

SMITH BARNEY FUNDS, INC. SHORT-TERM HIGH GRADE BOND FUND

CLASSIC SERIES | SEMI-ANNUAL REPORT | JUNE 30, 2001

 Smith Barney
Mutual Funds
Your Serious Money. Professionally Managed.SM

NOT FDIC INSURED • NOT BANK GUARANTEED • MAY LOSE VALUE

Dear Shareholder,

We are pleased to provide the semi-annual report for the Smith Barney Funds, Inc. — Short-Term High Grade Bond Fund (“Portfolio”) for the period ended June 30, 2001. In this report, we have summarized the period’s prevailing economic and market conditions and outlined our investment strategy. A detailed summary of the Portfolio’s performance can be found in the appropriate sections that follow. We hope you find this report to be useful and informative.



**HEATH B.
MCLENDON**
Chairman



**JAMES E.
CONROY**
Vice President

Performance Update

For the six months ended June 30, 2001, the Portfolio’s Class A shares returned 3.84% without sales charges. In comparison, the Salomon Smith Barney Treasury/Government Sponsored/Corporate 1-5 Year Index (“SSB Index”)¹ returned 4.38% for the same period. Past performance is not indicative of future results.

Market Update and Outlook

During the first half of 2001, the U.S. Federal Reserve Board (“Fed”) aggressively lowered short-term interest rates in an effort to address continued deterioration in corporate earnings and other signs of a slowing U.S. economy. In response, short-term instruments such as three-month U.S. Treasury bills and two-year Treasury notes rallied. However, intermediate (10-year) Treasuries were essentially flat, while the 30-year T-bond actually declined 2.21%, causing its yield to go up — a rare occurrence when the Fed is in easing mode.

So is an economic recovery in store for the second half of 2001? Some observers believe so, noting that the Fed’s 25-basis-point (0.25%) rate cut in the last week of June represented a departure from its five preceding 50-basis-point cuts, thus possibly signaling the tail end of the easing cycle. Some recent encouraging economic signs supporting this view include positive housing and auto-sector statistics, continued strength in consumer spending and growth in the U.S. money supply.

¹ *The SSB Index is a broad measure of the performance of short-term U.S. Treasury securities. Please note that an investor cannot invest directly in an index.*

As good as the case for an economic rebound is, however, such a recovery remains tenuous. Forecasts of corporate earnings continue to edge lower, unemployment claims are creeping higher, consumer confidence is on the decline and core capital-goods orders appear to be falling at a 25% annual rate, suggesting that the slowing pace of business investment will remain a significant drag on the economy for the second half of 2001. In our view, the Fed will most likely continue to lower rates, albeit at a slower pace. While there are no guarantees, we believe that any further reductions in interest rates between now and year-end 2001 may increase investment returns from fixed-income securities. (Changes in the price of fixed-income securities are inversely related to changes in yield.)

Investment Strategy and Portfolio Update

The Portfolio invests in corporate debt securities, bank obligations and securities issued by the U.S. government and its agencies or instrumentalities. In addition, the Portfolio may invest in U.S. dollar-denominated fixed-income securities of foreign issuers. (Please note that the Portfolio's shares are not guaranteed by the U.S. government or its agencies.)

The Portfolio invests primarily in "high-grade" fixed-income securities. High-grade securities are securities that are rated triple-A or double-A by Standard & Poor's ("S&P") or Moody's, have an equivalent rating by a nationally recognized statistical rating organization, or are determined by the portfolio manager to be of equivalent quality. At the close of the reporting period, the Portfolio's average S&P credit rating was AA.

At the close of the reporting period, the Portfolio's 44 holdings were broadly diversified across the U.S. Treasury, U.S. government agency and corporate sectors of the fixed-income market. In an effort to provide a higher dividend yield, we overweighted the Portfolio in corporate securities versus the benchmark index. The Portfolio maintained a duration² of 2.5 years, which is similar to that of the benchmark. In general, the Portfolio will maintain an average dollar-weighted portfolio maturity of between one and four years, and the average duration of the Portfolio will normally not exceed 3.5 years.

