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# Tilson Focus Fund Tilson Dividend Fund

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a series of the Tilson Investment Trust

## Semi-Annual Report (Unaudited)

For the Period from  
March 16, 2005 (Date of Initial Public Investment)  
To April 30, 2005

### **INVESTMENT ADVISOR**

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This report and the financial statements contained herein are submitted for the general information of the shareholders of the Tilson Funds (the "Funds"). This report is not authorized for distribution to prospective investors in the Funds unless preceded or accompanied by an effective prospectus. Mutual fund shares are not deposits or obligations of, or guaranteed by, any depository institution. Shares are not insured by the FDIC, Federal Reserve Board or any other agency, and are subject to investment risks, including possible loss of principal amount invested. Neither of the Funds nor the Funds' distributor is a bank.

Investment in the Tilson Funds ("Funds") is subject to investment risks, including the possible loss of some or all of the principal amount invested. There can be no assurance that the Funds will be successful in meeting its investment objective. Generally, the Funds will be subject to the following additional risks: market risk, management style risk, sector focus risk, foreign securities risk, non-diversified fund risk, portfolio turnover risk, credit risk, interest rate risk, maturity risk, investment grade securities risk, junk bonds or lower-rated securities risk, derivative instruments risk and real estate securities risk. More information about these risks and other risks can be found in the Funds' prospectus. When the Funds sell covered call options, the Funds give up additional appreciation in the stock above the strike price since there is the obligation to sell the stock at the covered call option's strike price.

*The performance information quoted in this semi-annual report represents past performance, which is not a guarantee of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. The performance data reflects the maximum sales load and/or fee charges applicable. An investor may obtain performance data current to the most recent month-end by visiting [www.nottinghamco.com](http://www.nottinghamco.com).*

**An investor should consider the investment objectives, risks, and charges and expenses of the Funds carefully before investing. The prospectus contains this and other information about the Funds. A copy of the prospectus is available at [www.nottinghamco.com](http://www.nottinghamco.com) or by calling Shareholder Services at 1-888-4TILSON (1-888-484-5766). The prospectus should be read carefully before investing.**

Stated performance in the Funds was achieved at some or all points during the year by waiving or reimbursing part of the Funds' total expenses to ensure shareholders did not absorb expenses significantly greater than the industry norm.

## Fund Expenses

As a shareholder of the Fund, you incur two types of costs: (1) transaction costs, which may include redemption fees for shares redeemed within one year and (2) ongoing costs, including management fees and other Fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with the ongoing costs of investing in other mutual funds. The example is based on an investment of \$1,000 invested at the beginning of the period and held for the entire period as indicated below.

**Actual Expenses** – The first line of the table below provides information about the actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first line under the heading entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period.

**Hypothetical Example for Comparison Purposes** – The second line of the table below provides information about hypothetical account values and hypothetical expenses based on the Fund's actual expense ratio and an assumed annual rate of return of 5% before expenses, which is not the Fund's actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Fund and other funds by comparing this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs, such as redemption fees for shares redeemed within one year. Therefore, the second line of the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

<b>Tilson Focus Fund Expense Example</b>	<b>Beginning Account Value November 1, 2004</b>	<b>Ending Account Value April 30, 2005</b>	<b>Expenses Paid During Period*</b>
Actual	\$1,000.00	\$971.00	\$2.37
Hypothetical (5% return before expenses)	\$1,000.00	\$1,030.50	\$2.44
<b>Tilson Dividend Fund Expense Example</b>	<b>Beginning Account Value November 1, 2004</b>	<b>Ending Account Value April 30, 2005</b>	<b>Expenses Paid During Period*</b>
Actual	\$1,000.00	\$978.00	\$2.38
Hypothetical (5% return before expenses)	\$1,000.00	\$1,030.50	\$2.44

\* Expenses are equal to the Funds' annualized expense ratio of 1.95% multiplied by the average account value over the period, multiplied by the number of days in the most recent fiscal half-year divided by 365 (to reflect the semi-annual period).

# Tilson Funds

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June 27, 2005

Dear Tilson Funds investor,

Allow us to introduce ourselves and welcome you to our funds. We are Whitney Tilson and Glenn Tongue of T2 Partners Management LP, the investment advisor of the Tilson Focus Fund, and Zeke Ashton and Matthew Richey of Centaur Capital Partners LP, the sub-investment advisor of the Tilson Dividend Fund. We are delighted that you have chosen to invest with us and will strive to earn your continued confidence and trust.

We are jointly writing the first part of this initial letter to you, seeking to communicate to you our strategy and investment philosophy, as well as our goals and expectations.

## **Relationship With Our Investors**

While investors can enter and exit our fund every day the market is open, we view our relationship as a long-term partnership. We have no interest in short-term-oriented investors who are looking for a quick profit, which is why we impose a 2% withdrawal penalty for investors who redeem in the first year (payable to the fund, not to us). While we hope to do well every calendar year, the time it takes for the earth to circle the sun does not necessarily coincide with how long it takes for our investments to work out, so we evaluate ourselves – and urge you to evaluate us – on a three- to five-year time horizon, which, not coincidentally, is our general investment horizon when we purchase a stock.

## **Investment Philosophy**

We are value investors. Simply put, we try to buy companies that are being valued by the stock market at substantially less than our conservative estimate of their intrinsic value. Note that we said “companies” not “stocks” – that’s because we view the purchase of a stock not as a piece of paper to be traded, in the hopes that some other investor will buy it from us at a higher price in the future, but rather a fractional ownership stake in a business that has a certain intrinsic value, defined as the future free cash flows the business will generate in its lifetime, discounted back to the present.

We do not try to predict what new industry sector or technology will be popular with investors in the immediate future. Instead, what we do is very simple in concept, yet very difficult in practice: we study business after business – hundreds of them each year – and attempt to value them. Our analysis involves, among other things, four steps:

- 1) Circle of competence. Do we understand the company and its industry deeply? Can we make reasonable projections about the company’s future? We try to keep it simple. Our best investment ideas can usually be explained in a short paragraph.
- 2) Company and industry evaluation. Is this a good business? Does it have sustainable competitive advantages, high returns on capital, solid, steady growth, a healthy balance sheet and strong free cash flow? Is this a good industry? Are the trends favorable? What are the competitive dynamics?
- 3) Evaluation of management. Are they good operators? Are they good capital allocators? Are they trustworthy? We believe that the executive officers of many publicly-traded companies have given in to (or in some case, encouraged) a culture of excess that effectively re-allocates the vast majority of any value created by the business to executives and other insiders, while common stock investors receive only a token portion of the value to which they, as the majority owners of the business, are entitled. Excessive executive compensation, abusive stock option policies, obsession with the current stock price rather than the business, aggressive accounting practices, and the reckless pursuit of unprofitable growth are just a few of the red flags that can indicate an unhealthy corporate culture. Companies that either encourage or allow a culture of excess will usually destroy value for their investors (though the executives usually come out just fine).

We believe that shareholders tend to benefit most over time from investing in companies where the embedded culture emphasizes ethical stewardship of shareholder value, enlightened corporate governance, financial conservatism, thrift, and prudent, careful allocation of capital. We generally prefer investing in companies where the top executives own significant amounts of stock (as opposed to options), maintain reasonable compensation structures that are aligned with value creation for shareholders, and have a demonstrated track record of successful value creation and effective capital allocation.

# Tilson Funds

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## 4) Finally and most importantly: Is the stock really cheap? Why?

For a business we can understand *and* estimate its future cash flows, we calculate a range of intrinsic value using realistic and conservative assumptions. We then compare this estimate to the stock price. In nearly all cases, the stock is either close to being fairly valued or significantly overvalued, but on very rare occasions we find situations in which the stock appears to be significantly undervalued.

