STATE OF CONNECTICUT
OFFICE OF THE TREASURER

2001

SHORT-TERM INVESTMENT FUND
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ended June 30, 2001

Office of the State Treasurer

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SHORT-TERM INVESTMENT FUND
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR FISCAL YEAR ENDED JUNE 30, 2001

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December 4, 2001

To the Participants of Connecticut's Short-Term Investment Fund:

I am pleased to provide you with this Comprehensive Annual Financial Report of the Treasurer's Short-Term Investment Fund (STIF) for the fiscal year ended June 30, 2001.

The Connecticut Treasurer's Short-Term Investment Fund, created in 1972, is a state and local government investment fund with approximately $4.6 billion in assets as of June 30, 2001. Investors in the Fund include the State Treasurer, State agencies and authorities, municipalities, and other political subdivisions of the State.

The primary objective of the Fund is to provide the greatest income as is consistent with, first, the safety of principal and, second, the provision of liquidity. The Fund's Investment Policy ensures strong asset diversification by security type and issuer, comprised of high-quality, very liquid securities with a relatively short average maturity. In addition, the Fund maintains a Designated Surplus Reserve, which approximates one percent of Fund assets, to protect against security defaults or the erosion of security values due to any significant unforeseen market changes. The Fund has never drawn against this reserve. (See Investment Policy, page 20).

Year 2001 Highlights

Fiscal year 2001 was a strong year for STIF. The Fund earned 6.11 percent, exceeding the average return of similar funds by 37 basis points. As a result, Connecticut's governments and their taxpayers benefited from an additional $16 million in interest income.

STIF assets under management grew during the year from approximately $3.7 billion to $4.6 billion. STIF assets reached a record level of $5.3 billion in April 2001. Net investment income grew $41.1 million, from $212.8 million in fiscal year 2000 to $254.1 million in fiscal year 2001. Administrative expenses remained at an extremely low level, approximately three basis points of average net assets. (More detailed data may be found on page 29.)

As of June 30, 2001, STIF administered 897 accounts for 60 State agencies and authorities and 244 municipalities and local entities. STIF added 85 local accounts with $90 million of assets in fiscal year 2001, an increase of 20 percent from fiscal year 2000.

Additionally, we have continued to make financial information readily accessible to investors by providing monthly STIF yields and quarterly reports on the Internet. This Annual Report, and an annual meeting scheduled for January 18, 2002, is offered to provide a more comprehensive understanding of the STIF investment record. Additional access to this report will be made available through the Internet at www.state.ct.us/ott.

Outside Reviews

STIF's AAAm rating by Standard & Poor's (S&P), the leading rating agency of money market funds and local government investment pools, was reaffirmed in November 2000. The AAAm rating, Standard & Poor's highest money fund rating, is based on an analysis of the pool's management, investment guidelines, portfolio holdings and market price exposure. This rating, in S&P's view, "signifies that safety of invested principal is excellent and there is a superior capacity to maintain a $1 per share net asset value at all times." In addition, S&P monitors our portfolio on a weekly basis to ensure that we maintain the safety and liquidity you deserve.

STIF's portfolio is also reviewed by the Investment Advisory Council and the Treasurer's Cash Management Advisory Board periodically throughout the year.

In addition, we once again received a Certificate of Achievement for Excellence in Financial Reporting for our Comprehensive Annual Financial Report from the Government Finance Officers Association of the United States and Canada (GFOA).

Report Contents

This report was prepared in its entirety by the Connecticut State Treasurer's Office and we take full responsibility for the accuracy of the data and the completeness and fairness of the presentation of the financial statements, supporting schedules, investment performance information, and the statistical tables in it. The report contains four sections:

- The Introductory Section contains the Letter of Transmittal, the Management Report, the GFOA certificate, an organizational chart, and a list of principal officials.

- The Investment Section contains a comprehensive discussion of the Fund's investment performance and operations including:
  - Historical data on performance, portfolio characteristics, and asset growth;
  - Performance comparisons to the Fund's money market mutual fund benchmark, as well as to the Three-Month Treasury Bill (T-Bill) and Three-Month Certificates of Deposit (CD) benchmarks;
  - Analysis of the fiscal year's economic conditions and their impact on STIF's performance;
  - Questions and answers on topical issues related to STIF
  - The investment portfolio of STIF as of June 30, 2001; and
  - The Fund's investment policy statement.

- The Financial Section contains the opinion of the State of Connecticut Auditors of Public Accounts on our financial statements and the financial statements of STIF.

- The Statistical Section includes a historical table of STIF assets under management and asset growth rate, a historical table of STIF earned rates, a comprehensive glossary of investment terms, a performance presentation compiled in conformance with the standards established by the Association of Investment Management & Research (AIMR), and the Level II Verification Report of Deloitte & Touche LLP on the performance presentation.

The performance presentation formats and disclosures contained in this report are a synthesis of techniques used by public and private sector reporting entities as well as recommendations from the GFOA. Similarly, the financial statements and disclosures reflect a comprehensive effort by Treasury staff to integrate all appropriate accounting and disclosure standards, as well as the newest disclosures required by generally accepted accounting principles (GAAP).

We will remain vigilant in safeguarding and prudently investing the operating cash of the State Treasury, state agencies and authorities, municipalities, and other political subdivisions of the State, which invest in STIF pursuant to CGS 3-27a - 3-27f. Moreover, we will continue to seek the highest level of income possible within prudent parameters established to protect principal and to provide liquidity to meet investors' daily cash flow requirements.

Finally, we will endeavor to develop new ways to further expand and improve the level and quality of the services we provide. For example, during the next year we plan to continue to explore ways in which we can communicate with our investors through e-mail and the Internet.

We appreciate your participation in the Short-Term Investment Fund, and hope that the information provided here will prove to be both interesting and helpful.

Sincerely,

Denise L. Nappier
Treasurer
State of Connecticut

MANAGEMENT'S REPORT

Connecticut State Treasury
Hartford, Connecticut
October 15, 2001

The Office of the Treasurer assumes the daily responsibility of managing the assets of the Short-Term Investment Fund (STIF) pool. State Street Bank and Trust Company serves as custodian for the pool. All investments must be made in instruments authorized by Connecticut General Statutes (CGS) 3-27c - 3-27f. The most recent guidelines under which the pool operates were adopted and approved by the State Treasurer on August 21, 1996. It is our belief that the contents of this Annual Report make evident the State of Connecticut Treasurer's Office support of the safe custody and conscientious stewardship of the Short-Term Investment Fund.