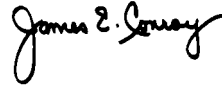
² Duration is a common gauge of the price sensitivity of a fixed-income asset or portfolio to a change in interest rates, expressed in years. The higher the duration, the greater the price volatility for a given change in yield.

Thank you for investing in the Smith Barney Funds, Inc. — Short-Term High Grade Bond Fund.

Sincerely,



Heath B. McLendon
Chairman



James E. Conroy
Vice President

July 12, 2001

The information provided in this letter represents the opinion of the manager and is not intended to be a forecast of future events, a guarantee of future results or investment advice. Further, there is no assurance that certain securities will remain in or out of the Portfolio. Please refer to pages 7 through 9 for a list and percentage breakdown of the Portfolio's holdings. Also, please note that any discussion of the Portfolio's holdings is as of June 30, 2001 and is subject to change.

Historical Performance — Class A Shares

Period Ended	Net Asset Value		Income Dividends	Capital Gain Distributions	Total Returns
	Beginning of Period	End of Period			
6/30/01	\$4.06	\$4.11	\$0.10	\$0.00	3.84%†
12/31/00	3.97	4.06	0.21	0.00	7.67
12/31/99	4.13	3.97	0.19	0.00	0.76
12/31/98	4.09	4.13	0.20	0.00	6.07
12/31/97	4.05	4.09	0.22	0.00	6.73
12/31/96	4.19	4.05	0.23	0.00	2.17
12/31/95	3.91	4.19	0.22	0.00	13.16
12/31/94	4.16	3.91	0.18	0.00	(2.15)
12/31/93	4.12	4.16	0.18	0.02	6.01
12/31/92	4.09	4.12	0.19	0.01	5.92
Inception* - 12/31/91	4.01	4.09	0.03	0.01	2.85†
Total			\$1.95	\$0.04	

Historical Performance — Class Y Shares

Period Ended	Net Asset Value		Income Dividends	Capital Gain Distributions	Total Returns
	Beginning of Period	End of Period			
6/30/01	\$4.06	\$4.11	\$0.11	\$0.00	4.07%†
12/31/00	3.97	4.06	0.22	0.00	8.18
12/31/99	4.13	3.97	0.21	0.00	1.26
12/31/98	4.09	4.13	0.22	0.00	6.56
12/31/97	4.05	4.09	0.24	0.00	7.20
Inception* - 12/31/96	4.19	4.05	0.22	0.00	2.08†
Total			\$1.22	\$0.00	

It is the Portfolio's policy to distribute dividends monthly and capital gains, if any, annually.

Average Annual Total Returns

	Class A	Class Y
Six Months Ended 6/30/01†	3.84%	4.07%
Year Ended 6/30/01	8.78	9.26
Five Years Ended 6/30/01	5.99	6.48
Inception* through 6/30/01	5.51	5.42

Cumulative Total Returns

Class A (Inception* through 6/30/01)	67.71%
Class Y (Inception* through 6/30/01)	32.95

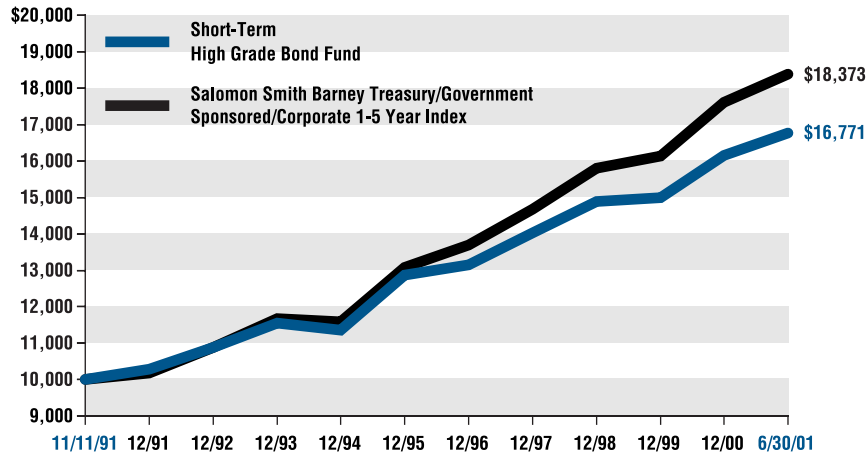
* The inception dates for Class A and Y shares are November 11, 1991 and February 7, 1996, respectively.