At this point, we typically do a great deal more work, testing our assumptions and calculations and trying to figure out why our opinion of the company is so different than that of the market. At this stage, we're typically looking for an edge – some proprietary insight or bit of information that's not widely known. The market is extremely efficient, so usually when we find a stock that initially appears cheap, further analysis reveals that it's cheap for good reasons and we don't invest. But every once in a while, we develop a great deal of conviction that we're right and the market is wrong, and we do invest.

In a competitive market with so many smart investors with so much capital all searching for undervalued stocks, finding true bargains is difficult. To increase our chances of finding undervalued companies to invest in, we cast a wide net and don't limit ourselves arbitrarily to certain industries, companies of a certain size, or stocks that are labeled "growth" or "value" by others. If there's a common theme to what we buy, it's that the stocks tend to be either unknown or unloved. Regarding the former, there are more than 5,000 publicly traded stocks in the U.S. alone that have no coverage from any Wall Street analysts. These companies generally tend to be small and in mundane industries, and often their stocks are fairly illiquid. Because they are so far off the radar screen of the investment herd, we believe such stocks can be substantially undervalued.

Sometimes, however, the greatest bargains are lying in plain sight: well-known companies with dozens of analysts following them, but which are encountering difficulties. The investment herd, with its overwhelming focus on the short term, can often over-react to what prove to be temporary difficulties, allowing us to buy the stock of extremely high-quality businesses at attractive prices. The key, of course, is correctly differentiating between companies that are experiencing temporary problems – a good example was McDonald's in early 2003 – from those that are permanently impaired, such as Winn-Dixie, which after a long decline went into bankruptcy not long ago.

## **Time Horizon**

We believe that one of our greatest advantages is that we invest with a three- to five-year time horizon, while many investment managers are focused on quarterly or even monthly returns. Sometimes stocks trade at half of what everyone agrees they are worth because there's no obvious "catalyst" to close the valuation discrepancy. That's okay with us. If we're convinced that a stock is trading for half of its intrinsic value, and that value is not deteriorating, then we tend not to worry about the lack of an obvious catalyst. Our experience is that the market can be irrational in the short term, but it tends to be quite efficient over time, so severely undervalued stocks eventually become fairly valued.

## **Risk**

Unlike many other investors, who view risk as short-term stock price fluctuations, we define risk as the permanent loss of capital, so we believe that buying with a large margin of safety is the best way to mitigate risk. We are more than happy to accept the possibility that our stocks may decline modestly in the short term if we believe that they are likely to increase in value substantially in the long run.

To quote Ben Graham, the father of value investing, in his classic book, [The Intelligent Investor](#): "Price fluctuations have only one significant meaning for the true investor. They provide him with an opportunity to buy wisely when prices fall sharply and to sell wisely when they advance a great deal. At other times he will do better if he forgets about the stock market and pays attention to...the operating results of his companies."

## **Communication**

We seek to treat you that way we would want to be treated were our positions reversed. To that end, we intend to communicate openly in our quarterly letters, in which we will discuss the funds' performance, some of our positions, our successes and failures. (Rest assured that there will be plenty of the latter, as predicting the future is a difficult and uncertain task. But we expect to have our share of the former as well.)

# Tilson Funds

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## What We Ask from You

We have managed private investment partnerships for a number of years, and thought very hard before launching mutual funds. We'd like to highlight what we believe are four basic drawbacks of mutual funds, and share with you our thoughts on how you can help us to minimize their negative effects.

- 1) We cannot lock up our capital. In our private partnerships, investors may withdraw all or part of their investment only at certain agreed-upon intervals, which gives us the luxury of a stable base of capital. This, in turn, allows us to invest in illiquid or unpopular securities, which we believe are often cheaper for this very reason.

We ask you to behave as if your capital were locked up for an extended period, rather than like typical mutual fund investors, who pour money in after a period of strong performance and then panic and yank it out after a down period – precisely the opposite of what one should do.

- 2) Investors can see our performance every day. This can lead to a short-term orientation, which we believe is not healthy or appropriate. If you find yourself checking our funds' performance more than once a month, we're probably not for you.
- 3) We have to disclose our holdings in the mutual funds at specified intervals. We would prefer to disclose our investments at a time of our choosing for two reasons: a) As Warren Buffett wrote in the Berkshire Hathaway Owner's Manual, "good investment ideas are rare, valuable and subject to competitive appropriation"; and b) We don't like the feeling of people looking over our shoulders. Our approach often results in our buying stocks that may be very unpopular, controversial, or misunderstood because it is under such conditions that we believe the markets tend to offer the best values. This is difficult enough to do in private, much less under a public spotlight, so if you see a "problem" stock in our portfolio, please don't send an email berating us or demanding an explanation.
- 4) We expect to have a far greater number of investors over time in the mutual funds than we have had in our partnerships, and this will invariably translate into more emails and calls asking us for general investment advice, our opinions on current or potential holdings of the funds, etc. We don't have the time or staff to respond personally to such requests, nor would it be fair to our other investors to do so. You are welcome to send us emails with comments regarding our funds, but we ask your understanding that we are unable to respond personally, though we do read them all.

For general information and customer service questions, we ask you to use our shareholder services number (1-888-4TILSON). We do encourage you to contact us directly if you encounter any customer service-related issues that are not resolved to your satisfaction.

## Alignment of Interests

We, along with many of our friends and family, are investors in the funds alongside you, and we intend to be meaningful investors in the funds over time. While this is no guarantee that we will produce satisfactory results, it does ensure that our interests are aligned strongly. We never forget that our clients count on us to try to protect and grow their capital over time, and we derive great satisfaction from knowing that doing our job well means enabling our clients to reach their financial goals. We thank you for your trust and confidence, and we look forward to reporting our progress to you in future letters.

# Tilson Focus Fund

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## The Tilson Focus Fund

[This section is written by Whitney Tilson and Glenn Tongue, the co-managers of the Tilson Focus Fund.]

In addition to the general principles outlined above, we wanted to share some information specifically about the Tilson Focus Fund.

First, our objective is maximum long-term capital appreciation, so we are indifferent whether a stock pays a dividend or not. We are simply seeking significantly undervalued stocks – generally ones we believe are trading at no more than half of their intrinsic value.

Second, we are focus investors, which means that we concentrate the fund in our very best investment ideas. To us, it makes no sense whatsoever to own more than 100 different stocks – about average for a typical mutual fund. Why would we buy our 101<sup>st</sup>-favorite stock when we could invest more in one of our top-10 ideas? We expect that the Tilson Focus Fund will usually have only 12-25 positions. Such concentration may make the fund more volatile than the market over short periods of time, but we believe it also affords us a better chance of beating the market over long periods of time.

To quote one of our favorite investors, Philip Fisher, from his book, Common Stocks and Uncommon Profits: “Investors have been so oversold on diversification that fear of having too many eggs in one basket has caused them to put far too little into companies they thoroughly know and far too much in others about which they know nothing at all. It never seems to occur to them that buying a company without having sufficient knowledge of it may be even more dangerous than having inadequate diversification.”

Finally, in general we manage the fund as a long-only version of our private investment partnerships. This means if we decide to buy a 5% position in, say, Berkshire Hathaway stock, it will usually be a 5% position across *all* of our funds, both our private partnerships and the Tilson Focus Fund. If we decide to short a stock in our partnerships, however, this position will not be included in the Tilson Focus Fund. Our partnerships also occasionally invest in certain highly illiquid securities, which may likewise not be suitable selections for the Tilson Focus Fund.

