks associated with the specific industry or industries in which the partnership invests, such as the risks of investing in real estate, or oil and gas industries. As of December 31, 2011, BIF was not invested in MLPs.

BIF may invest a portion of its assets in the shares of money market mutual funds to the extent permitted by applicable law. In addition, BIF may, for temporary defensive purposes, invest all or any portion of its assets in cash, cash equivalents, high quality money market instruments, money market funds and other short-term debt instruments. Investments by BIF in money market funds will result in BIF paying management fees and other fund expenses on its investments in such funds, in addition to the operating expenses of BIF. As of December 31, 2011, BIF had 19.2% of its net assets invested in money market funds.

While BIF invests primarily in U.S. companies, it may also invest in foreign securities in the form of American Depositary Receipts ("ADRs"). ADRs are receipts, typically issued by a U.S. bank or trust company, which evidence ownership of underlying securities issued by a foreign corporation or other entity. Generally, ADRs in registered form are designed for trading in U.S.

securities markets. The underlying securities are not always denominated in the same currency as the ADRs. Although investment in the form of ADRs facilitates trading in foreign securities, it does not mitigate all the risks associated with investing in foreign securities.

ADRs are available through facilities which may be either "sponsored" or "unsponsored." Only sponsored ADRs may be listed on the New York Stock or American Stock Exchanges. If sponsored, the foreign issuer establishes the facility, pays some or all of the depository's fees, and usually agrees to provide shareholder communications. If unsponsored, the foreign issuer is not involved, and the ADR holders pay the fees of the depository. Sponsored ADRs are generally more advantageous to the ADR holders and the issuer than unsponsored arrangements. More and higher fees are generally charged in an unsponsored arrangement as compared to a sponsored arrangement. Unsponsored ADRs are generally considered more risky due to: (a) the additional costs involved; (b) the relative illiquidity of the issue in U.S. markets; and (c) the possibility of higher trading costs associated with trading in the over-the-counter market.

ADRs are subject to the risks associated with foreign securities and foreign securities markets. Foreign markets are generally not as developed or efficient as those in the United States. Securities of some foreign companies are less liquid and more volatile than securities of comparable U.S. companies. Similarly, volume and liquidity in most foreign securities markets is less than in the United States and, at times, volatility of price can be greater than in the United States. In addition, there may be less publicly available information about non-U.S. issuers, and non-U.S. issuers are not generally subject to uniform accounting and financial reporting standards, practices and requirements comparable to those applicable to U.S. issuers. Because stock certificates and other evidences of ownership of such securities may be held outside the United States, BIF may be subject to additional risks. Risks could include possible adverse political and economic developments, possible seizure or nationalization of foreign deposits and possible adoption of governmental restrictions which might adversely affect the ability of BIF to collect principal and interest obligations or to liquidate holdings, whether from currency blockage or otherwise. The risks discussed above are generally higher in less developed countries. As of December 31, 2011, BIF had 1.2% of its net assets invested in ADRs.

BIF may invest in repurchase agreements. In a repurchase agreement, a seller of securities, usually a banking institution or securities dealer, sells securities to BIF and agrees with BIF at the time of sale to repurchase the securities from BIF at a mutually agreed upon time and price. BIF intends to enter into repurchase agreements only with established banking institutions that deal in U.S. Treasury bills and notes. To the extent that it invests in repurchase agreements, BIF intends to invest primarily in overnight repurchase agreements. In the event of bankruptcy of the seller of a repurchase agreement or the failure of the seller to repurchase the underlying securities as agreed upon, BIF could experience losses. Such losses could include a possible decline in the value of the underlying securities during the period while BIF seeks to enforce its rights thereto and a possible loss of all or part of the income from such securities. BIF would also incur additional expenses enforcing its rights. As of December 31, 2011, BIF was not invested in repurchase agreements.

BIF has established a line of credit with its custodian that permits BIF to borrow up to 5% of its total assets, including the amount of such borrowing, to maintain necessary liquidity to make payments for redemptions of BIF shares or for temporary emergency purposes; provided, however, that BIF will not purchase any additional investments while such borrowings are

outstanding. Borrowing involves the creation of a liability that requires BIF to pay interest. As of December 31, 2011, BIF had no outstanding borrowings.

The risks of borrowing include a higher volatility of the net asset value of BIF's shares and the relatively greater effect on the net asset value of the shares caused by declines in the prices of BIF's investments, adverse market movements and increases in the cost of borrowing. The effect of borrowing in a declining market could be a greater decrease in net asset value per share than if BIF had not borrowed money. In an extreme case, if BIF's current investment income were not sufficient to meet the interest expense of borrowing, it could be necessary for BIF to liquidate certain of its portfolio securities at an inappropriate time.

### **Investment Restrictions**

The investment restrictions set forth below are fundamental policies of BIF. Fundamental policies may not be changed without approval by vote of a majority of BIF's outstanding shares. Under the 1940 Act, such approval requires the affirmative vote at a meeting of shareholders of the lesser of (a) more than 50% of BIF's outstanding shares, or (b) at least 67% of the shares present or represented by proxy at a meeting of shareholders provided that the holders of more than 50% of BIF's outstanding shares are present in person or represented by proxy.

When investing its assets, BIF will not:

- (1) invest more than 5% of the value of its total assets in the securities of any one issuer or purchase more than 10% of the outstanding voting securities, debt or preferred stock of any one issuer. This restriction does not apply to obligations issued or guaranteed by the U. S. Government, its agencies or instrumentalities;
- (2) invest more than 25% of the value of its total assets in the securities of issuers in any one industry;
- (3) lend money, provided that for purposes of this restriction, the acquisition of publicly distributed corporate bonds, and investment in U.S. government obligations, short-term commercial paper, certificates of deposit and repurchase agreements shall not be deemed to be the making of a loan;
- (4) buy or sell real estate and real estate mortgage loans, commodities, commodity futures contracts, puts, calls and straddles;
- (5) underwrite securities of other issuers, except as BIF may be deemed to be an underwriter under the 1933 Act in connection with the purchase and sale of portfolio securities in accordance with its objectives and policies;
- (6) make short sales or purchase securities on margin;
- (7) borrow money, except that BIF may borrow up to 5% of the value of its total assets at the time of such borrowing from banks for temporary or emergency purposes (the proceeds of such loans will not be used for investment or to purchase securities, but will be used to pay expenses);
- (8) invest for the purposes of exercising control or management;

- (9) invest in restricted securities (securities that must be registered under the 1933 Act before they may be offered and sold to the public, except that BIF will be permitted to purchase restricted securities that are eligible for resale pursuant to Rule 144A under the 1933 Act);
- (10) participate in a joint investment account; or
- (11) issue senior securities.

In addition, BIF has adopted the following investment restrictions that are not fundamental policies: (i) BIF will not invest in real estate limited partnerships or oil, gas or other mineral leases, and (ii) BIF's investments in warrants will not exceed 5% of BIF's net assets. Restrictions that are not fundamental may be changed by a vote of the majority of the Board of Trustees, but if any of these nonfundamental restrictions are changed, BIF will give shareholders at least 60 days' written notice.

### **Investment Advisory Arrangements**

The Killen Group, Inc. is the investment advisor to BIF. Robert E. Killen is Chairman, Chief Executive Officer, majority shareholder and a Director of the Advisor. In addition, Robert E. Killen is President and Chairman of the Board of Trustees of the Trust.

The Advisor provides BIF with investment management services. Under a Contract for Investment Advisory Services between the Trust, on behalf of BIF, and the Advisor (the "Contract") dated April 28, 1999, the Advisor provides BIF with advice and recommendations with respect to investments, investment policies, the purchase and sale of securities and the management of BIF's portfolio. In addition, employees of the Advisor oversee and coordinate BIF's other service providers, including the administrator, fund accountant, transfer agent and custodian.

The Contract must be approved annually by a majority of the Trustees, and separately by a majority of the Trustees who are not "interested persons" of the Trust, as defined by the 1940 Act, cast in person at a meeting called for the purpose of voting on such approval. BIF may terminate the Contract on sixty days' written notice to the Advisor, without payment of any penalty, provided such termination is authorized by the Board of Trustees or by a vote of a majority of the outstanding shares of BIF. The Advisor may terminate the Contract on sixty days' written notice to BIF without payment of any penalty. The Contract will be automatically and immediately terminated in the event of its assignment by the Advisor.

As compensation for its investment management services to BIF under the Contract, the Advisor is entitled to receive monthly compensation at the annual rate of 0.50% of the average daily net assets of BIF. The fee is computed daily by multiplying the net assets for a day by 0.50% and dividing the result by 365. At the end of each month, the daily fees are added and the sum is paid to the Advisor.

BIF paid the Advisor investment advisory fees of \$6,526,758, \$5,076,025 and \$2,087,870 with respect to the fiscal years ended December 31, 2011, 2010 and 2009.

## **Expense Limitation**

The Contract provides that the Advisor's fee payable by BIF will be reduced in any fiscal year by the amount necessary to limit BIF's expenses (excluding taxes, interest, brokerage commissions, Acquired Fund Fees and Expenses and extraordinary expenses, but inclusive of the Advisor's fee payable by BIF) to 2.00% of the average daily net assets of BIF when BIF's net assets are \$100 million or less, or 1.50% of average daily net assets when BIF's net assets exceed \$100 million. The Contract provides that the Advisor will not be responsible for reimbursing other expenses exceeding the advisory fee payable by BIF under the Contract. During the fiscal year ended December 31, 2011, BIF's ratio of expenses to average net assets was 0.65%.

## **Portfolio Transactions and Brokerage Commissions**

Subject to policies established by the Trust's Board of Trustees, the Advisor is responsible for BIF's portfolio decisions and placing orders for the purchase and sale of BIF's portfolio securities. In executing such transactions, the Advisor will seek to obtain the best net results for BIF, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution and operational facilities and capabilities of the firm involved. While the Advisor generally seeks reasonably competitive commission rates, the Advisor is authorized to pay a broker a brokerage commission in excess of that which another broker might have charged for effecting the same transaction, in recognition of the value of brokerage and research services provided by the broker that effects the transaction.

The Advisor may select brokers who, in addition to meeting the primary requirements of execution and price, have furnished statistical or other factual information and services which, in the opinion of the Board, are reasonable and necessary to the decision-making responsibilities of the Advisor for BIF. The services provided by these brokerage firms may also be used in dealing with the portfolio transactions of the Advisor's other clients, and not all such services may be used by the Advisor in connection with BIF. These services may include economic studies, industry studies, security analysis or reports and statistical services furnished either directly to BIF or to the Advisor. No effort is made in any given circumstance to determine the value of these materials or services or the amount by which they might have reduced expenses of the Advisor.

BIF paid total brokerage commissions of \$270,910, \$379,228 and \$221,727 during the fiscal years ended December 31, 2011, 2010 and 2009, respectively. The higher brokerage commissions paid by BIF during the fiscal year ended December 31, 2010 was primarily attributable to a significant increase in net assets of BIF during such year.

The Board has adopted procedures pursuant to Rule 17e-1 under the 1940 Act that permit portfolio transactions to be executed through an affiliated broker. Berwyn Financial Services Corp. ("Berwyn Financial") is an affiliated broker that BIF may utilize to execute portfolio transactions. Berwyn Financial is affiliated with BIF because certain officers and a Trustee of the Trust and a Director and certain officers of the Advisor are officers, Directors and shareholders of Berwyn Financial. During the fiscal years ended December 31, 2011, 2010 and 2009, BIF paid brokerage commissions of \$78,172, \$111,783 and \$66,596, respectively, to Berwyn Financial. During the fiscal year ended December 31, 2011, Berwyn Financial received 28.9% of BIF's aggregate brokerage commissions for effecting 29.9% of the aggregate dollar amount of transactions involving brokerage commissions.

## **BERWYN CORNERSTONE FUND**

### **Investment Policies and Risk Factors**

The following information supplements information contained in the Funds' prospectus:

Berwyn Cornerstone Fund ("BCF") is a no-load, non-diversified series of shares of the Trust that seeks long-term capital appreciation by investing in equity and fixed income securities that offer potential for capital appreciation. Current income is a secondary consideration.