† Total return is not annualized, as it may not be representative of the total return for the year.

Historical Performance (unaudited)

Growth of \$10,000 Invested in Class A Shares of the Short-Term High Grade Bond Fund vs. Salomon Smith Barney Treasury/Government Sponsored/Corporate 1-5 Year Index†

November 1991 — June 2001



† Hypothetical illustration of \$10,000 invested in shares at inception on November 11, 1991, assuming reinvestment of dividends and capital gains, if any, at net asset value through June 30, 2001. The Salomon Smith Barney Treasury/Government Sponsored/Corporate 1-5 Year Index is a broad-based index of short-term U.S. Treasury and corporate debt securities. The index is unmanaged and is not subject to the same management and trading expenses of a mutual fund. The performance of the Portfolio's other class may be greater or less than Class A shares' performance indicated on this chart, depending on whether greater or lesser fees were incurred by shareholders investing in the other class.

All figures represent past performance and are not a guarantee of future results. Investment returns and principal value will fluctuate, and redemption values may be more or less than the original cost. No adjustment has been made for shareholder tax liability on dividends or capital gains.

Schedule of Investments (unaudited)
June 30, 2001

FACE AMOUNT	SECURITY	VALUE
U.S. GOVERNMENT AND AGENCY OBLIGATIONS — 22.7%		
\$2,000,000	Federal Home Loan Mortgage Corp., 5.250% due 1/15/06	\$ 1,980,000
	U.S. Treasury Notes:	
7,000,000	5.875% due 11/15/04	7,242,480
9,000,000	6.750% due 5/15/05	9,585,630
5,000,000	5.000% due 2/15/11	4,853,100
TOTAL U.S. GOVERNMENT AND AGENCY OBLIGATIONS (Cost — \$22,957,005)		23,661,210

FACE AMOUNT	RATING(a)	SECURITY	VALUE
CORPORATE BONDS AND NOTES — 75.0%			
Banks/Savings and Loans — 2.0%			
2,000,000	Aa3*	BankAmerica Corp., Sub. Notes, 7.875% due 12/1/02	2,082,500
Broadcasting – TV, Cable and Radio — 9.5%			
1,000,000	A3*	CBS Corp., Notes, 8.375% due 6/15/02	1,033,750
2,000,000	A	Continental Cablevision Inc., Sr. Notes, 8.500% due 9/15/01	2,015,000
2,000,000	A	TCI Communications, Inc., Sr. Notes, 6.375% due 5/1/03	2,032,500
1,355,000	BBB+	Time Warner Inc., Notes, 9.625% due 5/1/02	1,404,119
1,400,000	A-	Viacom Inc., Company Guaranteed, 6.750% due 1/15/03	1,436,750
2,000,000	A	Walt Disney Co., Sr. Notes, 5.125% due 12/15/03	1,995,000
			9,917,119
Consumer Durables — 4.9%			
3,000,000	A+	Clorox Co., Debentures, 8.800% due 7/15/01	3,003,750
2,000,000	A+	Unilever Capital Corp., Company Guaranteed, 6.750% due 11/1/03	2,075,000
			5,078,750
Consumer Non-Durables — 4.0%			
2,000,000	A+	Diageo Capital PLC, Company Guaranteed, 6.625% due 6/24/04	2,067,500
2,000,000	AA	The Procter & Gamble Co., Notes, 6.600% due 12/15/04	2,082,500
			4,150,000
Diversified/Conglomerate Manufacturing — 2.0%			
2,000,000	A+	IBM Corp., Notes, 7.250% due 11/1/02	2,065,000
Energy — 2.5%			
2,500,000	AA	Chevron Corp., Notes, 6.625% due 10/1/04	2,603,125
Financial Services — 19.1%			
1,000,000	A+	American General Finance, Sr. Notes, 5.875% due 7/15/01	1,000,000
1,500,000	AA-	Associates Corp., Sr. Notes, 7.500% due 4/15/02	1,537,500
1,000,000	A	Countrywide Home Loan Co., Notes, 5.250% due 5/22/03	1,001,250
2,000,000	A	Ford Motor Credit Co., Notes, 8.000% due 6/15/02	2,062,500
2,000,000	Aaa*	Freddie Mac Corp., Notes, 6.250% due 10/15/02	2,050,260
2,000,000	AAA	General Electric Corp., Notes, 7.000% due 2/3/03	2,072,500