## Tilson Focus Fund Holdings

We have been able to find a number of attractive investments. As of April 30<sup>th</sup>, the end of our most recent fiscal quarter, the fund's largest holdings were:

- 1) 9.6%: Stock and calls of Wal-Mart (WMT)
- 2) 8.0%: Stock and calls of Costco (COST)
- 3) 7.0%: Stock of Berkshire Hathaway (B shares) (BRK.B)
- 4) 6.7%: Stock of Sears Holdings (SHLD)
- 5) 5.2%: Stock of Freescale Semiconductor (FSL)
- 6) 4.9%: Stock of CKE Restaurants (CKR)
- 7) 4.4%: Stock and calls of Wendy's (WEN)
- 8) 3.4%: Stock and calls of Whirlpool (WHR)
- 9) 2.6%: Stock of USA Mobility (USMO)
- 10) 2.3%: Stock and calls of Anheuser Busch (BUD)

## Wal-Mart

Over time, we will discuss many of our holdings, so let's start with our largest position and one of our current favorites: Wal-Mart. We've seen the same negative headlines you undoubtedly have, but there is little doubt in our minds that this company is an “inevitable,” the term Buffett used in his 1996 annual letter to Berkshire Hathaway shareholders to define companies that “will dominate their fields worldwide for an investment lifetime. Indeed, their dominance will probably strengthen.” Wal-Mart's competitive advantage with respect to information, logistics, sourcing and distribution, combined with its distinct corporate culture, makes it likely that 10 (if not 20 or more) years from now, Wal-Mart will be the dominant discount and food retailer in the United States. It also has a decent chance of extending that dominance to many areas outside of North America.

We think Wal-Mart's stock is attractive at today's price under \$50 per share. Over the next five years, we believe Wal-Mart will grow sales at 10-12% annually (7-8% growth from new stores plus 3-4% same-store sales growth), margins will

# Tilson Focus Fund

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continue to expand slightly, and the company will buy back at least 2% of its stock each year (assuming it remains undervalued). This translates into 12-14% annual earnings per share growth and similar growth in the stock price, assuming the P/E multiple remains constant – a conservative assumption given the multiple is at its lowest in eight years. Even more attractive than Wal-Mart stock, we believe, are long-dated call options, so our 9.6% position is comprised of 4.4% stock with the balance consisting of \$45 and \$50 strike price January 2007 call options.

## LEAP Call Options

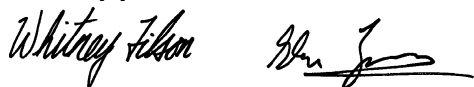
You can see that we own long-dated call options on a number of other stocks, so this warrants further discussion. Long-dated call options (also known as Long-term Equity Anticipation Securities, or LEAPS) can be an attractive way to invest in a company under certain circumstances. Without boring you with too much detail, option prices are primarily a function of the price of the underlying security and its perceived volatility. The less volatile the stock – all other things being equal – the lower the price of the call option. With perceived volatility near all-time lows for most of this year, call-option prices are, in general, at historically low levels and, we believe, are in some cases disconnected from the intrinsic value of the underlying security.

Let's look at Wal-Mart's options. We own a 4.2% position in the January 2007 \$45 calls, which we purchased for \$7.41. As of the end of April, Wal-Mart stock was at \$47.14 and the options had nearly 21 months until expiration. If the stock rises in line with the 14% annual earnings growth that we expect over this period, it will be at approximately \$59 in January 2007. At this point, the \$45 strike price options would be worth \$14 (\$59 - \$45), nearly double what we paid for them, vs. a 25% return from holding the stock. Of course, we could be wrong. If the stock is flat or only up slightly before the options expire, we will lose most of our investment – that's why we also own the stock, in case we're wrong on the timing.

Under normal circumstances we avoid options for a variety of good reasons: they're illiquid, the bid-ask spreads are wide, and it's always dangerous to have time working against you. It's hard enough to be right on the direction of a stock's movement, much less being right on the timing as well, so buying a lot of time is important. Despite these risks, however, in today's world of ultra-low volatility, long-dated call options can offer outstanding value.

To conclude, we want to thank you once again for your confidence and support and look forward to a long partnership.

Sincerely yours,



Whitney Tilson and Glenn Tongue

# Tilson Focus Fund

## Schedule of Investments (Unaudited)

As of April 30, 2005

		Market Value			Market Value
		Shares	(Note 1)	Shares	(Note 1)
<b>COMMON STOCKS - 51.13%</b>					
<b>Beverages - 0.78%</b>					
	Anheuser-Busch Companies	500	\$ 23,435		
<b>Diversified Financial Services - 0.82%</b>					
	Freddie Mac	400	24,608		
<b>Home Furnishings - 2.99%</b>					
	Whirlpool Corporation	1,450	89,987		
<b>Insurance - 8.16%</b>					
	American International Group Inc	700	35,595		
*	Berkshire Hathaway Inc.	75	209,851		
			<u>245,446</u>		
<b>Oil &amp; Gas - 1.29%</b>					
	Kerr-McGee Corporation	500	38,800		
<b>Pharmaceuticals - 1.26%</b>					
	Pfizer, Inc.	1,400	38,038		
<b>Real Estate Investment Trust - 0.17%</b>					
*	First Union Real Estate Equity & Mortgage Investments	1,300	5,148		
<b>Retail - 27.79%</b>					
*	CKE Restaurants, Inc.	10,000	148,400		
	Costco Wholesale Corp.	4,500	182,610		
	Foot Locker Inc.	2,500	66,650		
	McDonald's Corporation	2,800	82,068		
*	Sears Holdings Corporation	1,500	202,860		
	Wal-Mart Stores, Inc.	2,800	131,992		
	Wendy's International, Inc.	500	21,465		
			<u>836,045</u>		
<b>Semiconductors - 5.23%</b>					
*	Freescale Semiconductor, Inc.	8,400	157,248		
<b>Telecommunications - 2.64%</b>					
*	USA Mobility, Inc.	2,650	79,342		
<b>Total Common Stocks (Cost \$1,555,101)</b>			<u>1,538,097</u>		
<b>CALL OPTIONS PURCHASED - 16.11%</b>					
*	Kerr-McGee Corporation, 10/22/2005				
	Strike \$60.00	1,600	27,040		
<i>(Continued)</i>					
	* Anheuser-Busch Companies, 01/20/2007			4,000	\$ 23,508
	Strike \$45.00				
	* Anheuser-Busch Companies, 01/20/2007			7,000	23,100
	Strike \$50.00				
	* Costco Wholesale Corp., 01/20/2007			6,000	58,800
	Strike \$35.00				
	* Freddie Mac, 01/20/2007			3,000	26,100
	Strike \$65.00				
	* Laboratory Corp., 01/20/2007			1,000	13,000
	Strike \$40.00				
	* McDonald's Corporation, 01/20/2007			4,000	14,000
	Strike \$30.00				
	* Pfizer Inc., 01/20/2007			5,000	23,000
	Strike \$25.00				
	* Wal-Mart Stores Inc., 01/20/2007			16,700	121,910
	Strike \$45.00				
	* Wal-Mart Stores Inc., 01/20/2007			7,000	33,600
	Strike \$50.00				
	* Wendy's International Inc., 01/20/2007			7,000	77,700
	Strike \$35.00				
	* Wendy's International Inc., 01/20/2007			3,800	31,920
	Strike \$40.00				
	* Whirlpool Corporation, 01/20/2007			1,000	10,800
	Strike \$60.00				
<b>Total Call Options Purchased</b>					<u>484,478</u>
<b>(Cost \$496,913)</b>					
<b>INVESTMENT COMPANIES - 9.50%</b>					
	Evergreen Institutional Money Market			142,974	142,974
	Fund				
	Merrimac Cash Series Nottingham			142,974	142,974
	Shares				
<b>Total Investment Company - (Cost 285,948)</b>					<u>285,948</u>
<b>Total Investments (Cost \$2,337,962) - 76.74%</b>					\$ 2,308,523
<b>Other Assets less Liabilities - 23.26%</b>					<u>699,840</u>
<b>Net Assets - 100.00%</b>					<u>\$ 3,008,363</u>
* Non-income producing investment.					