While STIF's financial statements and the related financial data contained in this Annual Report have been prepared in conformity with generally accepted accounting principles as a "2a7-like" pool, and such financial statements are audited annually by the State Auditors of Public Accounts, the ultimate accuracy and validity of this information is the responsibility of the management of the State Treasurer's Office. To carry out this responsibility, the Treasury maintains financial policies, procedures, accounting systems and internal controls which management believes provide reasonable, but not absolute, assurance that accurate financial records are maintained and investments and other assets are safeguarded.

In management's opinion, STIF's internal control structure is adequate to ensure that the financial information in this report presents fairly STIF's operation and financial condition.

Howard G. Rifkin
Deputy Treasurer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Connecticut State Treasurer's Short-Term Investment Fund

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2000

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

Mission Statement

To serve as the premier State Treasurer's Office in the nation through effective management of public resources, high standards of professionalism and integrity, and expansion of opportunity for the citizens and businesses of Connecticut.

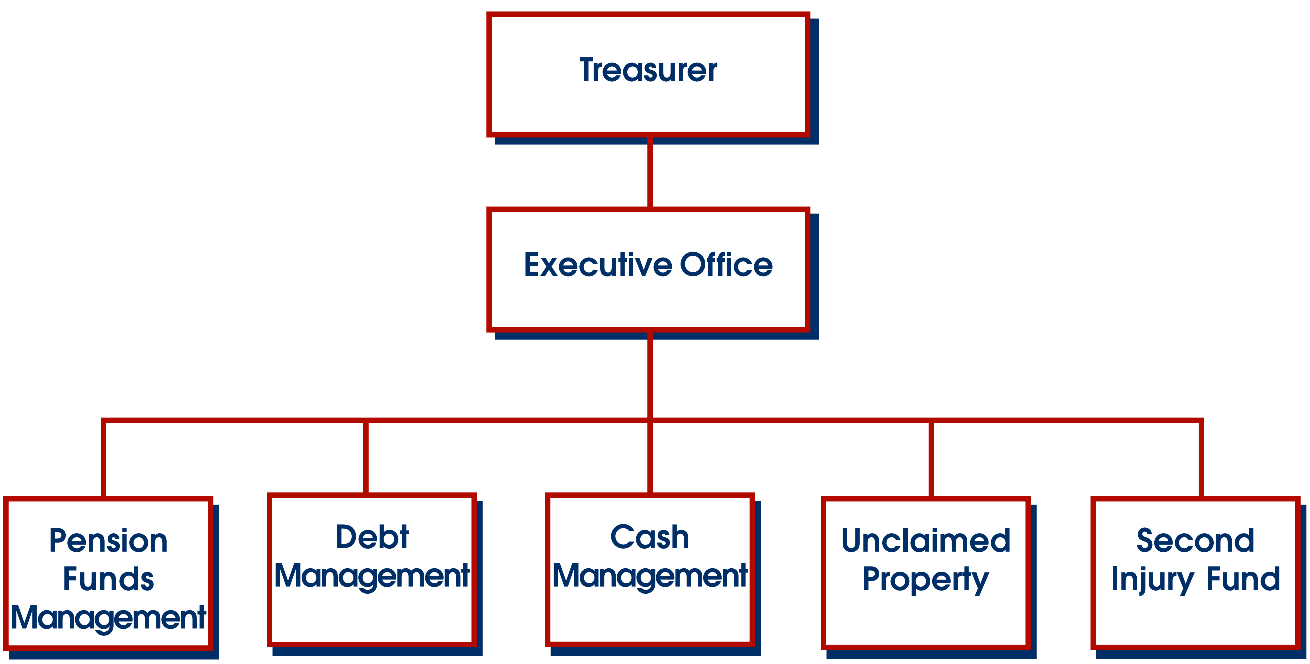
Statutory Responsibility

The Office of the Treasurer was established following the adoption of the fundamental orders of Connecticut in 1638. The Treasurer shall receive all funds belonging to the state and disburse the same only as may be directed by law, as described in Article Fourth, Section 22 of the Connecticut Constitution and in Title 3 of the Connecticut General Statutes.

The Treasurer is the Chief Fiscal Officer for the State government, overseeing a wide variety of activities regarding the prudent preservation and management of State funds. This includes the administration of a portfolio of pension assets of approximately $20 billion and a short-term investment fund with an average daily balance of over $4 billion.

Public Service

The Office of the Treasurer includes an Executive Office as well as five divisions, each with specific responsibilities: Pension Funds Management, Cash Management, Debt Management, Unclaimed Property, and the Second Injury Fund.



CASH MANAGEMENT ADVISORY BOARD

Barbara A. Czaplicki
William P. Desautelle
J. Victor Thompson

DENISE L. NAPPIER
Treasurer
State of Connecticut

INVESTMENT ADVISORY COUNCIL

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Reginald U. Martin
George H. Mason
Jeffrey H. Mockler
Densie L. Nappier
Sharon M. Palmer
Henry E. Parker
Clarence L Roberts., Jr.
Marc S. Ryan
Rosalyn B. Schoonmaker
Carol M. Thomas

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Assistant Treasurer
Cash Management Division

HAROLD W. JOHNSON, CFA
Principal Investment Officer

STATE STREET BANK AND TRUST CORP.
MASTER CUSTODIAN AND INVESTOR SERVICES

PAUL A. COUDERT
Investment Officer

MARC R. GAGNON
Investment Accounting Analyst

BARBARA SZUBA
Accountant

As of October 15, 2001.

SHORT-TERM INVESTMENT FUND

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2001 short-term investment fund

Fund Facts at June 30, 2001

Investment Strategy/Goals: To provide a safe, liquid and effective investment vehicle for the operating cash of the State, municipalities and other Connecticut political subdivisions.

Performance Objective: As high a level of current income as is consistent with, first, the safety of principal and , second, the provision of liquidity.

Benchmark: IBC First Tier Instituions-Only Rated Money Fund Report Index (IBC). Federal Reserve Three-Month CD, Federal Reserve Three-Month T-Bill.

Date of Inception: 1972

Total Net Assets: $4,550,113,508

Internally Managed

External Management Fees: None

Expense Ratio: Less than 3 basis points (includes internal management and personnel salaries).

Investment Results Review

Description of the Fund

The Treasurer's Short-Term Investment Fund ("STIF" or the "Fund") is a AAAm rated investment pool of high-quality, short-term money market instruments managed by the Treasurer's Cash Management Division. Created in 1972, it serves as an investment vehicle for the operating cash of the State Treasury, State agencies and authorities, municipalities, and other political subdivisions of the State. (See figure 11-1.) STIF's objective is to provide as high a level of current income as is consistent with, first, the safety of principal and, second, the provision of liquidity to meet participants' daily cash flow requirements. During the 2001 fiscal year, STIF's portfolio averaged $4.3 billion.