See Notes to Financial Statements.

Schedule of Investments (unaudited) (continued)
June 30, 2001

FACE AMOUNT	RATING(a)	SECURITY	VALUE
Financial Services — 19.1% (continued)			
\$2,000,000	A	General Motors Acceptance Corp., Bonds, 5.500% due 1/14/02	\$ 2,012,500
2,500,000	A+	Goldman Sachs Group, LP, Notes, 6.250% due 2/1/03†	2,537,500
1,500,000	AA-	International Lease Finance Corp., Notes, 4.750% due 6/2/03	1,494,375
2,000,000	AA-	Merrill Lynch & Co., Notes, 6.060% due 10/15/01	2,012,500
2,000,000	AA-	Morgan Stanley Dean Witter & Co., Notes, 7.750% due 6/15/05	2,132,500
			19,913,385
Medical – Drugs — 6.9%			
2,000,000	AA	Eli Lilly & Co., Notes, 8.375% due 12/1/06	2,230,000
2,000,000	AAA	Merck & Co., Notes, 5.250% due 7/1/06	1,976,280
2,000,000	AAA	Pfizer Inc., Notes, 5.625% due 2/1/06	2,007,500
1,000,000	AA+	Zeneca Wilmington, Notes, 6.300% due 6/15/03	1,028,750
			7,242,530
Pollution Control/Waste Management — 1.6%			
1,600,000	BBB	Waste Management Inc., Notes, 7.700% due 10/1/02	1,630,000
Rail/Trucking/Overnight Delivery — 5.4%			
1,000,000	BBB	CSX Corp., Debentures, 7.250% due 5/1/04	1,035,000
1,500,000	A-	DaimlerChrysler North America Holdings Corp., Company Guaranteed, 7.750% due 5/27/03	1,565,625
3,000,000	BBB-	Union Pacific Resources Group Inc., Notes, 6.340% due 11/25/03	3,048,750
			5,649,375
Retail — 9.8%			
2,500,000	A	Costco Wholesale Corp., Sr. Notes, 7.125% due 6/15/05	2,550,000
2,000,000	A	Dayton Hudson Corp., Notes, 6.800% due 10/1/01	2,015,000
2,500,000	AA	Home Depot Inc., Sr. Notes, 6.500% due 9/15/04	2,590,625
500,000	BBB-	JC Penney Inc., Notes, 6.500% due 6/15/02	496,875
2,500,000	AA	Wal-Mart Stores, Notes, 6.875% due 8/1/02	2,562,500
			10,215,000
Telecommunications — 7.3%			
1,500,000	A2*	Qwest Corp., Notes, 7.625% due 6/9/03	1,560,000
3,000,000	BBB+	Sprint Capital Corp., Company Guaranteed, 5.700% due 11/15/03	2,992,500
3,000,000	A3*	WorldCom Inc., Sr. Notes, 6.125% due 8/15/01	3,003,750
			7,556,250
TOTAL CORPORATE BONDS AND NOTES			78,103,034
(Cost — \$76,947,168)			

See Notes to Financial Statements.