# Tilson Focus Fund

## Schedule of Investments (Unaudited)

As of April 30, 2005

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### Summary of Investments by Industry

<i>Industry</i>	<i>Assets</i>	<i>Value</i>
Beverages	2.33%	\$ 70,043
Diversified Financial Services	1.69%	50,708
Home Furnishings	3.35%	100,787
Insurance	8.16%	245,446
Investment Company	9.50%	285,948
Oil & Gas	2.19%	65,840
Medical	0.43%	13,000
Pharmaceuticals	2.03%	61,038
Real Estate Investment Trust	0.17%	5,148
Retail	39.02%	1,173,975
Semiconductors	5.23%	157,248
Telecommunications	2.64%	79,342
<b>Total</b>	<b>76.74%</b>	<b>\$ 2,308,523</b>

See Notes to Financial Statements

# Tilson Dividend Fund

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## Tilson Dividend Fund

[This section is written by Zeke Ashton and Matthew Richey, the co-managers of the Tilson Dividend Fund.]

The Tilson Dividend Fund is designed for investors seeking long-term capital appreciation through common stocks but desire a higher income yield than that traditionally available from diversified stock portfolios or broad index vehicles such as the S&P Total Return 500 Index (commonly known as the “S&P 500”). We follow two major guidelines in selecting investments for the Tilson Dividend Fund – we want to own securities that we believe are both undervalued and offer satisfactory capital appreciation potential, so we require each and every position we take to pay us cash to own it, whether through cash dividends, bond interest, or in combination with our use of covered call options.

### The Benefits of Dividends

Virtually every study of equity returns over long periods of time validates the notion that dividends increase returns and reduce risk in a diversified portfolio. According to financial research firm Ibbotson Associates’ *Risk Premia Over Time*, dividends accounted for approximately 42% of the 10.4% compounded annual return from large-cap U.S. stocks, or 4.3% annually, for the period spanning from 1926 to 2003.

The benefits of high-dividend-paying stocks typically become most obvious during flat or down markets for stock prices, as they generate steady income and have historically proven to be much more resilient to sell-offs than non-dividend-paying stocks. For example, during the severe downturn from March 2000 to November 8, 2002, those stocks in the S&P 500 that paid dividends lost only 13% on average vs. a 31% average decline for their non-dividend-paying peers.

### Building a Portfolio of Undervalued, Dividend Paying Stocks

In the Tilson Dividend Fund, it is our intention to build a portfolio of stocks we believe are undervalued that also pay higher dividend yields than the market average. While we generally prefer to purchase stocks that we believe are priced at no more than 2/3 of our conservative estimate of fair value, we may be willing to pay up to 80% of our value estimate to purchase securities of companies that we believe are of exceptional quality and where the dividend yield is high, is secured by a strong balance sheet and profitability, and is likely to grow over time. Because of the time-consuming research process we follow, we expect that once fully invested, the fund will hold between 15 and 25 dividend-paying securities that combine to produce a weighted average yield that is significantly higher than broad market indices.

### The Use of Covered Call Options to Generate Income

We add another ingredient to our portfolio with the purchase of low or non-dividend paying stocks that we believe are significantly undervalued. For these investments, we essentially “create our own” dividends through the sale of call options on part or all of the position. Generally, we sell options that require us to sell our shares at higher prices than the current market price, with the option periods generally lasting anywhere between four and twelve months. The option premiums that we receive for committing ourselves to the future sale can generate meaningful income for the fund, with annualized income yields often far higher than those available from dividend-paying stocks. In the event that the stock falls, stays flat, or rises in price but does not exceed the price at which our options are struck before the option expiration date, we will do better by selling the covered call option than by simply holding the stock. In essence, then, selling the call options ensures that we get paid while we wait for the stock to appreciate in value.

Of course, there is no free lunch in investing, and the covered call option strategy is no exception. If our stock runs up past the option strike price, the option holder will exercise the option to purchase our shares at the agreed-upon price. Our profits in this scenario will be limited to the difference between the purchase price and the strike price, plus the premium received. Even in this case, the annualized return on the position is generally quite attractive.

We only purchase stocks for our covered call strategy that we believe are significantly undervalued. We then decide how much of the position to “cover” based on a combination of our assessment of the profit potential of the stock and the attractiveness of the option premiums. In cases where we believe the stock is an exceptionally good value and the option premiums offered are low, we will sell options on only the proportion required to produce an annualized yield that would meet our minimum income requirements for the dividend portfolio. On the opposite end of the spectrum, we may fully cover the position if there are very attractive option premiums or if the stock price is nearing our estimate of fair value. In most cases, however, we will leave some portion of the position uncovered in order to retain some profit potential should the stocks rise dramatically in price. We will generally fully cover the position or sell any uncovered shares once the stock has risen to the high end of our estimated fair value range for the underlying business.

# Tilson Dividend Fund

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We expect that the number of securities held in the covered call option portion of the portfolio will vary depending upon the availability of compelling opportunities, likely ranging between 10 and 20 holdings. Combined with the dividend stock holdings, we would expect to hold anywhere from 25 to 45 security positions at any one time.

## Other Income-Producing Investments

While we intend to devote the vast majority of our time and effort to identifying compelling investments that fall into either the dividend stock or covered call category, we may also invest in other income producing securities from time to time, most likely high-yield corporate and convertible bonds.

## Expected Portfolio Behavior

We believe that combining two powerful income-producing equity strategies with our value orientation in one fund will produce a combination of satisfactory returns with modest risk and modest volatility. We believe that during negative and flat markets the fund is likely to outperform. In rapidly rising markets, however, the fund is unlikely to beat the market averages, though we would still hope to generate positive returns in such markets. You should also be aware that the fund's performance may not be correlated with the stock market, particularly over short time periods.

In addition, it should be noted that because the fund's holdings will generate dividend income, option premiums, and some investment turnover as a result of our covered call strategy, we expect that the fund will generate taxable income for our investors. While we will make every effort to keep unnecessary and unproductive turnover to a minimum, the Tilson Dividend Fund will be particularly well-suited for use in tax advantaged accounts such as IRAs.

## Tilson Dividend Fund Holdings

As of the end of April, we had invested just over 40% of the cash available to us. It is our intention to build our positions slowly and patiently, and we expect that it could take us up to a year to invest all of the fund's assets, depending upon what opportunities the market throws our way for the balance of the year.

We built initial positions in eight stocks that met our criteria for undervalued dividend-paying securities, which are listed below in order of our fiscal quarter ending April 30th position size:

- 1) 3.5%: Sleep Country Canada Income Fund (Z-U CN)
- 2) 2.7%: Atlantic Tele-Network (ANK)
- 3) 2.6%: Industrias Bachoco S.A. (IBA)
- 4) 2.2%: Bandag (BDG)
- 5) 2.2%: Kinder Morgan (KMI)
- 6) 1.7%: Advanced Fiber Technologies Income Fund (AFT-U CN)
- 7) 1.7%: Ark Restaurants (ARKR)
- 8) 0.8%: Birner Dental Management (BDMS)

In addition, we established common stock and covered call positions in seven low or non-dividend paying stocks that met our criteria for that strategy. The seven stocks that we purchased as part of our covered call portfolio are listed below, along with the approximate percentage of the position associated with covered call options (e.g., we own 1,000 shares of Laboratory Corporation of America and have sold covered call options on 300 shares, so we're 30% covered):

- 1) 4.2%: Newmont Mining (NEM) (84% covered)
- 2) 2.9%: Laboratory Corporation of America (LH) (30% covered)
- 3) 2.7%: Netgear (NTGR) (76% covered)
- 4) 2.4%: Costco (COST) (30% covered)
- 5) 2.0%: EPIQ Systems (EPIQ) (30% covered)
- 6) 1.6%: Netflix (NFLX) (100% covered)
- 7) 1.4%: Cree (CREE) (100% covered)

We expect to provide you with short profiles of many of the fund's portfolio investments in our next quarterly letter, so we will limit ourselves to discussing two investments here.