The Advisor determines the percentage of BCF's net assets to be invested in each type of security based upon the Advisor's view of prevailing economic and market conditions. BCF primarily invests in U.S. common stocks the Advisor considers to be selling at undervalued prices. These may include stocks selling substantially below their book values or at low valuations to present earnings. They may also include stocks of companies believed to have above average growth prospects and to be selling at small premiums to book values or at modest valuations to their present earnings levels. The investment approach of BCF may be deemed contrarian in that it may lead BCF to select securities that are not currently in favor with most other investors.

BCF may invest in iShares Funds and other Exchange Traded Funds ("ETFs"). ETFs are shares of management investment companies that invest in portfolios designed to replicate various indices and trade on exchanges in the same manner as stocks. BCF will not purchase shares of an iShares Fund if such purchase would cause the aggregate value of BCF's investments in iShares Funds to exceed 25% of BCF's net assets and will limit its investment in other ETFs as required by the 1940 Act. When BCF invests in iShares Funds or other ETFs, BCF will pay a management fee on such investments, in addition to its operating expenses. As of December 31, 2011, BCF was not invested in ETFs.

The fixed income securities in which BCF may invest include corporate bonds. Some of these fixed income securities may be convertible into common stocks. BCF selects fixed income securities that, in the judgment of the Advisor, have a potential for capital appreciation due to a decline in prevailing interest rates.

There are no restrictions on the Advisor as to the investment rating a fixed income security must have in order to be purchased by BCF. BCF may purchase fixed income securities in any rating category of S&P or Moody's. (See Appendix A for S&P and Moody's descriptions of bond ratings.) This means that BCF may invest up to 20% of the value of its net assets in high yield, high-risk corporate debt securities that are commonly referred to as "junk bonds." These are corporate debt securities that are rated lower than BBB by S&P or Baa by Moody's. These securities have a low rating due to the fact that the issuers of the securities are not considered as creditworthy as the issuers of investment grade bonds. There is the risk that the issuer of a lower-rated security may default in the payment of interest and repayment of principal. On the whole, these lower-rated securities are considered speculative investments. As of December 31, 2011, BCF was not invested in fixed income securities.

BCF may invest a portion of its assets in the shares of money market mutual funds to the extent permitted by applicable law. In addition, BCF may, for temporary defensive purposes, invest all or any portion of its assets in cash, cash equivalents, high quality money market instruments, money market funds and other short-term debt instruments. Investments by BCF in money

market funds will result in BCF paying management fees and other fund expenses on its investments in such funds, in addition to the operating expenses of BCF. As of December 31, 2011, BCF was not invested in money market funds.

While BCF invests primarily in U.S. companies, it may also invest in foreign securities in the form of American Depositary Receipts ("ADRs"). ADRs are receipts, typically issued by a U.S. bank or trust company, which evidence ownership of underlying securities issued by a foreign corporation or other entity. Generally, ADRs in registered form are designed for trading in U.S. securities markets. The underlying securities are not always denominated in the same currency as the ADRs. Although investment in the form of ADRs facilitates trading in foreign securities, it does not mitigate all the risks associated with investing in foreign securities.

ADRs are available through facilities which may be either "sponsored" or "unsponsored." Only sponsored ADRs may be listed on the New York Stock or American Stock Exchanges. If sponsored, the foreign issuer establishes the facility, pays some or all of the depository's fees, and usually agrees to provide shareholder communications. If unsponsored, the foreign issuer is not involved, and the ADR holders pay the fees of the depository. Sponsored ADRs are generally more advantageous to the ADR holders and the issuer than unsponsored arrangements. More and higher fees are generally charged in an unsponsored arrangement compared to a sponsored arrangement. Unsponsored ADRs are generally considered more risky due to: (a) the additional costs involved; (b) the relative illiquidity of the issue in U.S. markets; and (c) the possibility of higher trading costs associated with trading in the over-the-counter market.

ADRs are subject to the risks associated with foreign securities and foreign securities markets. Foreign markets are generally not as developed or efficient as those in the United States. Securities of some foreign companies are less liquid and more volatile than securities of comparable U.S. companies. Similarly, volume and liquidity in most foreign securities markets is less than in the United States and, at times, volatility of price can be greater than in the United States. In addition, there may be less publicly available information about non-U.S. issuers, and non-U.S. issuers are not generally subject to uniform accounting and financial reporting standards, practices and requirements comparable to those applicable to U.S. issuers. Because stock certificates and other evidences of ownership of such securities may be held outside the United States, BCF may be subject to additional risks. Risks could include possible adverse political and economic developments, possible seizure or nationalization of foreign deposits and possible adoption of governmental restrictions which might adversely affect the ability of BCF to collect principal and interest obligations or to liquidate holdings, whether from currency blockage or otherwise. The risks discussed above are generally higher in less developed countries. As of December 31, 2011, BCF had 2.8% of its net assets invested in ADRs

BCF may also invest in Real Estate Investment Trusts ("REITs"). REITs are companies that invest in real estate, mortgages and construction loans. REITs normally do not pay federal income tax but distribute their income to their shareholders who become liable for the tax. Some REITs own properties and earn income from leases and rents. These types of REITs are termed Equity REITs. Other REITs hold mortgages and earn income from interest payments. These REITs are termed Mortgage REITs. Finally, there are Hybrid REITs that own properties and hold mortgages. BCF may invest in any of the three types of REITs and may purchase common stocks, preferred stocks or bonds issued by REITs. BCF will invest in REITs that generate income and that have, in the judgment of the Advisor, the potential for capital appreciation. There are risks in investing in REITs. The property owned by a REIT could decrease in value and the mortgages and loans held by a REIT could become worthless. The

Advisor, however, monitors the investment environment and BCF's investments in REITs as a means of controlling the exposure to these risks. As of December 31, 2011, BCF was not invested in REITs.

BCF may invest in repurchase agreements. In a repurchase agreement, a seller of securities, usually a banking institution or securities dealer, sells securities to BCF and agrees with BCF at the time of sale to repurchase the securities from BCF at a mutually agreed upon time and price. BCF intends to enter into repurchase agreements only with established banking institutions that deal in U.S. Treasury bills and notes. To the extent it invests in repurchase agreements, BCF intends to invest primarily in overnight repurchase agreements. In the event of the bankruptcy of the seller of a repurchase agreement or the failure of a seller to repurchase the underlying securities as agreed upon, BCF could experience losses. Such losses could include a possible decline in the value of the underlying securities during the period while BCF seeks to enforce its rights thereto and a possible loss of all or part of the income from such securities. BCF would also incur additional expenses enforcing its rights. As of December 31, 2011, BCF was not invested in repurchase agreements.

### **Investment Restrictions**

The investment restrictions set forth below are fundamental policies of BCF. Fundamental policies may not be changed without approval by vote of a majority of BCF's outstanding shares. Under the 1940 Act, such approval requires the affirmative vote at a meeting of shareholders of the lesser of (a) more than 50% of BCF's outstanding shares, or (b) at least 67% of shares present or represented by proxy at the meeting, provided that the holders of more than 50% of BCF's outstanding shares are present in person or represented by proxy.

When investing its assets, BCF will not:

- (1) purchase more than 10% of the outstanding voting securities of a single issuer;
- (2) invest more than 25% of the value of its total assets in any one industry;
- (3) lend money, provided that for purposes of this restriction, the acquisition of publicly distributed corporate bonds, and investment in U.S. government obligations, short-term commercial paper, certificates of deposit and repurchase agreements shall not be deemed to be making of a loan;
- (4) buy or sell real estate, real estate mortgage loans, commodities, commodity futures contracts, puts, calls and straddles;
- (5) underwrite securities of other issuers, except as BCF may be deemed to be an underwriter under the 1933 Act in connection with the purchase and sale of portfolio securities in accordance with its objectives and policies;
- (6) make short sales or purchase securities on margin;
- (7) borrow money, except that BCF may borrow up to 5% of the value of its total assets at the time of such borrowing from banks for temporary or emergency purposes (the proceeds of such loans will not be used for investment or to purchase securities, but will be used to pay expenses);
- (8) invest for the purposes of exercising control or management;

- (9) invest in restricted securities (securities that must be registered under the 1933 Act before they may be offered and sold to the public);
- (10) participate in a joint investment account; or
- (11) issue senior securities.

In addition, BCF has adopted the following investment restrictions that are not fundamental policies:

- (1) With respect to 50% of its assets, BCF will not at time of purchase invest more than 5% of its gross assets, at market value, in the securities of any one issuer (except the securities of the United States government);
- (2) With respect to the other 50% of its assets, BCF will not invest at the time of purchase more than 15% of the market value of its total assets in any single issuer;
- (3) BCF will not invest in real estate limited partnerships or in oil, gas or other mineral leases; and
- (4) BCF's investments in warrants will not exceed 5% of its net assets.

Restrictions that are not fundamental may be changed by a vote of the majority of the Board of Trustees, but if any of these nonfundamental restrictions are changed, BCF will give shareholders at least 60 days' written notice.

### **Investment Advisory Arrangements**

The Killen Group, Inc. is the investment advisor to BCF. Robert E. Killen is Chairman, Chief Executive Officer, majority shareholder and a Director of the Advisor. In addition, Robert E. Killen is President and Chairman of the Board of Trustees of the Trust.

The Advisor provides BCF with investment management services. Under a Contract for Investment Advisory Services between the Trust, on behalf of BCF, and the Advisor (the "Contract") dated February 5, 2002, the Advisor provides BCF with advice and recommendations with respect to investments, investment policies, the purchase and sale of securities and the management of BCF's portfolio. In addition, employees of the Advisor oversee and coordinate BCF's other service providers, including the administrator, fund accountant, transfer agent and custodian.

The Contract must be approved annually by a majority of the Trustees, and separately by a majority of the Trustees who are not "interested persons" of the Trust, as defined by the 1940 Act, cast in person at a meeting called for the purpose of voting on such approval. BCF may terminate the Contract on 60 days' written notice to the Advisor, without payment of any penalty, provided such termination is authorized by the Board of Trustees or by a vote of a majority of the outstanding shares of BCF. The Advisor may terminate the Contract on 60 days' written notice to BCF without payment of any penalty. The Contract will be automatically and immediately terminated in the event of its assignment by the Advisor.

As compensation for its investment management services to BCF under the Contract, the Advisor is entitled to receive monthly compensation at the annual rate of 0.85% of the average daily net assets of BCF. The fee is computed daily by multiplying the net assets for a day by

0.85% and dividing the result by 365. At the end of each month, the daily fees are added and the resulting sum is paid to the Advisor.

During the fiscal years ended December 31, 2011, 2010 and 2009, BCF paid the Advisor investment advisory fees of \$16,550 (which was net of waivers of \$74,921), \$24,651 (which was net of waivers of \$58,218) and \$18,999 (which was net of waivers of \$48,708), respectively.

### **Expense Limitation**

The Advisor has entered into an Expense Limitation Agreement where the Advisor has contractually agreed until at least May 1, 2013 to waive investment advisory fees and/or reimburse Fund expenses so that the Fund's Total Annual Fund Operating Expenses (excluding taxes, interest, brokerage commissions, Acquired Fund Fees and Expenses and extraordinary expenses) do not exceed 1.25% of the Fund's average daily net assets. Upon the expiration of the Expense Limitation Agreement and pursuant to the terms of the Contract, the Advisor's fee payable by BCF will be reduced in any fiscal year by the amount necessary to limit BCF's expenses (excluding taxes, interest, brokerage commissions, Acquired Fund Fees and Expenses and extraordinary expenses, but inclusive of the Advisor's fee payable by BCF) to 2.00% of the average daily net assets of BCF when BCF's net assets are \$100 million or less, or 1.50% of average daily net assets when BCF's net assets exceed \$100 million. The Contract provides that the Advisor will not be responsible for reimbursing other expenses exceeding the advisory fee payable by BCF under the Contract. If the Advisor chooses to reimburse other expenses exceeding the advisory fee payable by BCF, it may discontinue payment of such expenses at any time. During the fiscal year ended December 31, 2011, BCF's ratio of expenses to average net assets was 1.25%; absent advisory fee waivers by the Advisor, such ratio would have been 1.95%. Both agreements may be terminated by either party upon 60 days advance written notice, provided, however, that (1) the Advisor may not terminate either agreement without the approval of the Board of Trustees, and (2) the agreements will terminate automatically if the Advisor ceases to serve as investment adviser to the Fund.