STIF employs the basic strategy of buying on market weakness. For example, when interest rates rise, STIF is in the market taking advantage of higher yields. To ensure sufficient liquidity to fund unexpected participant withdrawals, STIF closely monitors its "average maturity," based upon time to maturity or interest rate reset date of all securities in the portfolio. (See figure 11-2.) Over the long-term, STIF continually analyzes expectations of future interest rate movements and changes in the shape of the yield curve to ensure the most prudent and effective short-term money management for its clients. Ongoing credit analysis enables STIF to enhance its yield by identifying high-quality credits in undervalued sectors of the economy.

STIF pays interest monthly based on the daily earnings of the Fund less Fund expenses and an allocation to the Fund's Designated Surplus Reserve. The daily reserve allocations equal one-tenth of one percent of the Fund's daily balances divided by the number of days in the year, until the reserve totals one percent of the Fund's daily balance. This reserve, currently just under $37.7 million, contributes significantly to STIF's low risk profile.

To help the Fund and its customers evaluate performance STIF compares its returns to a set of three indices. The first index is the IBC First Tier Institutions-Only Rated Money Fund Report Index ("IBC Index"). This index represents an average of institutional money market mutual funds rated AAA or AA that invest primarily in first-tier (securities rated A-1, P-1) taxable securities. While STIF's investment policy allows for somewhat greater flexibility than these SEC-registered funds, the IBC Index is the most appropriate benchmark against which to judge STIF's performance.

STIF's yields are also compared to the Federal Reserve three-month T-Bill rate and the Federal Reserve three-month CD rate. The former index is used to measure STIF's effectiveness in achieving yields in excess of a "risk-free" investment. The latter is shown for the benefit of STIF investors, many of whom invest in bank certificates of deposit. In viewing these indices, it is important to keep in mind that yields of the CD index will exceed those of the T-Bill index due to a CD's slightly higher risk profile and comparatively lower liquidity. Furthermore, indices are "unmanaged" and are not affected by management fees or operating expenses. (See figure 11-3.)

Among the Fund's several achievements during the 2001 fiscal year was the continuation of a AAAm rating by Standard & Poor's in December 2000. This rating is S&P's highest for money market funds and investment pools and signifies its conclusion that the Fund's safety of investors' principal is excellent and that superior capacity exists to maintain a $1 per share net asset value at all times. (See figure 11-4.)

Risk Profile

STIF is considered extremely low risk for several reasons. First, its portfolio is comprised of high-quality, highly liquid securities which insulate the Fund from default and liquidity risk. Second, its relatively short average maturity reduces the Fund's price sensitivity to changes in market interest rates. Third, STIF has a strong degree of asset diversification by security type and issuer, as required by its investment policy, strengthening its overall risk profile. And finally, STIF's reserve, which totals approximately one percent of Fund assets is available to protect against security defaults or the erosion of security values due to dramatic and unforeseen market changes. While this reserve has never been drawn upon during STIF's 29-year history, this added layer of security preserves the Fund's low risk profile. As the chosen short-term investment vehicle for the operating cash of the State, STIF has the ultimate confidence of the State government.

While STIF is managed diligently to protect against losses from credit and market changes, the Fund is not insured or guaranteed by any government. Therefore, the maintenance of capital cannot be fully assured.

Portfolio Composition

Throughout the year, STIF closely monitored the activities of the Federal Reserve and other economic indicators, adjusting the Fund's portfolio and characteristics as required. At the beginning of the fiscal year, STIF's weighted average maturity equaled 30 days. During the year the funds average maturity ranged from 9 to 41 days as market rates fluctuated. At the end of the 2001 fiscal year, the average maturity was 29 days, since there was little incentive to extend as the yield curve flattened.

STIF's assets continued to be well diversified across the spectrum of available short-term securities throughout the year. The Fund ended the year with an 85 percent concentration in investments rated A-1+ or AAA (the highest ratings of Standard & Poor's) or overnight repurchase agreements. Sixty-six percent of the Fund was invested in securities with maturities, or interest rate reset dates for adjustable rate securities, of less than 30 days, versus the 85 percent at the previous year-end. The Fund's three largest security weightings included securities-backed commercial paper (37.6 percent), fully-supported commercial paper (21.3 percent) and bank notes (9 percent), respectively. (See figure 11-5.)

Performance Summary

For the one-year period ended June 30, 2001, STIF reported an annual total return of 6.11 percent, net of operating expenses and allocations to Fund reserves.[(1)] Annual total return measures the total investment income a participant would earn with monthly compounding at the Fund's monthly net earned rate during the year. This figure exceeded that achieved by its benchmark, the IBC index, which equals 5.74 percent, by 37 basis points, as well as three-month T-Bills, which yielded 5.26 percent and three-month CDs, which yielded 5.64 percent. Principal reasons for STIF's strong performance include low overall expenses, its effective security selection and fluctuating average life in response to the changing interest rate environment.

Over the long-term, STIF has performed exceptionally well. For the trailing three-, five-, seven-, and ten-year periods, STIF's compounded annual total return was 5.83 percent, 5.79 percent, 5.79 percent, and 5.38 percent, net of operating expenses and contributions to reserves, exceeding returns of each of its benchmarks for all time periods. Viewed on a dollar-for-dollar basis, had one invested $10 million in STIF ten years ago, that investment would have been worth $16.9 million at June 30, 2001, versus $16.1 million for a hypothetical investment in the IBC Index. (See figure 11-6.)

(1) The rates of return were calculated in conformance with the performance standards of the Association for Investment Management and Research and verfied with a Level II report by an independent public accounting firm. (See Notes 2 and 3 on page 38.)

Beyond management's effective security selection, STIF's extremely low cost structure contributed significantly to these returns. While STIF's operating expenses stand at three basis points, or 0.03 percent of average net assets, the average rated institutional money market mutual fund charges its investors approximately 39 basis points. Reducing costs is the most prudent and safest way to increase yield. Thus, STIF has a risk-free advantage, shared by all its investors, of 26 basis points after deducting 3 basis points of operating expenses and the 10 basis points annual allocation to the Fund's Designated Surplus Reserve.

During the fiscal year, STIF assets under management grew from $3.7 billion to $4.6 billion, an increase of approximately $900 million. The principal reason for this growth was an overall increase in State cash balances of nearly $500 million and just over $400 million of new investment in the Fund from its municipal and local customers.