# Tilson Dividend Fund

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## **Bandag**

Bandag is a supplier of re-tread replacement tires and rubber, selling its products primarily to large trucking fleets through an affiliated distribution network of 985 franchised tire service centers. The company is not a fast grower, but it does occupy a leadership role in a profitable and necessary industry that does not attract much in the way of new competition. The company is also exceptionally well capitalized, consistently generates excess cash from its business, and pays out a large dividend which has been consistently increased over time. The management strikes us as rational and conservative, and because they own a large amount of stock, would appear to be strongly aligned with their shareholders.

Perhaps due to its lack of exciting growth prospects and the somewhat cyclical nature of its business, Bandag does not appeal to growth or momentum-oriented investors. This explains why the stock is available at reasonable prices, and we believe that Bandag shares represent excellent value at our recent purchase prices. Bandag represents a typical choice for our value investing dividend strategy – a strong, well managed and profitable company that lacks the market sizzle required to become a hot market favorite, but one that has delivered plenty of steak in the form of earnings and dividends for patient investors over a long period of time.

## **Costco**

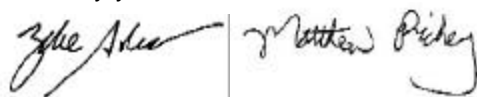
Our decision to purchase shares of Costco Wholesale in late April is a good example of how we intend for our covered call strategy to work. Costco, as you probably know, runs a popular warehouse-style discount retail business, and is perhaps one of the biggest success stories in retail. We have followed the story for quite some time, and got an excellent purchase opportunity in late April when the stock declined by more than 10% intraday when the company announced that a spike in gasoline prices would temporarily affect profit margins.

Typically the stocks of exceptional businesses are only available at reasonable prices in the wake of disappointing news, so it is our job to determine whether the news represents a material impairment of the business or just a short-term hiccup. For Costco, we came to the firm conclusion that the latter was the case, so we were delighted to purchase shares in what we consider to be a world-class company with a strong competitive position and an outstanding management team and culture at attractive prices.

While Costco does pay a small dividend, we felt that it was not a generous enough payout to qualify as a high dividend payer, so we sold just enough call options on it to produce an acceptable level of income for the fund.

We thank you for your investment in the Tilson Dividend Fund, and look forward to updating you on our progress in future letters.

Sincerely yours,

The image shows two handwritten signatures in black ink. The signature on the left is 'Zeke Ashton' and the signature on the right is 'Matt Richey'. They are written in a cursive, flowing style.

Zeke Ashton and Matt Richey

# Tilson Dividend Fund

## Schedule of Investments (Unaudited)

As of April 30, 2005

	Shares	Market Value (Note 1)		Shares	Market Value (Note 1)
<b>COMMON STOCKS - 29.46%</b>			<b>FOREIGN COMMON STOCKS - 5.23%</b>		
<b>Auto Parts &amp; Equipment - 2.24%</b>			<b>Canadian - 5.23%</b>		
Bandag, Incorporated	1,000	\$ 38,600	<b>Investment Company - 5.23%</b>		
<b>Food - 2.60%</b>			Advanced Fiber Technologies		
µ Industrias Bachoco S.A.	2,800	44,800	Income Fund	6,500	\$ 29,961
<b>Healthcare - Services - 3.72%</b>			Sleep Country Canada		
Birner Dental Management	554	14,576	Income Fund	4,100	60,117
* Laboratory Corporation of America Holdings	1,000	49,500	<b>FOREIGN COMMON STOCKS (Cost \$92,274)</b>		
		64,076	<b>90,078</b>		
<b>Internet - 1.61%</b>			<b>INVESTMENT COMPANIES - 6.52%</b>		
* Netflix Inc.	2,400	27,744	Evergreen Institutional Money Market		
<b>Mining - 4.19%</b>			Fund		
Newmont Mining Corporation	1,900	72,143	Merrimac Cash Series Nottingham	56,142	56,142
			Shares	56,142	56,142
<b>Pipelines - 2.22%</b>			<b>Total Investment Company (Cost \$112,284)</b>		
Kinder Morgan, Inc.	500	38,230	<b>112,284</b>		
<b>Retail - 4.06%</b>			<b>Total Investments (Cost \$703,837) - 41.21%</b>		
Ark Restaurants Corp.	1,000	29,260	<b>\$ 709,403</b>		
Costco Wholesale Corporation	1,000	40,580	<b>Other Assets less Liabilities - 58.79%</b>		
		69,840	<b>1,011,801</b>		
<b>Semiconductors - 1.41%</b>			<b>Net Assets - 100.00%</b>		
* Cree, Inc.	1,000	24,190	<b>\$ 1,721,204</b>		
<b>Software - 2.03%</b>			<i>Summary of Investments by Industry</i>		
* EPIQ Systems, Inc.	2,300	34,891	<i>Industry</i>	<i>% of Net Assets</i>	<i>Value</i>
<b>Telecommunications - 5.38%</b>			Auto Parts & Equipment	2.24%	\$ 38,600
Atlantic Tele-Network, Inc.	1,500	45,750	Canadian Investment Company	5.23%	90,078
* Netgear, Inc.	2,900	46,777	Food	2.60%	44,800
		92,527	Healthcare - Services	3.72%	64,076
<b>Total Common Stocks (Cost \$499,279)</b>			Internet	1.61%	27,744
		507,041	Investment Company	6.52%	112,284
			Mining	4.19%	72,143
			Pipelines	2.22%	38,230
			Retail	4.06%	69,840
			Semiconductors	1.41%	24,190
			Software	2.03%	34,891
			Telecommunications	5.38%	92,527
			<b>Total</b>	<b>41.21%</b>	<b>\$ 709,403</b>

(Continued)

# Tilson Dividend Fund

## Call Options Written (Unaudited)

As of April 30, 2005

	Shares Subject to Call	Market Value
<b>Common Stocks, Expiration Date, Exercise Price</b>		
* Cree, Inc., September 17, 2005 Strike \$25.00	500	\$ 1,125
* Netgear, Inc., September 17, 2005 Strike \$15.00	700	1,750
* EPIQ Systems, Inc., October 22, 2005 Strike \$15.00	700	980
* Laboratory Corporation of America Holdings, November 19, 2005 Strike \$50.00	300	900
* Netflix Inc., December 17, 2005 Strike \$12.50	1,200	1,320
* Netflix Inc., December 17, 2005 Strike \$15.00	1,200	660
* Netgear, Inc., December 17, 2005 Strike \$15.00	1,500	4,500
* Costco Wholesale Corporation, January 21, 2006 Strike \$45.00	300	510
* Cree, Inc., January 21, 2006 Strike \$25.00	500	1,750
* Newmont Mining Corporation, January 21, 2006 Strike \$50.00	1,600	1,600
<b>Total (Premiums Received \$11,458)</b>		<b>\$ 15,095</b>

\* Non-income producing investment.

μ ADR's.