### **Portfolio Transactions and Brokerage Commissions**

Subject to policies established by the Trust's Board of Trustees, the Advisor is responsible for BCF's portfolio decisions and placing orders for the purchase and sale of BCF's portfolio securities. In executing such transactions, the Advisor seeks to obtain the best net results for BCF, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution and operational facilities and capabilities of the firm involved. While the Advisor generally seeks reasonably competitive commission rates, the Advisor is authorized to pay a broker a brokerage commission in excess of that which another broker might have charged for effecting the same transaction, in recognition of the value of brokerage and research services provided by the broker that effects the transaction.

The Advisor may select brokers who, in addition to meeting the primary requirements of execution and price, have furnished statistical or other factual information and services which, in the opinion of the Board, are reasonable and necessary to the decision-making responsibilities of the Advisor for BCF. The services provided by these brokerage firms may also be used in dealing with the portfolio transactions of the Advisor's other clients, and not all such services may be used by the Advisor in connection with BCF. These services may include economic studies, industry studies, security analysis or reports and statistical services furnished either directly to BCF or to the Advisor. No effort is made in any given circumstance to determine the

value of these materials or services or the amount by which they might have reduced expenses of the Advisor.

The Board has adopted procedures pursuant to Rule 17e-1 under the 1940 Act that permit portfolio transactions to be executed through an affiliated broker. Berwyn Financial Services Corp. (“Berwyn Financial”) is an affiliated broker that BCF may utilize to execute portfolio transactions. Berwyn Financial is affiliated with BCF because certain officers and a Trustee of the Trust and a Director and certain officers of the Advisor are officers, Directors and shareholders of Berwyn Financial. During the fiscal years ended December 31, 2011, 2010 and 2009, BCF paid brokerage commissions of \$7,668, \$9,679 and \$6,257, respectively, to Berwyn Financial. During the fiscal year ended December 31, 2011, Berwyn Financial received 100% of BCF’s aggregate brokerage commissions for effecting 100% of the aggregate dollar amount of transactions involving brokerage commissions.

### **INVESTMENT MANAGEMENT COMMITTEE**

Each Fund’s portfolio is managed by an Investment Management Committee consisting of Lee S. Grout, Robert E. Killen, George Cipolloni III and Raymond J. Munsch.

#### **Other Accounts Managed (as of December 31, 2011)**

The members of the Investment Management Committee are also responsible for the day-to-day management of other accounts, as indicated by the following table.

Name of Investment Management Committee Member	Type of Accounts	Total Number of Accounts Managed	Total Assets of Accounts Managed	Number of Accounts Managed with Advisory Fee Based on Performance	Total Assets of Accounts with Advisory Fee Based on Performance
Lee S. Grout	Registered Investment Companies:	1	\$87.7 million	0	\$ 0
	Other Pooled Investment Vehicles:	2	\$10.7 million	1	\$8.5 million
	Other Accounts:	251	\$169.1 million	0	\$ 0
Robert E. Killen	Registered Investment Companies:	1	\$87.7 million	0	\$ 0
	Other Pooled Investment Vehicles:	2	\$10.7 million	1	\$8.5 million
	Other Accounts:	251	\$169.1 million	0	\$ 0
George Cipolloni III	Registered Investment Companies:	1	\$87.7 million	0	\$ 0
	Other Pooled Investment Vehicles:	2	\$10.7 million	1	\$8.5 million
	Other Accounts:	251	\$169.1 million	0	\$ 0
Raymond J. Munsch	Registered Investment Companies:	1	\$87.7 million	0	\$ 0
	Other Pooled Investment Vehicles:	2	\$10.7 million	1	\$8.5 million
	Other Accounts:	251	\$169.1 million	0	\$ 0

#### **Potential Conflicts of Interest**

The Advisor has other advisory clients which include individuals, trusts, pension and profit sharing plans and pooled investment vehicles, some of which have investment objectives similar to the Funds’ investment objectives. Therefore, certain conflicts of interest exist as a result of the Investment Management Committee members managing the Funds and managing the other accounts noted above. There will be times when an Investment Management Committee member may recommend purchases and/or sales of the same portfolio securities for one or more of the Funds and/or the Advisor’s other clients. Simultaneous transactions could adversely affect the ability of a Fund to obtain or dispose of the full amount of a security which it seeks to purchase or sell or the price at which such security can be purchased or sold and there may also

exist certain conflicts of interest with respect to allocation of the Investment Management Committee's time and resources.

To address any existing or potential conflicts of interest, the Advisor has adopted certain policies and procedures. Such policies require the Advisor to allocate purchases and sales among the Funds and its other clients in a manner which the Advisor deems equitable, taking into consideration such factors as size of accounts, concentration of holdings, investment objectives, tax status, cash availability, purchase costs, holding periods and other pertinent factors relative to each account. These policies are designed to ensure equitable treatment of all accounts and to protect the Funds from disparate treatment due to any conflicts of interest. In addition, procedures are in place to monitor personal trading by the Investment Management Committee members to ensure that the interests of the Advisor's clients come first.

### **Compensation**

Compensation of Investment Management Committee members includes a fixed cash salary plus a cash profit sharing bonus. Neither the salary nor the bonus of any Committee member is directly tied to the Funds' performance or to the value of the assets of the Funds. The amount of the profit sharing bonus received by each Committee member is determined pursuant to a formula established by the Advisor that takes into consideration the person's salary, years of employment and management's evaluation of the Committee member's performance. The amount of the profit sharing contribution is also based upon the profitability of the Advisor which is, in part, dependent upon the value of the total assets under management, including Fund assets. The Advisor also offers a 401(k) plan whereby the Committee members, as well as all employees of the Advisor, may elect to contribute up to the legal limit and the Advisor will match any contribution up to a fixed percentage.

### **Ownership of Fund Shares**

The following table indicates the dollar range of securities of each Fund beneficially owned by the Investment Management Committee members as of December 31, 2011.

Name of Investment Committee Member	Fund Shares Beneficially Owned	Dollar Value of Fund Shares Beneficially Owned
Lee S. Grout	Berwyn Fund	\$500,001 -- \$1,000,000
	Berwyn Income Fund	\$100,001— \$500,000
	Berwyn Cornerstone Fund	\$100,001— \$500,000
Robert E. Killen	Berwyn Fund	Over \$1,000,000
	Berwyn Income Fund	Over \$1,000,000
	Berwyn Cornerstone Fund	Over \$1,000,000
George Cipolloni III	Berwyn Fund	\$100,001— \$500,000
	Berwyn Income Fund	\$50,001— \$100,000
	Berwyn Cornerstone Fund	\$50,001 -- \$100,000
Raymond J. Munsch	Berwyn Fund	\$100,001— \$500,000
	Berwyn Income Fund	\$100,001— \$500,000
	Berwyn Cornerstone Fund	\$100,001— \$500,000

## TRUSTEES AND OFFICERS

The Board of Trustees oversees the management of the business of the Trust and the Funds. The Trust has three series — Berwyn Fund, Berwyn Income Fund and Berwyn Cornerstone Fund. Under the Declaration of Trust, each Trustee serves during the lifetime of the Trust until he or she resigns, dies or is removed, or, if sooner, until the next meeting of shareholders called for the purpose of electing Trustees and until the election and qualification of his or her successor. The Board of Trustees sets broad policies for the Trust and has responsibility for supervision of its operations. The daily operations of the Trust are administered by employees of the Advisor under the Board’s supervision.

The Board has an Audit Committee, but does not have a standing nomination or compensation committee. The members of the Audit Committee are Denis P. Conlon and Deborah D. Dorsi, the Independent Trustees on the Board. The Audit Committee is responsible for, among other things, overseeing the Trust’s accounting and financial reporting policies and the annual audit of the financial statements of the Funds, and selecting the Trust’s independent registered public accounting firm. The Audit Committee held one meeting during 2011.

The Trustees and executive officers of the Trust, their ages, their principal occupations for the past five years and the aggregate dollar range of shares owned in the Funds are listed below:

Name, Year of Birth, Position and Address	Principal Occupation for the Past Five Years and Directorships of Public Companies	Aggregate Dollar Range of Shares Owned in Berwyn Fund, Berwyn Income Fund and Berwyn Cornerstone Fund as of 12/31/11 <sup>1</sup>	Number of Portfolios in Fund Complex Overseen by Trustee
<i>Interested Trustees</i>			
Robert E. Killen <sup>2</sup> Year of Birth: 1941 President and Trustee 1199 Lancaster Ave. Berwyn, PA 19312	President and Chairman of the Board of the Trust and its predecessors since inception (February 1983). Director, officer and shareholder of Berwyn Financial Services Corp. (financial services company and registered broker-dealer) since October 1991. Chairman, Chief Executive Officer and majority shareholder of the Advisor since September 1982. General Partner of Focus Limited Partners (a private investment partnership). General Partner of Berwyn Enterprises and Berwyn Enterprises, II (real estate partnerships).	Over \$100,000 BF Over \$100,000 BIF Over \$100,000 BCF	3
<i>Independent Trustees</i>			
Denis P. Conlon Year of Birth: 1947 Trustee 1199 Lancaster Ave. Berwyn, PA 19312	Trustee of the Trust and its predecessors since June 1992. President and Chief Executive Officer of CRC Industries (a worldwide manufacturer) since 1996. President of Berwind Industrial Products Group (diversified manufacturing and financial company) since January 2007.	Over \$100,000 BF Over \$100,000 BIF \$50,001—\$100,000 BCF	3
Deborah D. Dorsi Year of Birth: 1955	Trustee of the Trust and its predecessors since April 1998.	\$50,001 --\$100,000 BF Over \$100,000 BIF	3

Trustee 1199 Lancaster Ave. Berwyn, PA 19312	Retired computer industry executive.	\$50,001—\$100,000 BCF	
<i>Executive Officers</i>			
Kevin M. Ryan <sup>2</sup> Year of Birth: 1947 Vice President/Chief Compliance Officer 1189 Lancaster Ave. Berwyn, PA 19312	Vice President of the Trust since January 2005 and Chief Compliance Officer of the Trust since October 2004. Served as a Director and/or officer of the Trust and its predecessors since 1983. President, Treasurer, Director and shareholder of Berwyn Financial Services Corp. since October 1991. Legal counsel to the Advisor.	Over \$100,000 BF Over \$100,000 BIF Over \$100,000 BCF	
Robert G. Dorsey Year of Birth: 1957 Vice President 225 Pictoria Drive Suite 450 Cincinnati, OH 45246	Vice President of the Trust since April 2005 and Managing Director of Ultimus Fund Solutions, LLC (registered transfer agent) and Ultimus Fund Distributors, LLC (registered broker-dealer) since August 1999.		
Mark J. Seger Year of Birth: 1962 Treasurer 225 Pictoria Drive Suite 450 Cincinnati, OH 45246	Treasurer of the Trust since April 2005 and Managing Director of Ultimus Fund Solutions, LLC and Ultimus Fund Distributors, LLC since August 1999.		
Wade R. Bridge Year of Birth: 1968 Secretary 225 Pictoria Drive Suite 450 Cincinnati, OH 45246	Secretary of the Trust since May 2011 and Director of Administration of Ultimus Fund Solutions, LLC and Vice President of Ultimus Fund Distributors, LLC since May 2002.		

<sup>1</sup> The value of shares listed for Mr. Killen includes shares owned by his wife, companies in which he is the majority shareholder and Partnerships of which he is General Partner. The value of shares listed for Ms. Dorsi includes shares owned by her husband. The value of shares listed for Mr. Ryan includes shares owned by him through a corporation in which he is a majority shareholder.