Economic Report for Fiscal Year 2001

Fiscal Year 2001 began with the Federal Reserve (Fed) in a tightening mode in order to slow down an economy that it feared was overheating. At that time the market was forecasting at least two more rate increases by the Fed before the end of the calendar year. The fiscal year (FY) ended with the economy slowing, the Fed having an easing bias, and the market concerned that the Fed might have tightened too much in the previous year, thus causing the U.S. economy to experience a recession, ending the longest economic expansion in its history.

After sitting on the sidelines for the first half of FY01, the Fed began to ease aggressively in early January 2001. On January 3, the Fed lowered the Fed Funds rate by 50 basis points (BP) in a surprise inter-meeting move. By the end of FY01, the Fed had lowered the Fed Funds rate by 275 BP, from 6.5 percent to 3.75 percent, in six moves, including two unusual inter-meeting adjustments. This is the most aggressive lowering of short-term rates by the Fed since the early 1980's, and on a percentage basis it is the most aggressive that the Fed has ever been in decreasing short-term interest rates. These easing moves by the Fed more than wiped out the Fed's 175 BP tightening during the previous year, from June 1999 to May 2000, which was done in order to slow down the economy.

Inflation during FY01 was moderate. Using the Consumer Price Index (CPI) as a proxy, prices rose by 3.2 percent in FY 01. Core CPI (excluding the volatile food and energy sectors) was even better, at 2.8 percent. The Gross Domestic Product (GDP) Deflator, the broadest measure of inflation, came in at 2.3 percent for FY01. In FY00, CPI was actually higher, at 3.7 percent, but that was primarily due to the sharp increase in energy cost. Core CPI in FY 00 was only 2.5 percent and the GDP Deflator was 2.3 percent, the same as in FY01.

Interest rates on short-term securities declined dramatically during the year. Rates on three month Certificates of Deposit (CD's) declined from approximately 6.70 at the beginning of FY01 to around 3.70 at the end. Most of the decrease in short-term rates came in the second half of FY01 when yields on short-term securities collapsed. Two hundred and fifty BP of the 300 BP decline during FY01 occurred during the last six months of the fiscal year.

In the 1990's American companies invested heavily in technology, which helped improve productivity and contributed to the extremely strong U.S. economy in the late 90's. Now the technology sector, which before had seemed unassailable, is presently the area that is dragging the economy down. GDP growth in FY01 was only 1.2 percent, the slowest growth rate since the 1990-91 recession. By comparison, GDP growth in fiscal year 2000 was 5.25 percent.

Business investment represents approximately one-eighth of America's GDP. In the fourth quarter of FY01, capital spending by businesses, led by technology companies, declined by an annual rate of 13.6 percent, the steepest decline in 19 years.

By lowering interest rates the Fed has made it easier for companies to borrow money, and companies have responded by increasing their bond issuance dramatically. In the first two-thirds of calendar year 2001, in response to the Fed's lowering of interest rates, non-financial companies have issued $195 billion in bonds, surpassing the $153 billion in 1998, which had been the previous record for a full year.

The Fed can lower rates and make it easier for corporations to borrow, but it cannot make them invest the proceeds in plant and equipment. The decline in capital spending during FY01 demonstrates that companies are using the monies received from bond sales for purposes other than investment, mainly to strengthen their balance sheets. The Wall Street Journal (WSJ) reports, for example, that Carpenter Technology Corporation of Pennsylvania issued $100 million in 10-year notes and used the monies to pay down existing credit lines instead of on capital spending. Considering the uncertain state of the economy, Carpenter and many other companies see this as the more prudent thing to do.

While the U.S. economy as a whole did not experience a recession in FY01, the manufacturing sector has, declining every month from October 2000 until the end of the year. Employment in manufacturing declined by 755,000 in FY01. Interestingly, most of the layoffs have been in larger companies. Smaller manufacturer's have not been as quick to lay off workers, and this has helped sustain the U.S. economy. The WSJ gives the following reasons why small companies have been less willing to lay off their workers than larger ones.

1. They do not have public shareholders worried about the latest quarterly earnings reports.
2. They had a hard time getting qualified workers in the late 90's due to the severe labor shortage, and are concerned that they will be left without much-needed talent when the economy strengthens.
3. The owners have loyalty to their employees and the local communities where many of them live.
4. After eight years of prosperity, the owners can afford to put more money in their companies.

Despite the weakness in the U.S. economy, the dollar remained strong during FY01, though it weakened somewhat in the first quarter of FY02. A strong dollar is a double-edged sword for the American economy. On one hand, it helps keep inflation down making it easier for the Fed to lower interest rates to help stimulate the economy. On the other hand, it makes it harder for U.S. exporters to sell their products abroad, or for domestic producers to compete with lower cost imports. The dollar remained strong because many of the economies in the rest of the world were weak, and in times of uncertainty America is considered a safe haven.

Outlook for Fiscal Year 2002

The Fed lowered both the Fed Funds rate and the largely symbolic discount rate by 25 BP at its first meeting in FY02 and left open the possibility of further easings if deemed necessary to aide the weakening economy. Further easings came sooner and steeper than expected because of the September 11 terrorist attacks on the World Trade Center and the Pentagon. In its third inter-meeting move this calendar year, the Fed lowered the Fed Funds rate by 50 BP just before the stock market reopened on the morning of September 17. Fifteen days later, at its October 2 meeting, the Fed eased again by 50 BP, bringing the funds rate down to its lowest level since the Kennedy administration. The Fed left open the possibility of more easings, if necessary, to turn the economy around. In addition the Federal Government is increasing direct spending and will lower taxes further, possibly by as much as $100 billion. All of these actions should cause the economy to turn around during the first half of calendar 2002, barring further serious terrorist attacks.

Some economists are concerned that the U.S., Europe and Japan could have a synchronized recession. Without any economy to act as an engine, a recession could last longer than expected. There is also a concern by some economists that the U.S. could experience a liquidity trap, in which case the Fed's lowering of short-term interest rates would be just pushing on a string.

Though the concerns mentioned above could materialize, the most likely scenario is that the economy will remain sluggish for the rest of the calendar year and then improve in the second half of FY02. Some economists see interest rates staying low for a longer period in this cycle than in the past due to economic weaknesses in Japan and Europe.