Schedule of Investments (unaudited) (continued)**June 30, 2001**

FACE AMOUNT	SECURITY	VALUE
REPURCHASE AGREEMENT — 2.3%		
\$2,407,000	Goldman, Sachs & Co., 3.920% due 7/2/01; Proceeds at maturity — \$2,407,786; (Fully collateralized by U.S. Treasury Bills, Notes and Bonds, 0.000% to 14.250% due 8/6/01 to 8/15/05; Market value — \$2,455,141) (Cost — \$2,407,000)	\$ 2,407,000
TOTAL INVESTMENTS — 100%		
(Cost — \$102,311,173**)		\$104,171,244

(a) All ratings are by Standard & Poor's Ratings Services, except those identified by an asterisk (*) which are rated by Moody's Investors Service, Inc.

† Security is exempt from registration under Rule 144A of the Securities Act of 1933. This security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.

** Aggregate cost for Federal income tax purposes is substantially the same.

See page 10 for definitions of ratings.

See Notes to Financial Statements.

Bond Ratings (unaudited)

The definitions of the applicable rating symbols are set forth below:

Standard & Poor's Ratings Service ("Standard & Poor's") — Ratings from "AA" to "BBB" may be modified by the addition of a plus (+) or minus (–) sign to show relative standings within the major rating categories.

- AAA — Bonds rated "AAA" have the highest rating assigned by Standard & Poor's. Capacity to pay interest and repay principal is extremely strong.
- AA — Bonds rated "AA" have a very strong capacity to pay interest and repay principal and differs from the highest rated issue only in a small degree.
- A — Bonds rated "A" have a strong capacity to pay interest and repay principal although it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher rated categories.
- BBB — Bonds rated "BBB" are regarded as having an adequate capacity to pay interest and repay principal. Whereas they normally exhibit adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than in higher rated categories.

Moody's Investors Service, Inc. ("Moody's") — Numerical modifiers 1, 2 and 3 may be applied to each generic rating from "Aa" to "Baa," where 1 is the highest and 3 the lowest ranking within its generic category.

- Aaa — Bonds rated "Aaa" are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edge." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.
- Aa — Bonds rated "Aa" are judged to be of high quality by all standards. Together with the "Aaa" group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risks appear somewhat larger than in Aaa securities.
- A — Bonds rated "A" possess many favorable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate but elements may be present which suggest a susceptibility to impairment some time in the future.
- Baa — Bonds rated "Baa" are considered as medium grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.
- NR — Indicates that the bond is not rated by Standard & Poor's or Moody's.

Statement of Assets and Liabilities (unaudited)**June 30, 2001****ASSETS:**

Investments, at value (Cost — \$102,311,173)	\$ 104,171,244
Cash	668
Interest receivable	1,388,030

Total Assets	105,559,942
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LIABILITIES:

Payable for securities purchased	4,261,729
Dividends payable	305,895
Management fee payable	41,127
Distribution fees payable	6,662
Accrued expenses	42,970

Total Liabilities	4,658,383
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Total Net Assets**\$100,901,559****NET ASSETS:**

Par value of capital shares	\$ 245,625
Capital paid in excess of par value	107,038,418
Undistributed net investment income	11,640
Accumulated net realized loss on security transactions	(8,254,195)
Net unrealized appreciation of investments	1,860,071

Total Net Assets	\$100,901,559
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Shares Outstanding:

Class A	11,037,966
Class Y	13,524,495

Net Asset Value:

Class A (and redemption price)	\$4.11
Class Y (and redemption price)	\$4.11

See Notes to Financial Statements.

Statement of Operations (unaudited)

For the Six Months Ended June 30, 2001

INVESTMENT INCOME:

Interest	\$ 3,036,188
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EXPENSES:

Management fee (Note 2)	222,579
Distribution fees (Note 2)	77,438
Shareholder and system servicing fees	23,151
Audit and legal	18,466
Registration fees	12,921
Shareholder communications	9,427
Custody	1,667
Directors' fees	390
Other	4,020

Total Expenses	370,059
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Net Investment Income	2,666,129
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REALIZED AND UNREALIZED GAIN ON INVESTMENTS (NOTE 3):

Realized Gain From Security Transactions (excluding short-term securities):	
Proceeds from sales	26,079,300
Cost of securities sold	25,772,302

Net Realized Gain	306,998
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Change in Net Unrealized Appreciation of Investments:	
Beginning of period	1,107,328
End of period	1,860,071

Increase in Net Unrealized Appreciation	752,743
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Net Gain on Investments	1,059,741
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Increase in Net Assets From Operations	\$ 3,725,870
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See Notes to Financial Statements.