<sup>2</sup> Robert E. Killen and Kevin M. Ryan are “interested persons” of the Trust, as defined in the 1940 Act. Robert E. Killen is an officer and Director and majority shareholder of the Advisor. He is also a Director and officer of Berwyn Financial Services Corp., an affiliated broker-dealer, and owns one-third of its outstanding shares. Kevin M. Ryan is legal counsel to the Advisor and an officer, Director and owner of one-third of the outstanding shares of Berwyn Financial Services Corp. Robert E. Killen and Kevin M. Ryan are brothers-in-law.

Mr. Conlon and Ms. Dorsi are the Trustees of the Trust who are not “interested persons” of the Trust as defined in the 1940 Act (the “Independent Trustees”). They are paid a fee of \$1,500 for each Board or Committee meeting attended and a quarterly retainer of \$2,000. If Board and Committee meetings are held on the same day, the Independent Trustees receive only one \$1,500 fee for all meetings on that day. The Trust has not adopted a pension or retirement plan or any other plan that would afford benefits to the Trust. Ms. Dorsi and Mr. Conlon each received fees of \$14,000 during the fiscal year ended December 31, 2011.

Officers of the Trust, except for the Chief Compliance Officer, are not paid any compensation by the Trust for their work as officers. No fees are paid by the Trust to the Trustees who are not Independent Trustees for the performance of their duties.

### **Trustee Qualifications**

Each Trustee has been serving in such capacity for at least 14 years. During this period each Trustee has participated in regular and, on occasion, special board of trustee meetings. Each

Trustee has consistently attended Board meetings, demonstrating a commitment to the Funds and their shareholders. Through the years of service as a trustee, each Trustee has developed a thorough understanding of their role and responsibilities to the Funds and their shareholders. For example, the Trustees annually review the Funds' financial statements, contracts with service providers, review compliance reports, meet regularly with the Chief Compliance Officer of the Trust and select the Trust's independent registered public accounting firm. The Trustees also monitor certain quarterly activities of the Funds, which includes their brokerage activities, pricing and valuation activities, anti-money laundering activities and code of ethics reports (i.e. personal trading). The Trustees, with the assistance of Trust counsel, also stay current on legal and regulatory changes impacting the Funds.

In addition to the qualifications listed above, the Trustees have consistently demonstrated strong character, integrity, ability, sound judgment and superior communication and reasoning skills over their years of service. Furthermore, each Trustee came to the Board with strong and diverse business backgrounds.

### **Board Leadership**

The Board of Trustees is led by Robert E. Killen. Mr. Killen is an "interested person" of the Trust. He is considered an "interested person" because he is an officer and director and majority shareholder of the Advisor. Mr. Killen, with the assistance of the Trust's other officers, oversees the daily operations of the Funds. This process includes monitoring the activities of all the service providers serving the Funds. It also includes the coordination of Board meetings, development of Board meeting agendas and ensuring that all of the Funds' regulatory filings are being handled in compliance with the relevant rules and regulations.

The Trust has not appointed a lead "independent trustee". It was determined by the Board that due to its size (three Trustees), the size of the fund complex (three funds) and the relatively straight forward investment strategies adopted by the Funds, it is not necessary to appoint a lead "independent trustee." The Independent Trustees have consistently worked well together and have demonstrated an ability to provide appropriate oversight to the operations of the Funds.

### **Board Oversight of Risk Management**

The Board of Trustees conducts quarterly Board meetings where they review and discuss various aspects of the Funds' operations. These include: a review and update from the Advisor on each Fund's performance; a review of portfolio trading activities; a review of brokerage commissions paid (affiliated and non-affiliated); a review of pricing and valuation issues; a review of anti-money laundering activities; a review of capital share activity; a review of personal trading (code of ethics review); and an overall review of general compliance with the Chief Compliance Officer ("CCO") for the Trust. In addition, the Independent Trustees meet in Executive Session with Trust counsel prior to each Board meeting. During these sessions, the Independent Trustees discuss any issues or concerns they have with Fund operations, receive an update on legal and regulatory issues, and have the opportunity to meet with the CCO.

The Board of Trustees also relies on the compliance reviews performed by the Trust's CCO. Annually, the Trust's CCO provides a written compliance report to the Board of Trustees. This report updates the Trustees on any compliance related issues. It also includes recommendations from the CCO on possible enhancements to the Trust and/or service providers' compliance

procedures. The CCO, as part of the annual compliance report, certifies to the overall effectiveness of the operation of the Trust's compliance program.

### **Identifying and Evaluating Trustee Nominees**

The Board of Trustees does not have a standing nominating committee. The Independent Trustees are responsible for overseeing the process of identifying and evaluating potential nominees. As part of this process, the Independent Trustees will consider a wide variety of factors in considering trustee candidates, including (but not limited to): (i) availability and commitment of a candidate to attend meetings and perform his or her responsibilities on the Board, (ii) relevant industry and related experience, (iii) educational background, (iv) financial and other relevant experience, (v) an assessment of the candidate's character, integrity, ability and judgment, (vi) whether or not the candidate serves on boards of, or is otherwise affiliated with, competing financial service organizations or their related mutual fund complexes, (vii) whether or not the candidate has any relationships that might impair his or her independence and (viii) overall interplay of a candidate's experience, skill and knowledge with that of other Committee members. The Board has not developed a formal policy with regards to diversity of Board membership. As noted above, the Independent Trustees consider a number of factors in selecting a nominee, none of which focus on a person's gender or race. The purpose behind the process is to find the best possible nominee. In identifying potential nominees for the Board, the Independent Trustees may consider candidates recommended by one or more of the following sources: (i) the current Trustees, (ii) the Trust's officers, (iii) the Advisor, and (iv) any other source the Independent Trustees deem to be appropriate. However, the Trust has not adopted procedures by which shareholders may recommend nominees to the Board of Trustees.

### **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, exclusive of short-term investments, 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 the Funds, and may result in the Funds recognizing greater amounts of capital gains, which would increase the amount of capital gains which a Fund must distribute to its shareholders in order to maintain its status as a regulated investment company and to avoid the imposition of federal income or excise taxes. See "Distributions and Taxes." The Advisor anticipates that each Fund's portfolio turnover rate normally will not exceed 100%. 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 Advisor believes that portfolio changes are appropriate. For the fiscal years ended December 31, 2011, 2010 and 2009, BF's portfolio turnover rate was 30%, 44% and 37%, respectively; BIF's portfolio turnover rate was 71%, 49% and 35%, respectively; and BCF's portfolio turnover rate was 22%, 39% and 33%, respectively.

## **CODE OF ETHICS**

The Trust, the Advisor and Ultimus Fund Distributors, LLC (the “Distributor”), the Funds’ principal underwriter, have each adopted a Code of Ethics pursuant to Rule 17j-1 under the 1940 Act which permits personnel to invest in securities for their own accounts, subject to certain conditions, including securities that may be purchased or held by the Funds. The Codes of Ethics adopted by the Trust, the Advisor and the Distributor are on public file with, and are available from, the SEC. Copies of the Code may be obtained, after paying a duplicating fee, by writing to the SEC's Public Reference Section, Washington, D.C. 20549-1520 or sending a request to the following e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov).

## **PROXY VOTING POLICIES**

The Trust and the Advisor have adopted policies and procedures that describe how the Funds intend to vote proxies relating to portfolio securities. The Proxy Voting Policy & Procedures of the Trust and the Advisor are attached to this SAI as Appendix B. Information regarding how the Funds voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available without charge upon request by calling 800-992-6757, on the Funds’ website at [www.theberwynfunds.com](http://www.theberwynfunds.com), or on the SEC’s website at <http://www.sec.gov>.

## **PORTFOLIO HOLDINGS DISCLOSURE POLICY**

The Board of Trustees of the Trust has adopted the following policies to govern the circumstances under which disclosure regarding portfolio securities held by the Funds, and disclosure of purchases and sales of such securities, may be made to shareholders of the Funds or other persons.

- Public disclosure regarding the portfolio securities held by each Fund is made quarterly in Annual Reports and Semi-Annual Reports to Shareholders and in quarterly holdings reports on Form N-Q (“Official Reports”). Except for such Official Reports and as otherwise expressly permitted herein, shareholders and other persons may not be provided with information regarding portfolio securities held, purchased or sold by the Funds.
- Information regarding portfolio securities, and other information regarding the investment activities of a Fund, may be disclosed to rating and ranking organizations for use in connection with their rating or ranking of a Fund, but only if such disclosure has been approved by the Chief Compliance Officer of the Trust.
- These policies relating to disclosure of a Fund’s holdings of portfolio securities does not prohibit: (i) disclosure of information to the Advisor or to other service providers, including but not limited to the Trust’s administrator, distributor, custodian, legal counsel and auditors, or to brokers and dealers through whom a Fund purchases and sells portfolio securities; and (ii) disclosure of holdings of, or transactions in, portfolio securities by a Fund that is made on the same basis to all shareholders of the Fund.
- The Chief Compliance Officer may approve other arrangements, not described herein, under which information relating to portfolio securities held by a Fund, or purchased or sold by a Fund (other than information contained in Official Reports), is disclosed to any shareholder or other person. The Chief Compliance Officer shall approve such an arrangement only if he

concludes (based on a consideration of the information to be disclosed, the timing of the disclosure, the intended use of the information and other relevant factors) that the arrangement is reasonably necessary to aid in conducting the ongoing business of the Funds and is unlikely to affect adversely the Funds or any shareholder of the Funds. The Chief Compliance Officer shall inform the Board of Trustees of any such arrangements that are approved, and the rationale supporting approval.

- Neither the Advisor nor the Trust (or any affiliated person, employee, officer, trustee or director of the Advisor or the Trust) may receive any direct or indirect compensation in consideration of the disclosure of information relating to portfolio securities held, purchased or sold by the Funds.

## **OWNERSHIP OF THE TRUST**

### **Berwyn Fund**

As of March 30, 2012, there were 8,869,484 shares of BF outstanding. As of that date, the following shareholders owned of record more than 5% of the outstanding shares of BF: National Financial Services LLC (“National Financial”), One World Financial Center, New York, New York 10281, was the record owner of 31.27%; Ameritrade Inc, 1005 North Ameritrade Place, Bellevue, Nebraska 68005, was the record owner of 9.46%; Charles Schwab & Co., Inc., 101 Montgomery Street, San Francisco, California 94104, was the record owner of 7.81% and LPL Financial Services, 9785 Towne Centre Drive, San Diego, California 92121, was the record owner of 5.01%. Although National Financial is the record owner of more than 25% of the outstanding shares, it cannot be considered to control BF since National Financial holds the shares in nominee name for its customers and does not have the power to vote or sell the shares. The records of BF do not indicate that any other person owns of record or beneficially more than 5% of BF’s outstanding shares.

As of March 30, 2012, Trustees and officers of the Trust, as a group, owned 4.50% of BF’s outstanding shares (excluding shares held by The Killen Group, Inc. Profit Sharing Plan and The Killen Group, Inc. 401(k) Plan), which constituted 0.67% of the outstanding shares of BF.

### **Berwyn Income Fund**

As of March 30, 2012, there were 112,371,291 shares of BIF outstanding. As of that date, the following shareholders owned of record more than 5% of the outstanding shares of BIF: Charles Schwab & Co., Inc. (“Charles Schwab”) was the record owner of 27.63%; National Financial Services LLC, One World Financial Center, New York, New York, was the record owner of 22.80%; Ameritrade Inc., 1005 North Ameritrade Place, Bellevue, Nebraska 68005, was the record owner of 8.37%; and LPL Financial Services, 9785 Towne Centre Drive, San Diego, California 92121, was the record owner of 5.21%. Although Charles Schwab is record owner of more than 25% of the outstanding shares, it cannot be considered to control BIF since Charles Schwab holds the shares in nominee name for its customers and it does not have the power to vote or sell the shares. The records of BIF do not indicate that any other person owns of record or beneficially more than 5% of BIF’s outstanding shares.