The following acronyms and abbreviations are used in this portfolio:

ADR - American Depositary Receipt

SA - Sociedad Anónima (Mexican)

See Notes to Financial Statements

# Tilson Funds

## Statements of Assets and Liabilities (Unaudited)

<i>As of April 30, 2005</i>	<i>Focus Fund</i>	<i>Dividend Fund</i>
<b>Assets:</b>		
Investments, at cost	\$ 1,841,049	\$ 703,837
Investments, at value	\$ 1,824,045	\$ 709,403
Call options purchased, at value (Cost \$496,913)	484,478	-
Cash	969,348	934,614
<b>Receivables:</b>		
Investments sold	-	40,080
Fund shares sold	-	73,644
Income, at cost	-	1,249
Income, at value	422	1,244
Transaction losses	754	-
Prepaid expenses	35,837	31,490
<b>Due from affiliates:</b>		
Advisor ( <i>note 2</i> )	20,994	22,916
<b>Total Assets</b>	<b>3,335,878</b>	<b>1,813,391</b>
<b>Liabilities:</b>		
Call options written, at value (Premiums received \$11,458)	-	15,095
<b>Payables:</b>		
Investments purchased	325,448	75,121
Accrued expenses	2,067	1,971
<b>Total Liabilities</b>	<b>327,515</b>	<b>92,187</b>
<b>Net Assets</b>	<b>\$ 3,008,363</b>	<b>\$ 1,721,204</b>
<b>Net Assets Consist of:</b>		
Capital (par value and paid in surplus)	3,045,811	1,722,772
Accumulated net investment loss	(3,674)	(75)
Accumulated net realized loss on investments and foreign currency translations	(4,335)	(3,417)
Net unrealized (depreciation)/appreciation on investments and translation of assets and liabilities in foreign currencies	(29,439)	1,924
<b>Total Net Assets</b>	<b>\$ 3,008,363</b>	<b>\$ 1,721,204</b>
Shares Outstanding, no par value (unlimited authorized shares)	309,737	172,446
<b>Net Asset Value, Offering Price and Redemption Price Per Share</b>	<b>\$ 9.71</b>	<b>\$ 9.98</b>

See Notes to Financial Statements.

# Tilson Funds

## Statements of Operations (Unaudited)

For the Period from March 16, 2005 (Date of Initial Public Investment)  
to April 30, 2005

	Focus Fund	Dividend Fund
Investment Income:		
Dividends	\$ 709	\$ 1,598
<b>Total Income</b>	<b>709</b>	<b>1,598</b>
Expenses:		
Administration fees (note 2)	386	148
Transfer agent fees (note 2)	2,613	2,210
Fund accounting fees (note 2)	3,350	3,337
Compliance services fees (note 2)	977	977
Custody fees (note 2)	586	557
Other accounting fees (note 2)	2,526	2,891
Legal fees	2,096	2,096
Audit and tax preparation fees	2,711	2,385
Registration and filing administration fees	972	828
Registration and filing expenses	5,276	5,276
Shareholder servicing expenses	678	678
Printing expenses	616	616
Trustees' fees and meeting expenses	1,110	1,110
Securities pricing fees	247	247
Other operating expenses	1,233	1,233
<b>Total Expenses</b>	<b>25,377</b>	<b>24,589</b>
Expenses reimbursed by advisor (note 2)	(20,994)	(22,916)
<b>Net Expenses</b>	<b>4,383</b>	<b>1,673</b>
<b>Net Investment Loss</b>	<b>(3,674)</b>	<b>(75)</b>
Net Realized and Unrealized Loss on Investments:		
Net realized loss from investment transactions and foreign currency translations	(1,410)	(4,733)
Net realized loss from closing of option contracts	(2,925)	-
Net realized gain from securities sold short	-	1,316
Change in unrealized appreciation on investments and translation of assets and liabilities in foreign currencies	(29,439)	1,924
<b>Net Realized and Unrealized Loss on Investments</b>	<b>(33,774)</b>	<b>(1,493)</b>
<b>Net Decrease in Net Assets Resulting from Operations</b>	<b>\$ (37,448)</b>	<b>\$ (1,568)</b>

See Notes to Financial Statements.



## Tilson Funds

### Statements of Changes in Net Assets (Unaudited)

For the Period from March 16, 2005 (Date of Initial Public Investment)  
to April 30, 2005

	Focus Fund	Dividend Fund
Operations:		
Net investment loss	\$ (3,674)	\$ (75)
Net realized loss from investment transactions and foreign currency translations	(1,410)	(4,733)
Net realized loss from closing of option contracts	(2,925)	-
Net realized gain from securities sold short	-	1,316
Change in unrealized appreciation on investments and translation of assets and liabilities in foreign currencies	(29,439)	1,924
<b>Net Decrease in Net Assets Resulting from Operations</b>	<b>(37,448)</b>	<b>(1,568)</b>
Capital Share Transactions: (note 6)		
Shares sold	3,045,811	1,773,171
Shares repurchased	-	(50,399)
<b>Increase from Capital Share Transactions</b>	<b>3,045,811</b>	<b>1,722,772</b>
<b>Net Increase in Net Assets</b>	<b>3,008,363</b>	<b>1,721,204</b>
Net Assets:		
Beginning of Period	-	-
End of Period	\$ 3,008,363	\$ 1,721,204
<b>Accumulated Net Investment Loss</b>	<b>\$ (3,674)</b>	<b>\$ (75)</b>

See Notes to Financial Statements

## Tilson Funds

### Financial Highlights (Unaudited)

For a share outstanding during the period from  
March 16, 2005 (Date of Initial Public Investment) to April 30, 2005

	<i>Focus Fund</i>	<i>Dividend Fund</i>
Net Asset Value, Beginning of Period	\$ 10.00	\$ 10.00
Income from Investment Operations:		
Net investment loss	(0.01)	0.00
Net realized and unrealized loss on securities and foreign currency translations	(0.28)	(0.02)
<b>Total from Investment Operations</b>	<b>(0.29)</b>	<b>(0.02)</b>
Net Asset Value, End of Period	\$ 9.71	\$ 9.98
<b>Total Return</b>	<b>(2.90) %</b>	<b>(0.20) %</b>
Net Assets, End of Period (in thousands)	\$ 3,008	\$ 1,721
Average Net Assets for the Period (in thousands)	\$ 1,789	\$ 688
Gross Expenses to Average Net Assets	11.52 % (a)	29.04 % (a)
Net Expenses to Average Net Assets	1.95 % (a)	1.95 % (a)
Net Investment Loss to Average Net Assets	(1.70) % (a)	(0.08) % (a)
Portfolio Turnover Rate	28.30 %	17.19 %

(a) Annualized.

See Notes to Financial Statements.

# Tilson Funds

## Notes to Financial Statements (Unaudited)

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### 1. Organization and Significant Accounting Policies

The Tilson Focus Fund, and the Tilson Dividend Fund (collectively the "Funds" and individually a "Fund") are series funds. The Funds are part of The Tilson Investment Trust (the "Trust"), which was organized as a Delaware statutory trust and is registered under the Investment Company Act of 1940 (the "1940 Act"), as amended, as an open-ended management investment company. Each of the Funds in this report are classified as a non-diversified as defined in the 1940 Act.

The Tilson Focus Fund commenced operations on March 16, 2005. The investment objective of the Fund is to seek long-term capital appreciation through investment in equity securities of medium and large capitalization companies, consisting primarily of common and preferred stocks and securities convertible into common stocks.

The Tilson Dividend Fund commenced operations on March 16, 2005. The investment objective of the Fund is to invest in common stocks of companies that the Advisors believe to be undervalued in their respective markets, but which also offer high dividend yields relative to the average yields of the broad market.

The following accounting policies have been consistently followed by the Funds and are in conformity with accounting principles generally accepted in the United States of America in the investment company industry.