Q. Is the US going to emulate Japan's dismal economic performance in the 1990's?

A. While there are many similarities between the U.S. and Japan, there are even more differences. As was recently noted in a Wall Street Journal article, Japan was considered the economic powerhouse of the 1980's, as was the U.S. in the 90's. Both countries overinvested and the good times ended with a severe decline in the stock market of each country. At that point, our dissimilarities emerge. The U.S. has a growing population with heavy immigration. The American economy is more open than Japan's. US policy makers and companies seem more willing to endure short-term pain to tackle economic problems than they are in Japan. Japan had two economic bubbles burst: the stock market and real estate, which laid low its banks. The U.S. has only had the stock market decline. Real estate has performed well and America's banking system remains strong. In addition, the U.S. has had the advantage of learning from the mistakes the Japanese have made in the last decade. Most economists and U.S. policy makers are confident that with tax cuts and increased fiscal spending, the recession will be short and the economy should improve by the end of FY02. Of course, as the WSJ points out, the Japanese were no less confident about their economy a decade ago than the U.S. is now.

Q. How have the September 11 attacks affected the economy?

A. Before September 11, the U.S. was skirting a recession. Since then most economists believe that a recession has become inevitable. Consumers became afraid to fly, hurting not only airlines but also hotels and regions of the country that depend on tourism. This in turn has had a snowballing effect, harming other parts of the economy.

Q. Have the September 11 attacks on the World Trade Center and the Pentagon affected STIF?

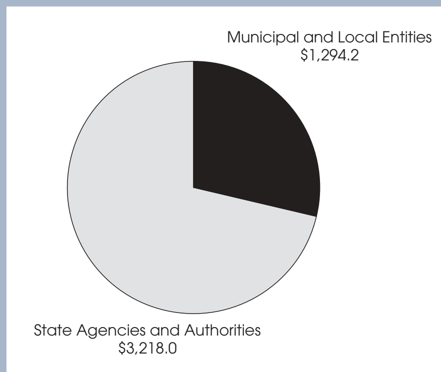
A. By causing further deterioration in an already weakening economy, the attacks on the World Trade Center and the Pentagon caused the Fed to lower interest rates by more than it originally planned. This, in turn, decreased the yield that STIF is able to pay its participants.

Q. Will the effects of the attacks be long lasting?

A. Though one can never with certainty predict the future, the U.S. has a large, strong, diversified and technologically-advanced economy that, in the long run, should not only easily handle the effects of the September 11 attacks, but should also be able to handle the consequences of the war on terrorism.

Figure 11-1

SHORT-TERM INVESTMENT FUND
Ownership Analysis at June 30, 2001 ($ in millions)



TERF - Teachers' Retirement Fund
SERF - State Employees Retirement Fund
MERF - Connecticut Municipal Employees' Retirement Fund

Figure 11-2

SHORT-TERM INVESTMENT FUND
Maturity Analysis

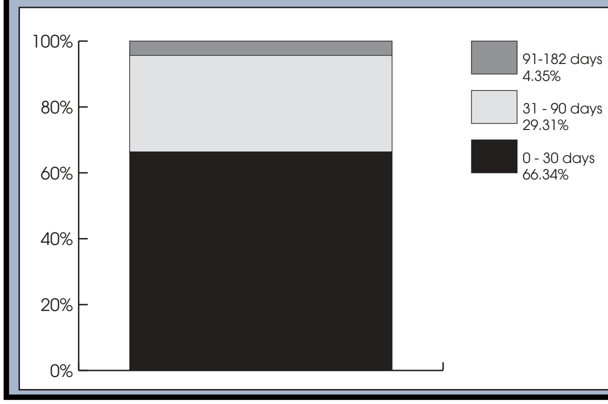


Figure 11-3

SHORT-TERM INVESTMENT FUND
Quarterly Yield vs. Benchmark

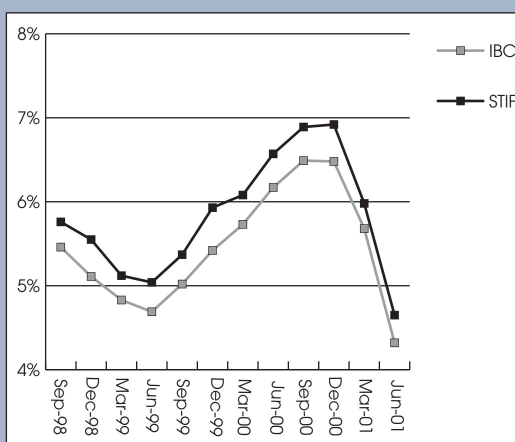


Figure 11-4

SHORT-TERM INVESTMENT FUND
Distribution by Quality Rating at June 30, 2001
Based on Investments in Securities, at Value

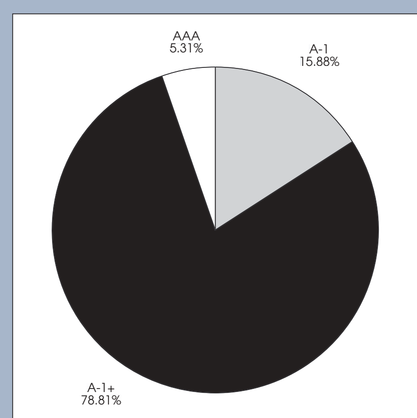


Figure 11-5

SHORT-TERM INVESTMENT FUND
Distribution by Security Type at June 30, 2001

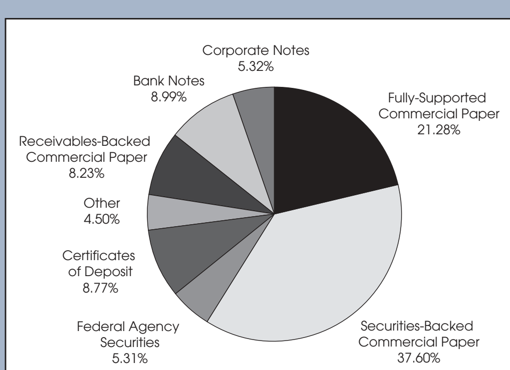


Figure 11-6

SHORT-TERM INVESTMENT FUND
Period ending June 30, 2001

	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs
Compounded Annual Total Return (%)					
STIF	6.11	5.83	5.79	5.79	5.38
IBC Index*	5.74	5.45	5.42	5.41	4.86
Fed. Three-Month T-Bill	5.26	5.07	5.11	5.18	4.72
Fed. Three-Month CD	5.64	5.59	5.61	5.59	5.07
Cumulative Total Return (%)					
STIF	6.11	18.53	32.53	48.30	68.94
IBC Index*	5.74	17.26	30.22	44.61	60.68
Fed. Three-Month T-Bill	5.26	16.00	28.30	42.39	58.57
Fed. Three-Month CD	5.64	17.72	31.35	46.33	63.99

