

PORTFOLIO MANAGERS' COMMENTARY

Stratton Small-Cap Value Fund -- Jerry Van Horn

During the third quarter, the Stratton Small-Cap Value Fund posted a net return of -18.71%. Existing concerns over Greek sovereign default spiraled into fears of a full-blown European banking crisis in early July, sending the broad small cap index on a 25% slide into early August.

Volatility reigned after the benchmark's July 7th high as nearly half of the quarter's remaining trading days witnessed fluctuations in excess of 200 basis points. The flight to safety witnessed during the second quarter continued throughout the market's downturn, prompting safe haven sectors of the market such as Utilities and Consumer Staples to outperform. For the quarter, the Russell 2000 Index returned -21.86% while the Value and Growth segments of the Index returned -21.47% and -22.25%, respectively.

Every economic sector within the portfolio produced negative returns during the quarter, with notably weak performance concentrated within the more cyclical areas of the portfolio such as the Energy, Producer Durables, Materials & Processing, and Technology sectors.

Areas of the portfolio which held up relatively well during the quarter were those that benefited from the market's continued flight to safety: Health Care, Utilities, and Consumer Staples. Within the Health Care sector, fund holding Kinetic Concepts, Inc. (2.2%) agreed to be taken private by a consortium of private equity firms, boosting its stock price nearly 15% during the quarter.

The Fund outperformed the Russell 2000 Value Index by 277 basis points during the third quarter and has outperformed the benchmark by 686 basis points through the first three quarters of 2011. During the quarter, the Fund's relative outperformance was largely the result of positive stock selection, primarily within the Health Care, Consumer Discretionary, Consumer Staples, and Utilities sectors. The Fund's slight overweight in the Consumer Staples and Utilities sectors as well as its underweight in the Consumer Discretionary sector also aided relative performance.

Drags on relative performance during the quarter came from the Fund's underweight in the Financial Services sector as well as negative stock selection within the group. Relative performance was also hindered by negative stock selection within the Materials & Processing sector.

Portfolio holdings are as of 9/30/11. Current and future portfolio holdings are subject to change and risk. Small company stocks are generally riskier than larger company stocks due to greater volatility and less liquidity. The Fund may invest in real estate investment trusts or REITs which may cause greater volatility and less liquidity due to adverse conditions in the real estate industry. The Fund may also invest in undervalued stocks which can affect the Fund's value if the stocks do not appreciate as anticipated or remain undervalued for longer than anticipated. Investors may incur a fee of 1.50% if shares are redeemed or exchanged within 120 days of purchase.

*The performance data quoted represents past performance and does not guarantee future results. Current performance may be lower or higher. Performance data current to the most recent month-end may be obtained at **SSCV Past Performance**. The investment return and principal value of an investment will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. The graph and table do not reflect the deduction of the taxes that a shareholder would pay on fund distributions or the redemption of fund shares. The Fund's total expense ratio is 1.22%, as stated in the current prospectus.*

*You should carefully consider the investment objectives, risks, charges and expenses of Stratton Funds before investing. For a copy of the prospectus with this and other information about the Funds, please call 1-800-634-5726 or download a copy **here**. You should read the prospectus carefully before investing.*

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