#### *Investment Valuation*

The Funds' investments in securities are carried at value. Securities listed on an exchange or quoted on a national market system are valued at the last sales price as of 4:00 p.m. Eastern Time. Other securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are valued at the most recent bid price. Securities and assets for which representative market quotations are not readily available (e.g., if the exchange on which the portfolio security is principally traded closes early or if trading of the particular portfolio security is halted during the day and does not resume prior to the Funds' net asset value calculation) or which cannot be accurately valued using the Funds' normal pricing procedures are valued at fair value as determined in good faith under policies approved by the Trustees. A portfolio security's "fair value" price may differ from the price next available for that portfolio security using the Funds' normal pricing procedures. Instruments with maturities of 60 days or less are valued at amortized cost, which approximates market value.

#### *Foreign Currency Translation*

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the exchange rate of such currencies against U.S. dollars on the date of valuation. Purchases and sales of securities and income items denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect on the transaction date.

The Funds do not separately report the effect of changes in foreign exchange rates from changes in market prices on securities held. Such changes are included in net realized and unrealized gain or loss from investments.

Realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the recorded amounts of dividends, interest, and foreign withholding taxes, and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in foreign exchange rates on foreign denominated assets and liabilities other than investments in securities held at the end of the reporting period.

#### *Investment Transactions and Investment Income*

Investment transactions are accounted for as of the date purchased or sold (trade date). Dividend income is recorded on the ex-dividend date. Certain dividends from foreign securities will be recorded as soon as the Trust is informed of the dividend if such information is obtained subsequent to the ex-dividend date. Interest income is recorded on the accrual basis and includes amortization of discounts and premiums. Gains and losses are determined on the identified cost basis, which is the same basis used for federal income tax purposes.

#### *Option Writing*

When the Funds write an option, an amount equal to the premium received by the Funds is recorded as a liability and is subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expire unexercised are treated by the Funds on the expiration date as realized gains from investments. The difference between the premium and the amount paid on effecting a closing purchase transaction, include brokerage commissions, is also treated as a realized gain or loss (depending on if the premium is less than the amount paid for the closing purchase transaction). If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security or currency in determining whether the Funds have realized a gain or loss. If a put option is

(Continued)

# Tilson Funds

## Notes to Financial Statements (Unaudited)

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exercised, the premium reduces the cost basis of the securities purchased by the Funds. The Funds, as the writer of an option, bear the market risk of an unfavorable change in the price of the security underlying the written option.

### *Expenses*

The Funds bear expenses incurred specifically on its behalf as well as a portion of general expenses, which are allocated according to methods approved annually by the Trustees.

### *Dividend Distributions*

The Funds may declare and distribute dividends from net investment income (if any) at the end of each calendar quarter. Distributions from capital gains (if any) are generally declared and distributed annually.

### *Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amount of assets, liabilities, expenses and revenues reported in the financial statements. Actual results could differ from those estimates.

### *Fees on Redemptions*

The Funds charge a redemption fee of 2.00% of the amount redeemed on redemptions of Funds' shares occurring within one year following the issuance of such shares. The Redemption Fee is not a fee to finance sales or sales promotion expenses, but is paid to the Funds to defray the costs of liquidating an investor and discouraging short-term trading of the Funds' shares. No Redemption Fee will be imposed on the redemption of shares representing dividends or capital gains distributions, or on amounts representing capital appreciation of shares. There were no redemptions fees collected by either Fund for the period ended April 30, 2005.

### *Federal Income Taxes*

No provision for income taxes is included in the accompanying financial statements, as the Funds intend to distribute to shareholders all taxable investment income and realized gains and otherwise comply with Subchapter M of the Internal Revenue Code applicable to regulated investment companies.

### *Indemnifications*

Under the Funds' organizational documents, its officers and Trustees are indemnified against certain liabilities arising out of the performance of their duties to the

Funds. In addition, in the normal course of business, the Funds entered into contracts with their vendors and others that provide for general indemnifications. The Funds' maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Funds. The Funds expect that risk of loss to be remote.

### *Proxy Voting Policies and Voting Record*

A copy of the Trust's Proxy Voting and Disclosure Policy and the Advisor's Proxy Voting and Disclosure Policy are included as Appendix B to the Funds' Statement of Additional Information and is available, without charge, upon request, by calling 1-800-773-3863. Information regarding how the Funds voted proxies relating to portfolio securities during the most recent will be available (1) without charge, upon request, by calling the Funds at the number above and (2) on the SEC's website at <http://www.sec.gov>.

### *Quarterly Portfolio Holdings*

The Funds file its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Funds' Forms N-Q are available on the SEC's website at <http://www.sec.gov>. You may review and make copies at the SEC's Public Reference Room in Washington, D.C. You may also obtain copies after paying a duplicating fee by writing the SEC's Public Reference Section, Washington, D.C. 20549-0102 or by electronic request to [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or is available without charge, upon request, by calling the Fund at 1-800-773-3863. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 202-942-8090.

## **2. Agreements**

### *Advisor (Both Funds)*

The Funds pay a monthly advisory fee to T2 Partners Management L.P. (the "Advisor") based upon the average daily net assets of each Fund. The Advisor has entered into contractual agreements ("Expense Limitation Agreement") with the Funds under which it has agreed to reduce the amount of the investment advisory fee to be paid to the Advisor by the Funds for certain months and to assume other expenses of each of the Funds, if necessary, in an amount that limits the Funds' total operating expenses (exclusive of interest, taxes, brokerage fees and commissions, investment advisory and/or variable performance incentive fees paid to the Advisor, extraordinary expenses, and payments, if any, under a Rule 12b-1 Plan) to not more than a specified percentage of the average daily assets of each Fund for the current fiscal year. There can be no

(Continued)

# Tilson Funds

## Notes to Financial Statements (Unaudited)

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assurance the Expense Limitation Agreement will continue in the future. The expense limitation percentages, as of the period ended April 30, 2005, were 0.45% for each fund. The expenses reimbursed for this period are \$20,994 and \$22,916, for the Focus Fund and Dividend Fund, respectively.

On December 17, 2004 the Board reviewed information necessary to approve the initial Investment Advisory Agreement. The Advisor reviewed with the Board the Advisor's Form ADV, its financial strength, its financial capability, and other information.

In deciding on whether to approve the Advisory Agreement, the Trustees considered numerous factors, including: (i) the nature, extent, and quality of the services provided by the Advisor; (ii) the Advisor's personnel and methods of operating; (iii) overall expenses of the Funds including the Expense Limitation Agreement between the Trust on behalf of the Funds and the Advisor; (iv) the financial condition of the Advisor; (v) the Advisor's investment strategy for the Funds; and (vi) with respect to the Dividend Fund, the Advisor's investment sub-advisory contract with the Sub-Advisor ("Sub-Advisory Agreement"), including the services being provided by the Sub-Advisor.

Based upon its evaluation of the information, materials and factors described above, the Trustees concluded for the Funds: (i) that the terms of the Investment Advisory Agreement were reasonable and fair; (ii) that the fees paid to the Advisor under the Advisory Agreement and the Funds' expense ratio as compared to similar funds were reasonable and fair; (iii) that they were satisfied with the Advisor's proposed services, personnel, and investment strategy; (iv) that they were satisfied with the Sub-Advisor Agreement, with respect to the Dividend Fund; and (v) that this was in the best interest of the Trust and the Funds to enter the Advisor Agreement. Therefore, the Trustees, including the Trustees who are not party to the Advisory Agreement of interested persons of the Advisor, unanimously approved the Advisory Agreement for the Fund for an initial two-year period.

### *Advisor (Focus Fund)*

The Variable Advisory Fee is comprised of two component fees: (i) a fixed rate of 1.50% of the average daily net assets of the Focus Fund ("Fulcrum Fee") and (ii) a performance incentive fee ("Performance Fee").