LIST OF INVESTMENTS AT JUNE 30, 2001

Par Value	Security (Coupon, Maturity or Reset Date)	Yield %	Amortized Cost	Fair Value	Asset ID	Quality Rating
BANKERS' ACCEPTANCES (0.22% of total investments)						
$10,000,000	First Union 3.70, 12/4/01	3.76	$9,839,667	$9,839,670	32099S004	A-1
$10,000,000	**TOTAL**		**$9,839,667**	**$9,839,670**		
CERTIFICATES OF DEPOSIT (8.77% of total investments)						
$50,000,000	CitiBank 4.23, 8/1/01	4.23	$50,000,000	$50,000,000	17303W008	A-1+
50,000,000	CitiBank 4.24, 8/2/01	4.24	50,000,000	50,000,000	17303W008	A-1+
50,000,000	CitiBank 4.00, 8/15/01	4.00	50,000,000	50,000,000	17303W008	A-1+
50,000,000	CitiBank 3.94, 8/21/01	3.94	50,000,000	50,000,000	17303W008	A-1+
50,000,000	Commerzbank 4.03, 8/15/01	4.03	50,000,000	50,000,000	20259V008	A-1+
50,000,000	Commerzbank 4.03, 8/15/01	4.03	50,000,000	50,000,000	20259V008	A-1+
100,000,000	Union Bank of Switzerland 4.015, 8/14/01	3.98	100,001,815	100,001,815	90261E005	A-1+
$400,000,000	**TOTAL**		**$400,001,815**	**$400,001,815**		
BANK NOTES (8.99% of total investments)						
$50,000,000	Banc One 4.12, 5/10/04	4.05	$50,000,000	$50,094,000	06423EMD4	A-1
50,000,000	BankAmerica 4.03, 9/6/01	3.85	50,000,000	50,016,000	06050TCE0	A-1+
25,000,000	Fleet Bank 4.25, 8/10/01	3.85	25,000,000	25,011,000	33901MHB1	A-1
25,000,000	Fleet Bank 4.32, 9/27/01	4.01	25,000,000	25,019,250	33901MJV5	A-1
3,755,000	Fleet Bank 3.90, 7/31/02	3.83	3,753,225	3,757,779	33901MMV1	A-1
10,000,000	Fleet Bank 4.59, 8/2/02	4.39	10,000,000	10,026,100	33901MEP3	A-1
15,000,000	Fleet Bank 4.59, 8/2/02	4.39	15,000,000	15,039,150	33901MEP3	A-1
50,000,000	National City Bank 4.02, 11/7/02	3.97	49,987,263	50,032,000	634902FP0	A-1
25,000,000	National City Bank 4.02, 11/7/02	3.97	24,996,777	25,023,000	634902FU9	A-1
50,000,000	National City Bank 4.02, 11/7/02	3.97	49,993,555	50,046,000	634902FU9	A-1
50,000,000	National City Bank 4.00, 1/13/03	3.97	49,985,492	50,022,000	634906AM3	A-1
50,000,000	National City Bank 4.00, 1/13/03	3.97	49,989,118	50,022,000	634906AM3	A-1
6,000,000	NationsBank 4.34, 7/27/01	4.34	6,001,207	6,002,232	63858JEC9	A-1+
$409,755,000	**TOTAL**		**$409,706,637**	**$410,110,511**		
FULLY-SUPPORTED COMMERCIAL PAPER (21.28% of total investments)						
$50,000,000	Ariesone Metafolio Corp 4.03, 7/5/01	4.03	$49,977,611	$49,977,611	04037L003	A-1
50,000,000	Ariesone Metafolio Corp 4.03, 7/5/01	4.03	49,977,611	49,977,611	04037L003	A-1
34,606,000	Ariesone Metafolio Corp 4.03, 7/5/01	4.03	34,590,504	34,590,504	04037L003	A-1
50,000,000	CXC Inc 4.28, 7/9/01	4.28	49,952,444	49,952,444	12672L006	A-1+
13,400,000	CXC Inc 4.28, 7/9/01	4.28	13,387,255	13,387,255	12672L006	A-1+
51,000,000	CXC Inc 4.27, 7/11/01	4.28	50,939,508	50,939,508	12672L006	A-1+
75,000,000	CXC Inc 4.25, 7/17/01	4.26	74,858,333	74,858,333	12672L006	A-1+
1,750,000	CXC Inc 4.02, 8/27/01	4.05	1,738,861	1,738,861	12672L006	A-1+
10,000,000	Enterprise Funding 3.99, 7/31/01	4.00	9,966,750	9,966,750	29371J009	A-1+
25,000,000	Enterprise Funding 3.68, 9/28/01	3.71	24,772,556	24,772,550	29371J009	A-1+
35,000,000	Exelsior Inc 4.00, 7/9/01	4.00	34,968,889	34,968,889	30161T009	A-1+
65,000,000	Exelsior Inc 4.00, 7/10/01	4.00	64,935,000	64,935,000	30161T009	A-1+
408,000	Exelsior Inc 5.03, 7/11/01	5.04	407,430	407,430	30161T009	A-1+
1,500,000	Forrestal Funding 3.75, 8/24/01	3.77	1,491,563	1,491,563	34599W006	A-1+
5,787,000	Intrepid Funding 3.75, 8/24/01	3.77	5,754,448	5,754,448	4611W3009	A-1+
20,000,000	KittyHawk Funding 4.29, 7/2/01	4.29	19,997,617	19,997,617	49833M002	A-1+
50,000,000	KittyHawk Funding 4.05, 7/13/01	4.06	49,932,500	49,932,500	49833M002	A-1+
20,041,000	KittyHawk Funding 4.05, 7/13/01	4.06	20,013,945	20,013,945	49833M002	A-1+
22,352,000	KittyHawk Funding 3.72, 10/19/01	3.76	22,097,932	22,097,925	49833M002	A-1+
50,000,000	KZH-KMS Corp 4.02, 7/12/01	4.02	49,938,583	49,938,583	4827U3603	A-1+
50,000,000	KZH-KMS Corp 4.02, 7/12/01	4.02	49,938,583	49,938,583	4827U3603	A-1+
28,632,000	KZH-KMS Corp 4.02, 7/12/01	4.02	28,596,830	28,596,830	4827U3603	A-1+
25,088,000	Old Slip Funding 4.02, 7/2/01	4.02	25,085,199	25,085,199	68028T002	A-1+
25,205,000	Old Slip Funding 3.70, 9/28/01	3.73	24,974,444	24,974,450	68028T002	A-1+
50,000,000	Steamboat Funding 3.83, 7/10/01	3.83	49,952,125	49,952,125	85788L003	A-1+
28,399,000	Steamboat Funding 3.83, 7/10/01	3.83	28,371,808	28,371,808	85788L003	A-1+
50,000,000	Steamboat Funding 3.75, 7/19/01	3.76	49,906,250	49,906,250	85788L003	A-1+
35,635,000	Steamboat Funding 3.75, 7/19/01	3.76	35,568,184	35,568,184	85788L003	A-1+
48,405,000	Tulip Funding 3.70, 11/8/01	3.75	47,758,255	48,242,311	89929T008	A-1+
$972,208,000	**TOTAL**		**$969,851,020**	**$970,335,068**		
LOAN-BACKED COMMERCIAL PAPER (0.17% of total investments)						
$307,000	Sweetwater Capital 5.00, 7/23/01	5.02	$306,062	$306,062	87047N002	A-1+
7,348,000	Sweetwater Capital 4.27, 7/26/01	4.28	7,326,211	7,326,211	87047N002	A-1+