As of March 30, 2012, Trustees and officers of the Trust, as a group, owned beneficially and of record less than 1% of BIF’s outstanding shares.

## **Berwyn Cornerstone Fund**

As of March 30, 2012, there were 877,205 shares of BCF outstanding. As of that date, the following shareholders owned of record more than 5% of the outstanding shares BCF: National Financial Services LLC (“National Financial”) was the record owner of 70.19% of BCF’s outstanding shares. Although National Financial is the record owner of more than 25% of BCF’s outstanding shares, it cannot be considered to control BCF since National Financial holds the shares in nominee name for its customers and does not have the power to vote or sell the shares. The records of BCF do not indicate that any other person owns of record or beneficially more than 5% of BCF’s outstanding shares, except for Mr. Robert E. Killen, President, Chairman and Trustee of the Trust, who owned beneficially 14.43% of BCF’s outstanding shares.

As of March 30, 2012, Trustees and officers of the Trust, as a group, owned beneficially and of record 17.17% of BCF outstanding shares (excluding shares held by The Killen Group, Inc. Profit Sharing Plan and The Killen Group, Inc. 401(k) Plan), which constituted 3.43% of the outstanding shares of BCF. Mr. Robert E. Killen, President, Chairman and Trustee of the Trust, owned beneficially 14.43% of the outstanding shares of BCF. Mr. Killen’s share ownership in BCF is included in the ownership total for all Trustees and officers of the Trust (i.e., 17.17%).

## **SHARE PURCHASES**

The Trust offers shares of the Funds to the public on a continuous basis. The Trust does not impose a sales charge (load) on the purchase of shares of the Funds. The offering price of shares of a Fund is the net asset value per share next determined after receipt by the transfer agent or a financial intermediary authorized by the Trust to receive orders for the purchase of shares.

The net asset value per share of each Fund is determined by dividing the total value of the investments of the Fund plus other assets, less any liabilities, by the total number of outstanding shares of that Fund. Net asset value per share is determined as of the close of regular trading on the New York Stock Exchange (the “Exchange”), ordinarily 4:00 p.m., Eastern time, on each day that the Exchange is open. The net asset value per share can be expected to fluctuate daily.

The minimum initial investment is \$3,000 per investor. This investment may be divided by a single investor among different investment accounts in one Fund that total \$3,000 in the aggregate or among accounts in the three Funds of the Trust. Subsequent investments must be at least \$250 per account. The minimum initial investment for Individual Retirement Accounts (IRAs) is \$1,000. The minimum is \$250 for a spousal IRA. Subsequent investments in IRAs must be at least \$250. There are no minimum requirements for pension and profit sharing plans or custodial accounts for minors.

The Trust reserves the right to reduce or waive the minimum purchase requirements in certain cases where subsequent and continuing purchases are contemplated.

## **DISTRIBUTOR**

Ultimus Fund Distributors, LLC (the “Distributor”), 225 Pictoria Drive, Suite 450, Cincinnati, Ohio 45246, serves as the principal underwriter and distributor for the shares of the Funds. The Distributor is registered as a broker-dealer under the Securities Exchange Act of 1934 and each state’s securities laws and is a member firm of the Financial Industry Regulatory Authority. The offering of the Funds’ shares is continuous. The Distribution Agreement provides that the

Distributor, as agent in connection with the distribution of the Funds' shares, will use its best efforts to distribute the Funds' shares. The Distributor is an affiliate of Ultimus Fund Solutions, LLC, the Funds' administrator and transfer agent.

The Distribution Agreement provides that, unless sooner terminated, it will continue in effect from year to year, subject to annual approval by (a) the Board of Trustees or a vote of a majority of the outstanding shares and (b) 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 by the Trust at any time, without the payment of any penalty, by vote of a majority of the entire Board of Trustees of the Trust or by vote of a majority of the outstanding shares of a Fund on 60 days' written notice to the Distributor, or by the Distributor at any time, without the payment of any penalty, on 60 days' written notice to the Trust. The Distribution Agreement will automatically terminate in the event of its assignment.

### **REDEMPTION OF SHARES**

The Trust will redeem an investor's shares of a Fund upon receipt of a written request in proper form. The redemption price is the net asset value per share of a Fund next determined after receipt of proper instructions, less any applicable redemption fee. In certain circumstances described in the prospectus, the shareholder could receive, upon redemption of shares of a Fund, portfolio securities held by a Fund rather than cash. The Trust has elected to be governed by Rule 18f-1 under the 1940 Act, pursuant to which the Trust is obligated to redeem shares solely in cash up to the lesser of \$250,000 or 1% of the net assets of a Fund from which a redemption is being made during any 90-day period for any one shareholder. Should redemptions by any shareholder exceed such limitation, the Trust may redeem the excess in kind. If shares are redeemed in kind, the redeeming shareholder may incur brokerage costs in converting the assets to cash. The method of valuing securities used to make redemptions in kind will be the same as the method of valuing portfolio securities, and such valuation will be made as of the same time the redemption price is determined. Shareholders completely liquidating their accounts will receive upon redemption all dividends reinvested through the date of redemption.

### **CALCULATION OF PERFORMANCE DATA**

#### **Berwyn Fund**

The average annual total returns of the Berwyn Fund for the one year, five year and ten year periods ended December 31, 2011, as well as the average annual total returns for the same periods after taxes on distributions and after taxes on distributions and sale of shares of BF, are listed below:

	<b>1 Year</b>	<b>5 Years</b>	<b>10 Years</b>
Return Before Taxes	3.45%	2.98%	9.05%
Return After Taxes on Distributions	3.19%	2.45%	8.16%
Return After Taxes on Distributions and Sale of Fund Shares	2.60%	2.41%	7.78%

The total return for a period is calculated by determining the redeemable value on the last day of the period of a \$1,000 initial investment made at the beginning of the period, with dividend and

capital gains reinvested on the reinvestment date and dividing the value by \$1,000. The average annual total return for the period is calculated by taking the total return for the period and determining the annual average by using an exponential function based upon the number of years and any fraction thereof in the period.

The above method is used to calculate the average annual total returns before taxes. To determine the average annual total returns after taxes on distributions, the taxes due on distributions during the period are calculated using the highest individual marginal federal income taxes on the reinvestment date. The amount of taxes due are deducted from the distributions and the remainder is reinvested. The tax rates used correspond to the tax character of each component of the distributions. Ordinary income rates are used for ordinary income distributions, short-term capital gain rates for short-term capital gain distributions and long-term capital gain rates for long-term capital gains. To determine the average annual total returns after taxes on distributions and sale of Fund shares, BF would calculate the average annual total returns, taking into account the taxes due on distributions and taxes due on the sale of the shares at the end of the 1, 5 and 10 year periods. The amounts remaining after the deductions for taxes would be used to determine the returns after taxes on distributions and sale of Fund shares.

In addition to average annual total returns listed above, BF may also quote total returns (a “nonstandardized quotation”) which are calculated differently from average annual total returns. A nonstandardized quotation of total return may be a cumulative return which measures the percentage change in the value of an account between the beginning and end of a period, assuming no activity in the account other than reinvestment of dividends and capital gains distributions. A nonstandardized quotation of total return will always be accompanied by BF’s average annual total returns as described above. Listed below are BF’s total returns for each of the past 10 calendar years:

2002	-6.88%
2003	50.01%
2004	22.83%
2005	12.18%
2006	6.71%
2007	-3.68%
2008	-27.09%
2009	27.71%
2010	24.82%
2011	3.45%

All average annual total returns and the total returns for calendar years are based on historical performance and are not intended as an indication of future performance.

### **Berwyn Income Fund**

The average annual total returns of the Berwyn Income Fund for the one year, five year and ten year periods ended December 31, 2011, as well as the average annual total returns for the same periods after taxes on distributions and after taxes on distributions and sale of shares of BIF, are listed below:

	<b>1 Year</b>	<b>5 Years</b>	<b>10 Years</b>
Return Before Taxes	3.09%	7.23%	7.98%
Return After Taxes on Distributions	1.69%	5.50%	6.22%
Return After Taxes on Distributions and Sale of Fund Shares	2.74%	5.35%	5.97%

BIF calculates its average annual total returns before and after taxes using the same methods described above with respect to BF. In addition to average annual total returns listed above, BIF may also quote total returns (a “nonstandardized quotation”) which are calculated differently from average annual total returns. A nonstandardized quotation of total return may be a cumulative return which measures the percentage change in the value of an account between the beginning and end of a period, assuming no activity in the account other than reinvestment of dividends and capital gains distributions. A nonstandardized quotation of total return will always be accompanied by BIF’s average annual total returns as described above. Listed below are BIF’s total returns for each of the past 10 calendar years:

2002	9.38%
2003	16.23%
2004	7.98%
2005	1.96%
2006	8.65%
2007	6.83%
2008	-10.19%
2009	30.22%
2010	10.06%
2011	3.09%

All average annual total returns and the total returns for calendar years are based on historical performance and are not intended as an indication of future performance.

From time to time, BIF may advertise its yield. A yield quotation is based on a 30-day (or one month) period and is computed by dividing the net investment income per share earned during the period by the maximum offering price per share on the last day of the period, according to the following formula:

$$\text{Yield} = 2 [(a-b/cd + 1)^6 - 1]$$

Where:

a = dividends and interest earned during the period

b = expenses accrued for the period (net of reimbursements)

c = the average daily number of shares outstanding during the period that were entitled to receive dividends

d = the maximum offering price per share on the last day of the period

Solely for the purpose of computing yield, dividend income is recognized by accruing 1/360 of the stated dividend rate of the security each day that BIF owns the security. Generally, interest earned (for the purpose of “a” above) on debt obligations is computed by reference to the yield to maturity of each obligation held based on the market value of the obligation (including actual accrued interest) at the close of business on the last business day prior to the start of the 30-day (or one month) period for which yield is being calculated, or, with respect to obligations

purchased during the month, the purchase price (plus actual accrued interest). With respect to the treatment of discounts and premiums on mortgage or other receivables-backed obligations which are expected to be subject to monthly paydowns of principal and interest, gain or loss attributable to actual monthly paydowns is accounted for as an increase or decrease to interest income during the period and discount or premium on the remaining security is not amortized. BIF's yield for the 30-day period ended December 31, 2011 was 2.89%.

### **Berwyn Cornerstone Fund**

The average annual total returns of the Berwyn Cornerstone Fund for the periods ended December 31, 2011, as well as the average annual total returns over the same periods after taxes on distributions and after taxes on distributions and sale of shares of BCF, are listed below:

	<b>1 Year</b>	<b>5 Years</b>	<b>Since Inception (May 1, 2002)</b>
Return Before Taxes	-2.59%	-0.30%	4.80%
Return After Taxes on Distributions	-2.75%	-0.65%	4.48%
Return After Taxes on Distributions and Sale of Fund Shares	-1.47%	-0.26%	4.18%

BCF calculates its average annual total returns before and after taxes using the same methods described above with respect to BF. In addition to average annual total returns listed above, BCF may also quote total returns (a "nonstandardized quotation") which are calculated differently from average annual total returns. A nonstandardized quotation of total return may be a cumulative return which measures the percentage change in the value of an account between the beginning and end of a period, assuming no activity in the account other than reinvestment of dividends and capital gains distributions. A nonstandardized quotation of total return will always be accompanied by BCF's average annual total returns as described above. Listed below are BCF's total returns for each full calendar year since inception:

2003	17.09%
2004	10.62%
2005	5.40%
2006	18.28%
2007	0.19%
2008	-28.61%
2009	30.21%
2010	8.57%
2011	-2.59%

All average annual total returns and the total returns for calendar years are based on historical performance and are not intended as an indication of future performance.

### **Other Performance Information**

From time to time the performance of a Fund may be compared in publications to the performance of various indices and investments for which reliable performance data is available. The performance of a Fund may also be compared in publications to averages, performance rankings or other information prepared by recognized mutual fund statistical services. Further, the management of the Trust may compare the performance of BCF to the performance of stock market indices such as the Dow Jones Industrial Average, the S&P 500 Index, the S&P MidCap

400 Index and the Russell 2000 Index. The performance of BIF may be compared to the performance of the Citigroup Broad Investment Grade Index, the Merrill Lynch High Yield Master II Index and the Lipper Income Fund Index.