Statements of Changes in Net Assets

For the Six Months Ended June 30, 2001 (unaudited)
and the Year Ended December 31, 2000

	2001	2000
OPERATIONS:		
Net investment income	\$ 2,666,129	\$ 5,376,824
Net realized gain (loss)	306,998	(803,838)
Increase in net unrealized appreciation	752,743	2,964,068
Increase in Net Assets From Operations	3,725,870	7,537,054
DISTRIBUTIONS TO SHAREHOLDERS FROM:		
Net investment income	(2,666,129)	(5,377,123)
Decrease in Net Assets From Distributions to Shareholders	(2,666,129)	(5,377,123)
FUND SHARE TRANSACTIONS (NOTE 7):		
Net proceeds from sale of shares	12,619,678	145,393,567
Net asset value of shares issued for reinvestment of dividends	887,905	2,139,220
Cost of shares reacquired	(11,087,194)	(156,530,925)
Increase (Decrease) in Net Assets From Fund Share Transactions	2,420,389	(8,998,138)
Increase (Decrease) in Net Assets	3,480,130	(6,838,207)
NET ASSETS:		
Beginning of period	97,421,429	104,259,636
End of period*	\$100,901,559	\$ 97,421,429
* Includes undistributed net investment income of:	\$11,640	\$11,640

See Notes to Financial Statements.

1. Significant Accounting Policies

The Short-Term High Grade Bond Fund (“Portfolio”), a separate investment portfolio of the Smith Barney Funds, Inc. (“Fund”), a Maryland corporation, is registered under the Investment Company Act of 1940, as amended, as a diversified, open-end management investment company. The Fund consists of the Portfolio and two other separate investment portfolios: Large Cap Value Fund and U.S. Government Securities Fund. The financial statements and financial highlights for the other portfolios are presented in separate shareholder reports.

The significant accounting policies consistently followed by the Portfolio are: (a) security transactions are accounted for on trade date; (b) U.S. government agencies and obligations are valued at the mean between the bid and asked prices; (c) securities for which market quotations are not available will be valued in good faith at fair value by or under the direction of the Board of Directors; (d) securities, other than U.S. government agencies, that have a maturity of more than 60 days are valued at prices based on market quotations for securities of similar type, yield and maturity; (e) securities maturing within 60 days are valued at cost plus accreted discount, or minus amortized premium, which approximates value; (f) interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis; (g) gains or losses on the sale of securities are calculated by using the specific identification method; (h) direct expenses are charged to each class; management fees and general fund expenses are allocated on the basis of relative net assets; (i) dividends and distributions to shareholders are recorded on the ex-dividend date; (j) the Portfolio intends to comply with the applicable provisions of the Internal Revenue Code of 1986, as amended, pertaining to regulated investment companies and to make distributions of taxable income sufficient to relieve it from substantially all Federal income and excise taxes; (k) the character of income and gains distributed are determined in accordance with income tax regulations which may differ from accounting principles generally accepted in the United States of America; and (l) estimates and assumptions are required to be made regarding assets, liabilities and changes in net assets resulting from operations when financial statements are prepared. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ.

2. Management Agreement and Transactions with Affiliated Persons

Smith Barney Fund Management LLC (“SBFM”), formerly known as SSB Citi Fund Management LLC, a subsidiary of Salomon Smith Barney Holdings Inc. (“SSBH”), which, in turn, is a subsidiary of Citigroup Inc. (“Citigroup”), acts as investment manager of the Portfolio. As compensation for its services, the Portfolio pays SBFM a management fee calculated at an annual rate of 0.45% of the Portfolio’s average daily net assets. This fee is calculated daily and paid monthly.