The Fulcrum Fee is calculated by multiplying 1.50% by the average net assets of the Focus Fund for the fiscal year to date divided by the number of days in the year

multiplied by the number of days in the calendar month. The Performance Fee is calculated by multiplying the "Performance Adjustment Rate" (as described below) by the average daily net assets of the Focus Fund over the Measuring Period. While the Performance Fee is calculated on the 12-month Measuring Period, it is prorated to a monthly payment to correspond with the Focus Fund's monthly payment of the Variable Advisory Fee.

The Performance Adjustment Rate will vary with the Focus Fund's performance as compared to the performance of the Wilshire 5000 Index as published on the close of the market on the last day of the Measuring Period, with dividends reinvested, and will range from (0.45%) to 0.45%. The Performance Adjustment Rate will be calculated at 4.50% of the cumulative difference between the performance of the Focus Fund and that of the Wilshire 5000 Index over the Measuring Period, except that no performance adjustment will be paid if the cumulative difference between the Focus Fund's performance and that of the Wilshire 5000 index is +/- 2.00%. The factor of 4.50% is derived from the fact that the Advisor will achieve the maximum / minimum Performance Adjustment Rate when the cumulative total return difference between the Focus Fund and the Wilshire 5000 Index is +/- 10.00% over the Measuring Period (i.e., 0.45% divided by 10.00%=4.50%). To illustrate this point, if the Wilshire 5000 Index returned 5.00% over the Measuring Period, the Focus Fund would have to return at least 15.00% in order for the Advisor to receive the maximum Variable Advisory Fee of 1.95%. Conversely, if the Wilshire 5000 Index returned the same 5.00% over the Measuring Period, the Advisor would receive the minimum Variable Advisory Fee of 1.05% if the Focus Fund returned (5.00%) or less. The Focus Fund will use natural rounding to two decimal places regarding performance differences and calculations of the Performance Fee.

### *Advisor (Dividend Fund)*

As full compensation for the investment advisory services provided to the Dividend Fund, the Advisor receives monthly compensation based on the Dividend Fund's average daily net assets at the annual rate of 1.50%.

### *Sub-Advisor (Dividend Fund)*

The Dividend Fund's sub-advisor is Centaur Capital Partners, L.P., ("Sub-Advisor"). The Sub-Advisor serves in that capacity pursuant to an investment sub-advisory contract with the Advisor as approved by the Trustees. The Sub-Advisor, with oversight from the Advisor, makes day-to-day investment decisions for the Dividend Fund

*(Continued)*

# Tilson Funds

## Notes to Financial Statements (Unaudited)

and selects broker-dealers for executing portfolio transactions, subject to the brokerage policies established by the Trustees.

For its sub-advisory services to the Dividend Fund, the Sub-Advisor receives from the Advisor quarterly compensation based on the Dividend Fund's average daily net assets at the rate of 0.75% less certain of the Advisor's marketing and operating expenses, as agreed to between the Advisor and Sub-Advisor. The Sub-Advisor has also agreed to allow the Advisor to withhold from that compensation up to one-half of the Advisor's expenses under the Expense Limitation Agreement as it relates to the Dividend Fund. The Dividend Fund does not pay a direct fee to the Sub-Advisor.

### *Administrator*

The Funds pay a monthly administration fee to The Nottingham Company (the "Administrator") based upon the average daily net assets of each Fund and calculated at the annual rates as shown in the following schedule which is subject to a minimum of \$2,000 per month per Fund. The Administrator also receives a fee to procure and pay the custodian for the Funds, additional compensation for fund accounting and recordkeeping services, and additional compensation for certain costs involved with the daily valuation of securities and as reimbursement for out-of-pocket expenses (which are immaterial in amount). A breakdown of these is provided in the schedule below.

	<i>Administration Fees</i>		<i>Custody fees</i>		<i>Fund Accounting Fees (monthly)</i>	<i>Fund Accounting Fees*</i>	<i>Blue Sky Administration Fees (annual)</i>
	<i>Average Net Assets</i>	<i>Annual Rate</i>	<i>Average Net Assets</i>	<i>Annual Rate</i>			
All Funds	First \$50 million	0.175%	First \$100 million	0.02%	\$2,250	0.01%	\$150 per state
	Next \$50 million	0.150%	Over \$100 million	0.009%			
	Next \$50 million	0.125%					
	Next \$50 million	0.100%					
	Over \$200 million	0.075%					

\*Fees are based on all assets.

### *Compliance Services*

The Nottingham Compliance Services, LLC, a fully owned affiliate of The Nottingham Company, provides services which assists the Trust's Chief Compliance Officer in monitoring and testing the policies and procedures of the Trust in conjunction with requirements under Rule 38a-1 of the Securities and Exchange Commission. It receives compensation for this service at an annual rate of \$7,750.

### *Transfer Agent*

North Carolina Shareholder Services, LLC ("Transfer Agent") serves as transfer, dividend paying, and shareholder servicing agent for the Funds. It receives compensation for its services based upon \$15 per shareholder per year, subject to a minimum fee of \$1,500 per month.

Certain Trustees and officers of the Trust are also officers of the Advisor, the Distributor or the Administrator.

### **3. Purchases and Sales of Investment Securities**

For the period ended April 30, 2005, the aggregate cost of purchases and proceeds from sales of investment securities (excluding short-term securities) were as follows:

<i>Fund</i>	<i>Purchases of Securities</i>	<i>Proceeds from Sales of Securities</i>
Focus Fund	\$2,328,477	\$272,128
Dividend Fund	\$628,938	\$45,427

There were no long-term purchases or sales of U.S Government Obligations during the period ended April 30, 2005.

(Continued)

# Tilson Funds

## Notes to Financial Statements (Unaudited)

### 4. Options Written

<i>Option Contracts Written by the Trust for the Period ended April 30, 2005 (Dividend Fund only).</i>	<i>Number of Contracts</i>	<i>Premiums Received</i>
Options Outstanding, Beginning of Period	-	\$ -
Options written	111	15,478
Options closed	(26)	(4,020)
Options exercised	-	-
Options expired	-	-
Options Outstanding, End of Period	85	\$11,458

### 5. Federal Income Tax

The aggregate cost of investments and the composition of unrealized appreciation and depreciation of

investment securities for federal income tax purposes as of April 30, 2005, are shown in table below.

<i>Fund</i>	<i>Federal Tax Cost</i>	<i>Aggregate Gross Unrealized Appreciation</i>	<i>Aggregate Gross Unrealized Depreciation</i>
Focus Fund	\$2,337,962	\$36,281	(\$65,720)
Dividend Fund	\$692,379	\$19,049	(\$17,125)

The amount of dividends and distributions from net investment income and net realized capital gains are determined in accordance with federal income tax regulations which may differ from generally accepted accounting principles. These differences are due to differing treatments for items such as net short-term gains, deferral of wash sale losses, foreign currency

transactions, net investment losses and capital loss carry-forwards. Permanent differences such as tax returns of capital and net investment losses, if any, would be reclassified against capital. There were no dividends or distributions of net investment income or net realized gains paid by either Fund during the period ending April 30, 2005.

### 6. Capital Share Transactions

<i>Period from March 16, 2005 (Date of Initial Public Investment) to April 30, 2005</i>	<i>Focus Fund</i>	<i>Dividend Fund</i>
Transactions in Fund Shares		
Shares sold	309,737	177,441
Reinvested distributions	-	-
Shares repurchased	-	(4,995)
Net Increase/(Decrease) in Capital Share Transactions	309,737	172,446
Shares Outstanding, Beginning of Period	-	-
Shares Outstanding, End of Period	309,737	172,446

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# Tilson Focus Fund Tilson Dividend Fund

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a series of the Tilson Investment Trust

This Report has been prepared for shareholders and may be distributed to others only if preceded or accompanied by a current prospectus.