## **GENERAL INFORMATION**

The Trust is an open-end management investment company registered with the SEC pursuant to the 1940 Act and organized as a statutory trust under the laws of the State of Delaware on February 4, 1999. The Trust has three series: Berwyn Fund, Berwyn Income Fund and Berwyn Cornerstone Fund.

Berwyn Fund is the successor to The Berwyn Fund, Inc., a corporation organized under the laws of the Commonwealth of Pennsylvania in February, 1983, which was a no-load, nondiversified, open-end management investment company. In a reorganization approved by vote of the shareholders of The Berwyn Fund, Inc. and accomplished on April 30, 1999, all the assets and liabilities of The Berwyn Fund, Inc. were transferred to BF and the shareholders of The Berwyn Fund, Inc. became the shareholders of BF. Thereafter BF has carried on the business of The Berwyn Fund, Inc.

Berwyn Income Fund is the successor to Berwyn Income Fund, Inc., a corporation organized under the laws of the Commonwealth of Pennsylvania on December 26, 1986, which was a no-load, diversified, open-end management investment company. In a reorganization approved by vote of the shareholders of Berwyn Income Fund, Inc. and accomplished on April 30, 1999, all the assets and liabilities of Berwyn Income Fund, Inc. were transferred to BIF and the shareholders of Berwyn Income Fund, Inc. became shareholders of BIF. Thereafter BIF has carried on the business of Berwyn Income Fund, Inc.

Berwyn Cornerstone Fund was established by the Trust's Board of Trustees on February 5, 2002 and the public offering of shares commenced on May 1, 2002.

Each Fund has authorized an unlimited number of shares of beneficial interest, without par value. Each share has equal voting, dividend, distribution and liquidation rights. There are no conversion or preemptive rights applicable to shares of any Fund. All shares issued are fully paid and non-assessable. Shares of the Funds do not have cumulative voting rights.

### **Transfer Agent and Administrator**

The Funds' transfer agent, Ultimus Fund Solutions, LLC ("Ultimus"), 225 Pictoria Drive, Suite 450, Cincinnati, Ohio 45246, maintains the records of each shareholder's account, processes purchases and redemptions of each Fund's shares and acts as dividend and distribution disbursing agent. Ultimus also provides administrative services to the Funds, calculates daily net asset value per share and maintains such books and records as are necessary to enable Ultimus to perform its duties. For the performance of these services, the Trust pays Ultimus a fee at the annual rate of 0.15% of the first \$500 million of the average value of the aggregate daily net assets of the Funds, 0.125% of the next \$500 million of such assets, and 0.10% of such assets in excess of \$1 billion; provided, however, that the minimum fee is \$15,000 per month. Effective March 1, 2011, Ultimus agreed to amend its fee structure and the Trust currently pays Ultimus a fee at the annual rate of 0.125% of the first \$1 billion of the average value of the aggregate daily net assets of the Funds, 0.10% on the next \$500 million of such assets, and 0.085% of such assets in excess of \$1.5 billion. The minimum monthly fee of \$15,000 is unchanged. In addition, each

Fund pays out-of-pocket expenses, including but not limited to, postage, stationery, checks, drafts, forms, reports, record storage, communication lines and the costs of external pricing services.

Ultimus was paid fees of \$179,141, \$571,534 and \$38,753 by BF, BIF and BCF, respectively, during the fiscal year ended December 31, 2009. Ultimus was paid fees of \$213,824, \$1,197,664 and \$40,365 by BF, BIF and BCF, respectively, during the fiscal year ended December 31, 2010. Ultimus was paid fees of \$260,344, \$1,468,295 and \$41,835 by BF, BIF and BCF, respectively, during the fiscal year ended December 31, 2011.

### **Custodian**

U.S. Bank, N.A., 425 Walnut Street, Cincinnati, Ohio 45202, has been retained to act as custodian for the Funds' investments. As custodian, U.S. Bank, N.A. acts as each Fund's depository, safekeeps its portfolio securities, collects all income and other payments with respect thereto, disburses funds as instructed and maintains records in connection with its duties.

### **Independent Registered Public Accounting Firm**

BBD, LLP, has been selected as the independent registered public accounting firm for the Trust for the fiscal year ending December 31, 2012. BBD, LLP performs an annual audit of the Funds' financial statements and provides tax services as requested.

### **Legal Counsel**

Gary M. Gardner, PLLC, 98 Norristown Road, Blue Bell, Pennsylvania 19422, is legal counsel to the Trust.

The Trust is not involved in any litigation or other legal proceedings.

## **DISTRIBUTIONS AND TAXES**

The following discussion summarizes certain U.S. federal income tax considerations affecting the Funds and their shareholders. This discussion is for general information only and does not purport to consider all aspects of U.S. federal income taxation that might be relevant to shareholders of the Funds. The summary is based upon current provisions of the Internal Revenue Code of 1986, as amended (the "Code"), applicable U.S. Treasury Regulations promulgated thereunder and administrative and judicial interpretations thereof, all of which are subject to change, which change could be retroactive, and may affect the conclusions expressed herein. The summary applies only to beneficial owners of a Fund's shares in whose hands such shares are capital assets within the meaning of Section 1221 of the Code, and may not apply to certain types of beneficial owners of a Fund's shares, including, but not limited to insurance companies, tax-exempt organizations, shareholders holding a Fund's shares through tax-advantaged accounts (such as an individual retirement account (an "IRA"), a 401(k) plan account, or other qualified retirement account), financial institutions, pass-through entities, broker-dealers, entities that are not organized under the laws of the United States or a political subdivision thereof, persons who are neither a citizen nor resident of the United States, shareholders holding a Fund's shares as part of a hedge, straddle or conversion transaction, and shareholders who are subject to the alternative minimum tax. Persons or entities who may be

subject to tax in more than one country should consult the provisions of any applicable tax treaty to determine the potential tax consequences to them.

No Fund has requested nor will any Fund request an advance ruling from the Internal Revenue Service (the “IRS”) as to the federal income tax matters described below. The IRS could adopt positions contrary to those discussed below and such positions could be sustained. In addition, the following discussion addresses only some of the federal income tax considerations generally affecting investments in the Funds.

**Each shareholder is urged and advised to consult his or her own tax advisor with respect to the tax consequences of the ownership, purchase and disposition of an investment in the Funds including, but not limited to, the applicability of state, local, foreign and other tax laws affecting the particular shareholder and possible effects of changes in federal or other tax laws.**

**GENERAL.** For federal tax purposes, each Fund is treated as a separate corporation. Each Fund has elected, and intends to continue to qualify for, taxation as a regulated investment company (“RIC”) under the Code. By qualifying as a RIC, a Fund (but not its shareholders) will not be subject to federal income tax on that portion of its investment company taxable income and net realized capital gains that it distributes to its shareholders.

Shareholders should be aware that investments made by a Fund, some of which are described below, may involve complex tax rules, some of which may result in income or gain recognition by it without the concurrent receipt of cash. Although each Fund seeks to avoid significant noncash income, such noncash income could be recognized by a Fund, in which case it may distribute cash derived from other sources in order to meet the minimum distribution requirements described below. Cash to make the required minimum distributions may be obtained from sales proceeds of securities held by a Fund (even if such sales are not advantageous) or, if permitted by its governing documents, through borrowing the amounts required.

**QUALIFICATION AS REGULATED INVESTMENT COMPANY.** Qualification as a RIC under the Code requires, among other things, that: (a) each Fund derive at least 90% of its gross income for each taxable year from dividends, interest, payments with respect to securities loans and gains from the sale or other disposition of stock, securities or foreign currencies, or other income (including but not limited to gains from options, futures and forward contracts) derived with respect to its business of investing in such stock, securities or currencies (the “Qualifying Income Requirement”), and net income from certain qualified publicly traded partnerships; (b) each Fund diversify its holdings so that, at the close of each quarter of the taxable year: (i) at least 50% of the value of its total assets is comprised of cash, cash items (including receivables), U.S. government securities, securities of other RICs and other securities, with those other securities limited, in respect of any one issuer, to an amount that does not exceed 5% of the value of its total assets and that does not represent more than 10% of the outstanding voting securities of such issuer; and (ii) not more than 25% of the value of its total assets is invested in the securities (other than U.S. government securities or securities of other RICs) of any one issuer or the securities (other than the securities of other RICs) of two or more issuers controlled by it and engaged in the same, similar or related trades or businesses, or one or more “qualified publicly traded partnerships”; and (c) each Fund distribute for each taxable year the sum of (i) at least 90% of its investment company taxable income (which includes dividends, taxable interest, taxable original issue discount income, market discount income, income from securities lending,

net short-term capital gain in excess of net long-term capital loss, certain net realized foreign currency exchange gains, and any other taxable income other than “net capital gain” as defined below and is reduced by deductible expenses all determined without regard to any deduction for dividends paid); and (ii) 90% of its tax-exempt interest, if any, net of expenses allocable thereto.

The Treasury Department is authorized to promulgate regulations under which gains from foreign currencies (and options, futures, and forward contracts on foreign currency) would constitute qualifying income for purposes of the qualifying income requirement only if such gains are directly related to the principal business of a Fund in investing in stock or securities or options and futures with respect to stock or securities. To date, no such regulations have been issued.

As a RIC, a Fund generally will not be subject to U.S. federal income tax on the portion of its income and capital gains that it distributes to its shareholders in any taxable year for which it distributes, in compliance with the Code’s timing and other requirements, at least 90% of its investment company taxable income and at least 90% of the excess of its gross tax-exempt interest income, if any, over certain disallowed deductions (“net tax-exempt interest”). Each Fund may retain for investment all or a portion of its net capital gain (i.e., the excess of its net long-term capital gains over its net short-term capital losses). If a Fund retains any investment company taxable income or net capital gain, it will be subject to tax at regular corporate rates on the amount retained. If a Fund retains any net capital gain, it may designate the retained amount as undistributed net capital gain in a notice to its shareholders, who will be (i) required to include in income for federal income tax purposes, as long-term capital gains, their shares of such undistributed amount; and (ii) entitled to credit their proportionate shares of tax paid by such Fund against their federal income tax liabilities, if any, and to claim refunds to the extent the credit exceeds such liabilities. For federal income tax purposes, the tax basis of the shares owned by a shareholder of a Fund will be increased by the amount of undistributed net capital gain included in the shareholder’s gross income and decreased by the federal income tax paid by such Fund on that amount of capital gain.

If, for any taxable year, the Fund does not qualify as a RIC after taking into account cure provisions available for certain failures to so qualify (certain of which would result in the imposition of a tax on the Fund), all of the Fund’s taxable income (including its net capital gain) will be subject to tax at regular corporate rates without any deduction for distributions to shareholders, and such distributions will be taxable to the shareholders as dividends to the extent of the Fund’s current and accumulated earnings and profits. Such distributions may be eligible for (i) the dividends-received deduction in the case of corporate shareholders or (ii) treatment as “qualified dividend income” in the case of noncorporate shareholders in taxable years beginning before January 1, 2013.

**EXCISE TAX.** If a Fund fails to distribute by December 31 of each calendar year an amount equal to the sum of (1) at least 98% of its taxable ordinary income (excluding capital gains and losses) for such year, (2) at least 98.2% of the excess of its capital gains over its capital losses (as adjusted for certain ordinary losses) for the twelve month period ending on October 31 of such year), and (3) all taxable ordinary income and the excess of capital gains over capital losses for the prior year that were not distributed during such year and on which it did not pay federal income tax, such Fund will be subject to a nondeductible 4% excise tax (the “Excise Tax”) on the undistributed amounts. A distribution will be treated as paid on December 31 of the calendar year if it is declared by a Fund in October, November or December of that year to shareholders of record on a date in such month and paid by it during January of the following year. Such

distributions will be taxable to shareholders (other than those not subject to federal income tax) in the calendar year in which the distributions are declared, rather than the calendar year in which the distributions are received. Each Fund generally intends to actually distribute or be deemed to have distributed substantially all of its net income and gain, if any, by the end of each calendar year in compliance with these requirements so that it will generally not be required to pay the Excise Tax. In certain circumstances, a Fund may be required to liquidate its investments in order to make sufficient distributions to avoid Excise Tax liability at a time when the Advisor might not otherwise have chosen to do so, and liquidation of investments in such circumstances may affect the ability of a Fund to satisfy the requirements for qualification as a RIC. No assurances can be given that a Fund will not be subject to the Excise Tax and, in fact, in certain instances if warranted, a Fund may choose to pay the Excise Tax as opposed to making an additional distribution.