Citi Fiduciary Trust Company (“CFTC”), another subsidiary of Citigroup, acts as the Portfolio’s transfer agent and PFPC Global Fund Services (“PFPC”) acts as the Portfolio’s sub-transfer agent. CFTC receives account fees and asset-based fees that vary according to the size and type of account. PFPC is responsible for shareholder recordkeeping and financial processing for all shareholder accounts and is paid by CFTC. For the six months ended June 30, 2001, the Portfolio paid transfer agent fees of \$13,212 to CFTC.

Salomon Smith Barney Inc. (“SSB”), another subsidiary of SSBH, acts as the primary broker for its portfolio agency transactions. Certain other broker-dealers continue to sell Portfolio shares to the public as members of the selling group.

Pursuant to a Distribution Plan, the Portfolio pays a distribution fee and a service fee with respect to Class A shares calculated at the annual rate of 0.10% and 0.25% of its average daily net assets, respectively.

All officers and one Director of the Fund are employees of Citigroup or its affiliates.

3. Investments

During the six months ended June 30, 2001, the aggregate cost of purchases and proceeds from sales of investments (including maturities, but excluding short-term securities) were as follows:

Purchases	\$30,978,582
Sales	26,079,300

Notes to Financial Statements (unaudited) (continued)

At June 30, 2001, aggregate gross unrealized appreciation and depreciation of investments for Federal income tax purposes were substantially as follows:

Gross unrealized appreciation	\$2,008,343
Gross unrealized depreciation	(148,272)
Net unrealized appreciation	\$1,860,071

4. Repurchase Agreements

The Portfolio purchases (and its custodian takes possession of) U.S. government securities from banks and securities dealers subject to agreements to resell the securities to the sellers at a future date (generally, the next business day) at an agreed-upon higher repurchase price. The Portfolio requires continual maintenance of the market value (plus accrued interest) of the collateral in amounts at least equal to the repurchase price.

5. Reverse Repurchase Agreements

A reverse repurchase agreement involves a sale by the Portfolio of securities that it holds with an agreement to repurchase the same securities at an agreed upon price and date. A reverse repurchase agreement involves the risk that the market value of the securities sold by the Portfolio may decline below the repurchase price of the securities. The Portfolio will establish a segregated account with its custodian, in which the Portfolio will maintain cash, U.S. government securities or other liquid high grade debt obligations equal in value to its obligations with respect to the reverse repurchase agreements.

During the six months ended June 30, 2001, the Portfolio did not enter into any reverse repurchase agreements.

6. Capital Loss Carryforward

At December 31, 2000, the Portfolio had for Federal income tax purposes approximately \$8,558,000 of capital loss carryforwards available to offset future realized gains. To the extent that these capital carryforward losses are used to offset capital gains, it is probable that the gains so offset will not be distributed.

Notes to Financial Statements (unaudited) (continued)

The amount and expiration of the carryforwards are indicated below. Expiration occurs on December 31 of the year indicated:

	2002	2003	2004	2007	2008
Carryforward Amounts	\$3,858,000	\$1,124,000	\$971,000	\$1,804,000	\$801,000

7. Capital Shares

At June 30, 2001, the Fund had two billion shares of capital stock authorized with a par value of \$0.01 per share. The Portfolio has the ability to issue multiple classes of shares. Each share of a class represents an identical interest in the Portfolio and has the same rights, except that each class bears certain expenses specifically related to the distribution of its shares.

At June 30, 2001, total paid-in capital amounted to the following for each class:

	Class A	Class Y
Total Paid-in Capital	\$52,665,660	\$54,618,383

Transactions in shares of each class were as follows:

	Six Months Ended June 30, 2001		Year Ended December 31, 2000	
	Shares	Amount	Shares	Amount
Class A				
Shares sold	1,912,801	\$ 7,870,206	34,657,278	\$ 137,165,796
Shares issued on reinvestment	216,265	887,905	536,836	2,139,211
Shares reacquired	(1,918,342)	(7,882,549)	(37,818,699)	(149,687,544)
Net Increase (Decrease)	210,724	\$ 875,562	(2,624,585)	\$ (10,382,537)
Class Y				
Shares sold	1,155,635	\$ 4,749,472	2,067,118	\$ 8,227,771
Shares issued on reinvestment	—	—	2	9
Shares reacquired	(778,744)	(3,204,645)	(1,723,385)	(6,843,381)
Net Increase	376,891	\$ 1,544,827	343,735	\$ 1,384,399