LIST OF INVESTMENTS AT JUNE 30, 2001 (Continued)

Par Value	Security (Coupon, Maturity or Reset Date)	Yield %	Amortized Cost	Fair Value	Asset ID	Quality Rating
292,000	Sweetwater Capital 4.35, 8/24/01	4.38	290,095	290,095	87047N002	A-1+
$7,947,000	**TOTAL**		**$7,922,368**	**$7,922,368**		
MULTI-BACKED COMMERCIAL PAPER (4.11% of total investments)						
$6,352,000	Amstel Funding 4.02, 7/3/01	4.02	$6,350,581	$6,350,581	03218R003	A-1+
50,000,000	Amstel Funding 4.00, 7/10/01	4.00	49,950,000	49,950,000	03218R003	A-1+
25,000,000	Amstel Funding 4.00, 7/10/01	4.00	24,975,000	24,975,000	03218R003	A-1+
50,000,000	Amstel Funding 4.02, 8/16/01	4.04	49,743,167	49,743,167	03218R003	A-1+
20,221,000	Best Funding 4.21, 8/7/01	4.23	20,133,505	20,133,505	08652L008	A-1+
29,526,000	Tasman Funding 4.07, 7/6/01	4.07	29,509,310	29,509,310	87651T006	A-1+
6,651,000	Tasman Funding 4.07, 7/9/01	4.07	6,644,985	6,644,985	87651T006	A-1+
$187,750,000	**TOTAL**		**$187,306,547**	**$187,306,547**		
RECEIVABLE-BACKED COMMERCIAL PAPER (8.23% of total investments)						
$58,713,000	ABSC Capital Corp 4.01, 7/9/01	4.01	$58,660,680	$58,660,680	0007T2000	A-1+
22,792,000	ABSC Capital Corp 4.02, 7/9/01	4.02	22,771,639	22,771,639	0007T2000	A-1+
35,000,000	ABSC Capital Corp 3.99, 7/12/01	3.99	34,957,329	34,957,329	0007T2000	A-1+
75,000,000	ABSC Capital Corp 4.72, 7/12/01	4.73	74,891,833	74,891,833	0007T2000	A-1+
30,000,000	ABSC Capital Corp 4.72, 7/12/01	4.73	29,956,733	29,956,733	0007T2000	A-1+
27,019,000	ABSC Capital Corp 4.73, 7/12/01	4.74	26,979,950	26,979,950	0007T2000	A-1+
35,000,000	ABSC Capital Corp 3.74, 8/9/01	3.76	34,858,192	34,858,192	0007T2000	A-1+
50,000,000	Black Forest 4.05, 7/3/01	4.05	49,988,750	49,988,750	09203L000	A-1
4,462,000	Eagle Funding 4.27, 7/27/01	4.28	4,448,240	4,448,240	27003K006	A-1
34,000,000	Mont Blanc Capital Corp 4.00, 7/13/01	4.01	33,954,667	33,954,667	6117P5008	A-1+
3,700,000	Windmill Funding 4.00, 7/24/01	4.01	3,690,544	3,690,544	97342J002	A-1+
$375,686,000	**TOTAL**		**$375,158,558**	**$375,158,558**		
SECURITIES-BACKED COMMERCIAL PAPER (37.60% of total investments)						
$3,356,000	Bavaria Finance Funding 4.31, 7/9/01	4.31	$3,352,786	$3,352,786	0717K2003	A-1
10,340,000	Certain Funding Corp 4.27, 7/25/01	4.28	10,310,565	10,310,565	15687L002	A-1+
7,500,000	Certain Funding Corp 4.28, 7/25/01	4.29	7,478,600	7,478,600	15687L002	A-1+
2,195,000	Certain Funding Corp 4.10, 7/26/01	4.11	2,188,750	2,188,750	15687L002	A-1+
6,735,000	Certain Funding Corp 4.28, 7/26/01	4.29	6,714,982	6,714,982	15687L002	A-1+
2,540,000	Certain Funding Corp 4.10, 7/30/01	4.11	2,531,611	2,531,611	15687L002	A-1+
9,000,000	Certain Funding Corp 4.22, 8/1/01	4.24	8,967,295	8,967,295	15687L002	A-1+
4,000,000	Certain Funding Corp 4.22, 8/1/01	4.24	3,985,464	3,985,464	15687L002	A-1+
13,413,000	Declaration Funding 4.03, 7/13/01	4.04	13,394,982	13,394,982	24357M001	A-1
50,000,000	Declaration Funding 4.03, 7/13/01	4.04	49,932,833	49,932,833	24357M001	A-1
50,000,000	Declaration Funding 4.03, 7/13/01	4.04	49,932,833	49,932,833	24357M001	A-1
33,457,000	Declaration Funding 3.90, 9/19/01	3.93	33,167,039	33,167,028	24357M001	A-1
22,000,000	Declaration Funding 3.67, 10/18/01	3.71	21,755,537	21,755,558	24357M001	A-1
25,000,000	Moriarty LTD 3.67, 10/22/01	3.71	24,712,007	24,712,000	61761U005	A-1+
35,000,000	Perry Funding 4.04, 7/24/01	4.05	34,909,661	34,909,661	7146K2008	A-1+
10,000,000	Sunflower Funding 4.01, 7/12/01	4.01	9,987,747	9,987,747	8673P2005	A-1+
10,000,000	Sunflower Funding 4.00, 7/13/01	4.01	9,986,667	9,986,667	8673P2005	A-1+
22,000,000	Trainer Wortham 4.36, 7/11/01	4.37	21,973,356	21,973,356	89288L000	A-1+
38,000,000	Trainer Wortham 4.36, 7/12/01	4.37	37,949,376	37,949,376	89288L000	A-1+
19,000,000	Trainer Wortham 4.02, 8/3/01	4.03	18,929,985	18,929,985	89288L000	A-1+
40,000,000	Trainer Wortham 4.03, 8/10/01	4.05	39,820,889	39,820,889	89288L000	A-1+
20,000,000	Trainer Wortham 3.99, 8/23/01	4.01	19,882,517	19,882,517	89288L000	A-1+
9,018,000	Westway Funding I 4.035, 7/19/01	4.04	8,999,806	8,999,806	96168U000	A-1+
54,369,000	Westway Funding I 4.27, 7/26/01	4.28	54,207,781	54,207,781	96168U000	A-1+
45,600,000	Westway Funding I 4.28, 7/26/01	4.29	45,464,467	45,464,467	96168U000	A-1+
32,830,000	Westway Funding I 4.22, 8/9/01	4.24	32,679,912	32,679,912	96168U000	A-1+
4,500,000	Westway Funding I 3.85, 9/13/01	3.93	4,464,388	4,463,973	96168U000	A-1+
4,500,000	Westway Funding I 3.895, 9/13/01	3.93	4,463,971	4,463,973	96168U000	A-1+
50,000,000	Westway Funding I 3.66, 10/18/01	3.70	49,445,917	49,945,950	96168U000	A-1+
23,000,000	Westway Funding I 3.66, 10/18/01	3.70	22,745,122	22,975,137	96168U000	A-1+
10,695,000	Westway Funding II 4.035, 7/16/01	4.04	10,677,019	10,677,019	96169L009	A-1+
50,000,000	Westway Funding II 4.035, 7/16/01	4.04	49,915,938	49,915,938	96169L009	A-1+
13,863,000	Westway Funding II 4.27, 7/26/01	4.28	13,821,892	13,821,892	96169L009	A-1+
36,500,000	Westway Funding II 4.28, 7/26/01	4.29	36,391,514	36,391,514	96169L009	A-1+
2,650,000	Westway Funding II 4.22, 8/9/01	4.24	2,637,885	2,637,885	96169L009	A-1+
46,953,000	Westway Funding III 4.035, 7/18/01	4.04	46,863,535	46,863,535	9616W2005	A-1+
50,000,000	Westway Funding III 4.035, 7/18/01	4.04	49,904,729	49,904,729	9616W2005	A-1+