**CAPITAL LOSS CARRYFORWARDS.** Each Fund's net realized capital gains from securities transactions will be distributed only after reducing such gains by the amount of any available capital loss carryforwards. Capital losses for any year beginning on or before December 22, 2010 may be carried forward to offset capital gains, if any, for a period of eight years following the year of such losses. Each Fund's capital loss carryforwards are treated as short-term capital losses in the year to which it is carried. If future capital gains are offset by carried forward capital losses, such future capital gains are not subject to Fund-level federal income taxation, regardless of whether they are distributed to shareholders. Capital losses arising in years beginning after December 22, 2010 may be carried forward indefinitely. Any such capital losses are utilized before capital losses arising in years beginning on or before December 22, 2010. As of December 31, 2011, BCF had capital loss carryforwards of \$313,844, of which \$249,885 expire on December 31, 2017. The remaining capital loss carryforwards of \$63,959 are long term losses and may be carried forward indefinitely.

A Fund may not carry back or carry forward any net operating losses.

If a Fund engages in a reorganization, either as an acquiring fund or acquired fund, its capital loss carryforwards (if any), its unrealized losses (if any), and any such losses of other funds participating in the reorganization, may be subject to severe limitations that could make such losses substantially unusable.

**WASH SALES.** A Fund may in certain circumstances be impacted by special rules relating to "wash sales." In general, the wash sale rules prevent the recognition of a loss by a Fund from the disposition of stock or securities at a loss in a case in which identical or substantially identical stock or securities (or an option to acquire such property) is or has been acquired by it within 30 days before or 30 days after the sale.

**DISTRIBUTIONS.** Distributions paid out of a Fund's current and accumulated earnings and profits (as determined at the end of the year), whether reinvested in additional shares or paid in cash, are generally taxable and must be reported by each shareholder who is required to file a federal income tax return. Distributions in excess of a Fund's current and accumulated earnings and profits, as computed for federal income tax purposes, will first be treated as a return of capital up to the amount of a shareholder's tax basis in his or her Fund shares and then as capital gain.

For federal income tax purposes, distributions of investment company taxable income are generally taxable as ordinary income, and distributions of gains from the sale of investments that

a Fund owned for one year or less will be taxable as ordinary income. Distributions designated by a Fund as “capital gain dividends” (distributions from the excess of net long-term capital gains over short-term capital losses) will be taxable to shareholders as long-term capital gains regardless of the length of time they have held their shares of such Fund. Such dividends do not qualify as dividends for purposes of the dividends received deduction described below.

Individual shareholders may benefit from lower rates applicable to long-term capital gains on certain distributions that are attributable to certain dividends received by the Funds from U.S. corporations and certain foreign corporations (“Qualified Dividends”). Such dividends are scheduled to be taxed at ordinary income rates starting in 2013. It appears that for an individual shareholder to benefit from the lower tax rate on Qualified Dividends, the shareholder must hold shares in the Fund, and the Fund must hold shares in the dividend-paying corporation, at least 61 days during a prescribed period. Under current IRS practice, the prescribed period is the 121-day period beginning 60 days before the date on which the shareholder or the Fund, as the case may be, becomes entitled to receive the dividend. Furthermore, in determining the holding period for this purpose, any period during which the recipient’s risk of loss is offset by means of options, short sales or similar instruments is not included. Additionally, an individual shareholder would not benefit from the lower tax rate to the extent it or the Fund is obligated (e.g., pursuant to a short sale) to make related payments with respect to positions in substantially similar or related property.

It is anticipated that amounts distributed by each Fund that are attributable to certain dividends received from domestic corporations will qualify for the 70% dividends-received deduction for corporate shareholders. A corporate shareholder’s dividends-received deduction will be disallowed unless it holds shares in the Fund, and the Fund holds shares in the dividend-paying corporation, at least 46 days during the 91-day period beginning 45 days before the date on which the shareholder or the Fund, as the case may be, becomes entitled to receive the dividend. In determining the holding period for this purpose, any period during which the recipient’s risk of loss is offset by means of options, short sales or similar transactions is not counted. Furthermore, the dividends-received deduction will be disallowed to the extent a corporate shareholder’s investment in shares of the Fund, or the Fund’s investment in the shares of the dividend-paying corporation, is financed with indebtedness. Additionally, a corporate shareholder would not benefit to the extent it or a Fund is obligated (e.g., pursuant to a short sale) to make related payments with respect to positions in substantially similar or related property.

As of January 1, 2012, federal law requires that mutual fund companies report their shareholders’ cost basis, gain/loss, and holding period to the Internal Revenue Service on the Funds’ shareholders’ Consolidated Form 1099s when “covered” securities are sold. Covered securities are any regulated investment company and/or dividend reinvestment plan shares acquired on or after January 1, 2012.

Prior to January 1, 2012, the Funds will choose a standing (default) tax lot identification method for all shareholders. A tax lot identification method is the way the Funds will determine which specific shares are deemed to be sold when there are multiple purchases on different dates at differing net asset values, and the entire position is not sold at one time. The Funds’ standing tax lot identification method is the method covered shares will be reported on your Consolidated Form 1099 if you do not select a specific tax lot identification method. You may choose a method different than the Funds’ standing method and will be able to do so at the time of your purchase or upon the sale of covered shares. Please refer to the appropriate Internal Revenue

Service regulations or consult your tax advisor with regard to your personal circumstances. Prior to January 1, 2012, the Funds' shareholders will be notified as to which default tax lot identification method the Funds will use.

For those securities defined as "covered" under current Internal Revenue Service cost basis tax reporting regulations, the Funds are responsible for maintaining accurate cost basis and tax lot information for tax reporting purposes. The Funds are not responsible for the reliability or accuracy of the information for those securities that are not "covered." The Funds and their service providers do not provide tax advice. You should consult independent sources, which may include a tax professional, with respect to any decisions you may make with respect to choosing a tax lot identification method.

For taxable years beginning after December 31, 2012, certain U.S. shareholders, including individuals and estates and trusts, will be subject to an additional 3.8% Medicare tax on all or a portion of their "net investment income," which should include dividends from the Funds and net gains from the disposition of shares of the Funds. U.S. shareholders are urged to consult their own tax advisors regarding the implications of the additional Medicare tax resulting from an investment in the Funds.

**PURCHASES OF FUND SHARES.** Prior to purchasing shares in a Fund, the impact of dividends or distributions which are expected to be or have been declared, but not paid, should be carefully considered. Any dividend or distribution declared shortly after a purchase of such shares prior to the record date will have the effect of reducing the per share net asset value by the per share amount of the dividend or distribution, and to the extent the distribution consists of a Fund's taxable income, the purchasing shareholder will be taxed on the taxable portion of the dividend or distribution received even though some or all of the amount distributed may effectively be a return of capital.

**REDEMPTIONS OR EXCHANGES.** Upon the disposition of shares of a Fund (whether by redemption or exchange), a shareholder may realize a capital gain or loss. Such capital gain or loss will be long-term or short-term depending upon the shareholder's holding period for the shares. The capital gain will be long-term if the shares were held for more than 12 months and short-term if held for 12 months or less. Any loss realized on a disposition will be disallowed under the "wash sale" rules to the extent that the shares disposed of by the shareholder are replaced by the shareholder (through reinvestment of dividends or otherwise) within a period of 61 days beginning 30 days before and ending 30 days after the date of disposition. Any loss disallowed under the wash sale rules will be allocated to the shareholder's basis in the newly purchased shares. Any loss realized by a shareholder on a disposition of shares held by the shareholder for six months or less will be treated as a long-term capital loss to the extent of any distributions of capital gain dividends received by the shareholder and disallowed to the extent of any distributions of exempt-interest dividends received by the shareholder with respect to such shares. Capital losses are generally deductible only against capital gains except that individuals may deduct up to \$3,000 of capital losses against ordinary income.

**BACKUP WITHHOLDING.** Each Fund generally is required to withhold, and remit to the U.S. Treasury, subject to certain exemptions, an amount equal to 28% of all distributions and redemption proceeds paid or credited to a shareholder of such Fund if (i) the shareholder fails to furnish such Fund with the correct taxpayer identification ("TIN") certified under penalties of perjury, (ii) the shareholder fails to provide a certified statement that the shareholder is not subject to backup withholding, or (iii) the IRS or a broker has notified such Fund that the number

furnished by the shareholder is incorrect or that the shareholder is subject to backup withholding as a result of failure to report interest or dividend income. If the backup withholding provisions are applicable, any such distributions or proceeds, whether taken in cash or reinvested in shares, will be reduced by the amounts required to be withheld. Backup withholding is not an additional tax. Any amounts withheld may be credited against a shareholder's U.S. federal income tax liability.

**STATE AND LOCAL TAXES.** State and local laws often differ from federal income tax laws with respect to the treatment of specific items of income, gain, loss, deduction and credit. **Shareholders are urged to consult their tax advisors as to the state and local tax rules affecting investments in the Funds.**

**TAX SHELTER REPORTING REGULATIONS.** If a shareholder realizes a loss on the disposition of Fund shares of at least \$2 million in any single taxable year, or at least \$4 million in any combination of taxable years (for an individual shareholder) or at least \$10 million in any single taxable year, or at least \$20 million in any combination of taxable years (for a corporate shareholder), the shareholder must file with the Internal Revenue Service a disclosure statement on Form 8886. Shareholders should consult their tax advisers to determine the applicability of this requirement in light of their individual circumstances.

## **FINANCIAL STATEMENTS**

The audited financial statements of the Funds for the year ended December 31, 2011 and the report thereon of BBD, LLP, the Trust's independent registered public accounting firm, included in the 2011 Annual Report of the Funds, are incorporated herein by reference. An investor may obtain a copy of the Annual Report without charge by writing to the Trust at the address on the cover of this SAI or calling 800-992-6757. The Annual Report is also available for download at the Funds' website ([www.theberwynfunds.com](http://www.theberwynfunds.com)).

## APPENDIX A

### **DESCRIPTION OF SECURITIES RATINGS**

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's<sup>®</sup> ("S&P") are private services that provide ratings of the credit quality of debt obligations. A description of the ratings assigned by Moody's and S&P<sup>®</sup> are provided below. These ratings represent the opinions of these rating services as to the quality of the securities that they undertake to rate. It should be emphasized, however, that ratings are general and are not absolute standards of quality. The Advisor attempts to discern variations in credit rankings of the rating services and to anticipate changes in credit ranking. However, subsequent to purchase by a Fund, an issue of securities may cease to be rated or its rating may be reduced below the minimum rating required for purchase by the Fund. In that event, the Advisor will consider whether it is in the best interest of the Fund to continue to hold the securities.

Moody's credit ratings must be construed solely as statements of opinion and not as statements of fact or recommendations to purchase, sell or hold any securities.

An S&P issue credit rating is a current opinion of the creditworthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations, or a specific financial program (including ratings on medium-term note programs and commercial paper programs). The opinion evaluates the obligor's capacity and willingness to meet its financial commitments as they come due, and may assess terms, such as collateral security and subordination, which could affect ultimate payment in the event of default. It takes into consideration the creditworthiness of guarantors, insurers or other forms of credit enhancement on the obligation and takes into account the currency in which the obligation is denominated. The issue credit rating is not a recommendation to purchase, sell or hold a financial obligation inasmuch as it does not comment as to market price or suitability for a particular investor.