Financial Highlights

For a share of each class of capital stock outstanding throughout each year ended December 31, unless otherwise noted:

Class A Shares	2001 ⁽¹⁾⁽²⁾	2000 ⁽²⁾	1999 ⁽²⁾	1998 ⁽²⁾	1997	1996
Net Asset Value, Beginning of Period	\$ 4.06	\$ 3.97	\$ 4.13	\$ 4.09	\$ 4.05	\$ 4.19
Income (Loss) From Operations:						
Net investment income	0.10	0.20	0.19	0.20	0.22	0.23
Net realized and unrealized gain (loss)	0.05	0.10	(0.16)	0.04	0.04	(0.14)
Total Income From Operations	0.15	0.30	0.03	0.24	0.26	0.09
Less Distributions From:						
Net investment income	(0.10)	(0.21)	(0.19)	(0.20)	(0.22)	(0.23)
Total Distributions	(0.10)	(0.21)	(0.19)	(0.20)	(0.22)	(0.23)
Net Asset Value, End of Period	\$ 4.11	\$ 4.06	\$ 3.97	\$ 4.13	\$ 4.09	\$ 4.05
Total Return	3.84%‡	7.67%	0.76%	6.07%	6.73%	2.17%
Net Assets, End of Period (millions)	\$45	\$44	\$53	\$69	\$71	\$83
Ratios to Average Net Assets:						
Expenses	1.00%†	1.01%	1.01%	1.04%	0.95%	0.98%
Net investment income	5.10†	5.16	4.70	4.94	5.53	5.62
Portfolio Turnover Rate	27%	91%	88%	150%	145%	130%

(1) For the six months ended June 30, 2001 (unaudited).

(2) Per share amounts have been calculated using the monthly average shares method.

‡ Total return is not annualized, as it may not be representative of the total return for the year.

† Annualized.

Financial Highlights (continued)

For a share of each class of capital stock outstanding throughout each year ended December 31, unless otherwise noted:

Class Y Shares	2001 ⁽¹⁾⁽²⁾	2000 ⁽²⁾	1999 ⁽²⁾	1998 ⁽²⁾	1997	1996 ⁽³⁾
Net Asset Value, Beginning of Period	\$ 4.06	\$ 3.97	\$ 4.13	\$ 4.09	\$ 4.05	\$ 4.19
Income (Loss) From Operations:						
Net investment income	0.11	0.23	0.21	0.22	0.24	0.22
Net realized and unrealized gain (loss)	0.05	0.08	(0.16)	0.04	0.04	(0.14)
Total Income From Operations	0.16	0.31	0.05	0.26	0.28	0.08
Less Distributions From:						
Net investment income	(0.11)	(0.22)	(0.21)	(0.22)	(0.24)	(0.22)
Total Distributions	(0.11)	(0.22)	(0.21)	(0.22)	(0.24)	(0.22)
Net Asset Value, End of Period	\$ 4.11	\$ 4.06	\$ 3.97	\$ 4.13	\$ 4.09	\$ 4.05
Total Return	4.07%‡	8.18%	1.26%	6.56%	7.20%	2.08%‡
Net Assets, End of Period (millions)	\$56	\$53	\$51	\$45	\$30	\$32
Ratios to Average Net Assets:						
Expenses	0.54%†	0.54%	0.53%	0.56%	0.50%	0.58%†
Net investment income	5.57†	5.65	5.19	5.42	6.00	5.99†
Portfolio Turnover Rate	27%	91%	88%	150%	145%	130%

(1) For the six months ended June 30, 2001 (unaudited).

(2) Per share amounts have been calculated using the monthly average shares method.

(3) For the period from February 7, 1996 (inception date) through December 31, 1996.

‡ Total return is not annualized, as it may not be representative of the total return for the year.

† Annualized.

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