#### **Long-Term Credit Ratings**

##### Moody's

Moody's long-term obligation ratings are opinions of the relative credit risk of fixed-income obligations with an original maturity of one year or more. They address the possibility that a financial obligation will not be honored as promised. Such ratings use Moody's Global Scale and reflect both the likelihood of default and any financial loss suffered in the event of default.

The following summarizes the ratings used by Moody's for long-term debt:

"Aaa" - Obligations rated "Aaa" are judged to be of the highest quality, with minimal credit risk.

"Aa" - Obligations rated "Aa" are judged to be of high quality and are subject to very low credit risk.

"A" - Obligations rated "A" are considered upper-medium grade and are subject to low credit risk.

"Baa" - Obligations rated "Baa" are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.

“Ba” - Obligations rated “Ba” are judged to have speculative elements and are subject to substantial credit risk.

“B” - Obligations rated “B” are considered speculative and are subject to high credit risk.

“Caa” - Obligations rated “Caa” are judged to be of poor standing and are subject to very high credit risk.

“Ca” - Obligations rated “Ca” are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.

“C” - Obligations rated “C” are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

Note: Moody’s appends numerical modifiers 1, 2, and 3 to each generic rating classification from “Aa” through “Caa.” The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

## S&P

Issue credit ratings are based, in varying degrees, on the following considerations:

- Likelihood of payment—capacity and willingness of the obligor to meet its financial commitment on an obligation in accordance with the terms of the obligation;
- Nature of and provisions of the obligation;
- Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors’ rights.

Issue ratings are an assessment of default risk, but may incorporate an assessment of relative seniority or ultimate recovery in the event of default. Junior obligations are typically rated lower than senior obligations, to reflect the lower priority in bankruptcy, as noted above. (Such differentiation may apply when an entity has both senior and subordinated obligations, secured and unsecured obligations, or operating company and holding company obligations.)

The following summarizes the ratings used by S&P for long-term issues:

“AAA” - An obligation rated “AAA” has the highest rating assigned by S&P. The obligor’s capacity to meet its financial commitment on the obligation is extremely strong.

“AA” - An obligation rated “AA” differs from the highest-rated obligations only to a small degree. The obligor’s capacity to meet its financial commitment on the obligation is very strong.

“A” - An obligation rated “A” is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor’s capacity to meet its financial commitment on the obligation is still strong.

“BBB” - An obligation rated “BBB” exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

Obligations rated “BB,” “B,” “CCC,” “CC,” and “C” are regarded as having significant speculative characteristics. “BB” indicates the least degree of speculation and “C” the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

“BB” - An obligation rated “BB” is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial or economic conditions which could lead to the obligor’s inadequate capacity to meet its financial commitment on the obligation.

“B” - An obligation rated “B” is more vulnerable to nonpayment than obligations rated “BB,” but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial or economic conditions will likely impair the obligor’s capacity or willingness to meet its financial commitment on the obligation.

“CCC” - An obligation rated “CCC” is currently vulnerable to nonpayment, and is dependent upon favorable business, financial and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.

“CC” - An obligation rated “CC” is currently highly vulnerable to nonpayment.

“C” - A “C” rating is assigned to obligations that are currently highly vulnerable to nonpayment, obligations that have payment arrearages allowed by the terms of the documents, or obligations of an issuer that is the subject of a bankruptcy petition or similar action which have not experienced a payment default. Among others, the “C” rating may be assigned to subordinated debt, preferred stock or other obligations on which cash payments have been suspended in accordance with the instrument’s terms.

“D” - An obligation rated “D” is in payment default. The “D” rating category is used when payments on an obligation are not made on the date due even if the applicable grace period has not expired, unless S&P believes that such payment will be made during such grace period. The “D” rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action if payments on an obligation are jeopardized.

Plus (+) or minus (-) - The ratings from “AA” to “CCC” may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

“N.R.” - This indicates that no rating has been requested, that there is insufficient information on which to base a rating or that S&P does not rate a particular obligation as a matter of policy.

*Local Currency and Foreign Currency Risks:* Country risk considerations are a standard part of S&P’s analysis for credit ratings on any issuer or issue. Currency of repayment is a key factor in this analysis. An obligor’s capacity to repay foreign currency obligations may be lower than its capacity to repay obligations in its local currency due to the sovereign government’s own relatively lower capacity to repay external versus domestic debt. These sovereign risk

considerations are incorporated in the debt ratings assigned to specific issues. Foreign currency issuer ratings are also distinguished from local currency issuer ratings to identify those instances where sovereign risks make them different for the same issuer.

## **Notes to Credit Ratings**

### Moody's

*Watchlist:* Moody's uses the Watchlist to indicate that a rating is under review for possible change in the short-term. A rating can be placed on review for possible upgrade ("UPG"), on review for possible downgrade ("DNG"), or more rarely with direction uncertain ("UNC"). A credit is removed from the Watchlist when the rating is upgraded, downgraded or confirmed.

*Rating Outlooks:* A Moody's rating outlook is an opinion regarding the likely direction of a rating over the medium term. Where assigned, rating outlooks fall into the following four categories: Positive ("POS"), Negative ("NEG"), Stable ("STA") and Developing ("DEV" -- contingent upon an event). In the few instances where an issuer has multiple outlooks of differing directions, an "(m)" modifier (indicating multiple, differing outlooks) will be displayed, and Moody's written research will describe any differences and provide the rationale for these differences. A "RUR" (Rating(s) Under Review) designation indicates that the issuer has one or more ratings under review for possible change, and thus overrides the outlook designation. When an outlook has not been assigned to an eligible entity, "NOO" (No Outlook) may be displayed.

### S&P

*Creditwatch:* CreditWatch highlights the potential direction of a short- or long-term rating. It focuses on identifiable events and short-term trends that cause ratings to be placed under special surveillance by S&P's analytical staff. These may include mergers, recapitalizations, voter referendums, regulatory action or anticipated operating developments. Ratings appear on CreditWatch when such an event or a deviation from an expected trend occurs and additional information is necessary to evaluate the current rating. A listing, however, does not mean a rating change is inevitable, and whenever possible, a range of alternative ratings will be shown. CreditWatch is not intended to include all ratings under review, and rating changes may occur without the ratings having first appeared on CreditWatch. The "positive" designation means that a rating may be raised; "negative" means a rating may be lowered; and "developing" means that a rating may be raised, lowered or affirmed.

*Rating Outlook:* An S&P rating outlook assesses the potential direction of a long-term credit rating over the intermediate term (typically six months to two years). In determining a rating outlook, consideration is given to any changes in the economic and/or fundamental business conditions. An outlook is not necessarily a precursor of a rating change or future CreditWatch action.

- "Positive" means that a rating may be raised.
- "Negative" means that a rating may be lowered.
- "Stable" means that a rating is not likely to change.
- "Developing" means a rating may be raised or lowered.

## **APPENDIX B**

### **THE BERWYN FUNDS**

### **PROXY VOTING POLICY**

#### Background

The board of directors of The Berwyn Funds has authorized The Killen Group, Inc., the investment advisor to the Funds, to vote the proxies of all securities held by the Funds. The following guidelines are intended to assist the advisor when considering certain issues.

#### Action

It is the responsibility of The Killen Group's Investment Committee to review all proxy materials received and decide how to vote. The Investment Committee has delegated this responsibility to the Research Department, which may, if in doubt how to vote, seek the full Investment Committee's guidance on specific issues.

#### Policy Overview

The primary goal of The Killen Group is to maximize the economic value of the investments that we make for our individual clients and for our mutual fund shareholders. We believe that this goal is primarily achieved through the purchase and sale of investment securities. Another means by which we fulfill our obligation to our clients is by diligently exercising our responsibility to vote proxies. The latter responsibility can be an effective method of ensuring proper corporate governance on the part of a company's directors and management.

The keystone to The Killen Group's investment style is its reliance on in-depth research prior to purchasing an investment. Part of this process involves a review of the candidate company's management team and its past record of corporate governance. As a consequence, for those companies that are eventually approved for purchase, we are more likely than not to support recommendations of the board of directors when voting proxies. In the final analysis, however, we will vote proxies in a prudent and diligent fashion after careful evaluation of the issues and in a manner that we believe will result in maximizing the long-term value of the investment to our clients.

We have developed the following guidelines to assist in deciding how to vote on certain issues. We may, however, vary from these guidelines if there is, in our opinion, a compelling reason to do so. In the latter case, the rationale for deviating from the guidelines will be documented and a record of the action maintained.

#### Boards of Directors

We believe that a majority of directors should be independent and that the audit, compensation and nominating committees should consist solely of independent directors and will vote in favor

of proposals that ensure such independence. We generally support separating the positions of chairman and chief executive officer. We support proposals that provide that directors be elected on an affirmative vote of the majority of votes cast.

Notwithstanding the above, the failure of a company to have a majority of independent directors or all independent directors on key committees or to separate the positions of chairman and chief executive officer may not cause The Killen Group to vote against a director if, in our judgment, the individual's interests are closely aligned with those of shareholders.

Generally, The Killen Group will vote for those nominees recommended by the board of directors after considering such factors as board meeting attendance, compensation from the company for services other than board membership, nominees that are party to an interlocking directorship and the nominee's past support of principles of good corporate governance.

#### Auditors

We believe the relationship between a public company and its auditors should be limited to the audit engagement and closely related activities that do not raise any question of compromised independence. We will vote in favor of proposals to prohibit or limit fees paid to auditors for non-audit services.

#### Executive Compensation

We believe that equity based compensation plans approved by a company's shareholders can be an effective way of aligning the interests of shareholders and management. However, we will vote against such plans that substantially dilute our ownership interest, that appear to be excessively generous, that have below market value exercise prices on the date of issuance or that allow the re-pricing of underwater stock options without shareholder approval. We will normally vote in favor of proposals to require the expensing of options. We will generally oppose proposals that give shareholders the right to vote on executive compensation as we believe this could create a competitive disadvantage for the company.

#### Shareholder Rights

The Killen Group supports all shareholders having an equal opportunity to effect change at the company in which they have invested. Consequently, we will normally vote against proposals for super majority voting rights, against the adoption of poison pill plans and against proposals for different classes of stock with different voting rights.

#### Capital Structure

Proposals to change a company's corporate structure may include common or preferred stock authorizations, share repurchase programs, stock splits (or reverse splits) and debt authorizations. We will generally vote with management's recommendations so long as they appear to be aligned with the best interests of shareholders, do not appear to be an anti-takeover device or intended to entrench current management and do not create an excessive debt burden. Because it is principally believed to be an anti-takeover device, we will generally vote against proposals to establish a staggered board. However, we will not necessarily vote against the re-election of a staggered board.

## Social Responsibility

Although The Killen Group believes corporations have an obligation to be responsible corporate citizens, we generally will not support social, environmental or political initiatives if they can not be shown to have a positive economic impact on the company.

## Restructurings, Mergers and Acquisitions

When shareholders are asked to vote on restructurings, mergers, acquisitions and similar proposals, it is because they are material to the ongoing nature and health of the company and require the analysis of multiple factors. Accordingly, The Killen Group will weigh each such proposal on a case by case basis.

## Conflict of Interest

Any committee member who is affiliated in any manner with the issuer of a proxy, including stock ownership, directorship or employment of a family member, shall not participate in the decision on the proxy.

In addition, if The Killen Group has a business relationship, as defined below, with the issuer of a proxy and there is a proxy contest, the proxy will be referred to a proxy service, selected by the Funds' outside legal counsel, for a vote.

A business relationship will be considered to exist if The Killen Group provides advisory services to the issuer, to a person or persons who owns 5% or more of the issuer's stock or to the chief executive or financial officers of the issuer.

## Records

For securities held by The Berwyn Funds, proxy records for each Fund shall be maintained by the Research Department and shall include information specified on Form N-PX as required by Rule 30b1-4 of the Investment Company Act. The records shall be preserved for at least six years. Proxy information shall be recorded even if The Killen Group abstains from voting. This proxy voting record shall be made available to Fund shareholders on the Funds' Web site.

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