LIST OF INVESTMENTS AT JUNE 30, 2001 (Continued)

Par Value	Security (Coupon, Maturity or Reset Date)	Yield %	Amortized Cost	Fair Value	Asset ID	Quality Rating
70,000,000	Westway Funding III 4.27, 7/26/01	4.28	69,792,431	69,792,431	9616W2005	A-1+
14,052,000	Westway Funding III 4.28, 7/26/01	4.29	14,010,234	14,010,234	9616W2005	A-1+
12,393,000	Westway Funding III 4.22, 8/9/01	4.24	12,336,343	12,336,343	9616W2005	A-1+
12,034,000	Westway Funding III 3.94, 8/28/01	3.97	11,957,611	11,957,611	9616W2005	A-1+
75,983,000	Westway Funding III 3.84, 9/10/01	3.87	75,407,555	75,407,581	9616W2005	A-1+
23,500,000	Westway Funding III 3.85, 9/13/01	3.88	23,314,024	23,314,045	9616W2005	A-1+
28,423,000	Westway Funding III 3.895, 9/19/01	3.59	28,176,983	28,198,089	9616W2005	A-1+
60,556,000	Westway Funding IV 4.00, 7/13/01	4.01	60,475,259	60,475,259	9616R3009	A-1+
50,000,000	Westway Funding IV 4.035, 7/19/01	4.04	49,899,125	49,899,125	9616R3009	A-1+
23,609,000	Westway Funding IV 4.035, 7/19/01	4.04	23,561,369	23,561,369	9616R3009	A-1+
2,755,000	Westway Funding IV 4.27, 7/25/01	4.28	2,747,157	2,747,157	9616R3009	A-1+
25,320,000	Westway Funding IV 4.22, 8/9/01	4.24	25,204,245	25,204,245	9616R3009	A-1+
50,000,000	Westway Funding IV 4.22, 8/9/01	4.24	49,771,417	49,771,417	9616R3009	A-1+
50,000,000	Westway Funding IV 4.22, 8/9/01	4.24	49,771,417	49,771,417	9616R3009	A-1+
10,000,000	Westway Funding IV 3.75, 8/10/01	3.77	9,958,333	9,958,333	9616R3009	A-1+
9,553,000	Westway Funding IV 3.74, 8/28/01	3.76	9,495,438	9,495,438	9616R3009	A-1+
19,944,000	Westway Funding IV 3.85, 9/13/01	3.88	19,786,165	19,786,163	9616R3009	A-1+
48,100,000	Westway Funding V 4.035, 7/17/01	4.04	48,013,741	48,013,741	9616X3002	A-1+
50,000,000	Westway Funding V 4.035, 7/17/01	4.04	49,910,333	49,910,333	9616X3002	A-1+
50,000,000	Westway Funding V 4.035, 7/17/01	4.04	49,910,333	49,910,333	9616X3002	A-1+
98,807,000	Westway Funding V 4.27, 7/25/01	4.28	98,525,729	98,525,729	9616X3002	A-1+
7,000,000	Westway Funding V 4.28, 7/26/01	4.29	6,979,194	6,979,194	9616X3002	A-1+
13,274,000	Westway Funding V 4.22, 8/9/01	4.24	13,213,316	13,213,316	9616X3002	A-1+
15,000,000	Westway Funding V 3.75, 8/10/01	3.77	14,937,500	14,937,500	9616X3002	A-1+
32,676,000	Westway Funding V 3.895, 9/19/01	3.93	32,393,171	32,393,157	9616X3002	A-1+
$1,720,993,000	**TOTAL**		**$1,714,097,782**	**$1,714,848,556**		
FEDERAL AGENCY SECURITIES (5.31% of total investments)						
$22,000,000	Sallie Mae 3.95, 10/24/01	3.75	$21,997,501	$22,011,440	86387SAA8	AAA
50,000,000	Sallie Mae 3.96, 10/10/02	3.85	49,982,004	50,066,000	86387R7G1	AAA
50,000,000	Sallie Mae 3.97, 10/18/02	3.85	49,981,696	50,075,000	86387R7J5	AAA
50,000,000	Sallie Mae 3.97, 10/18/02	3.85	49,981,696	50,075,000	86387R7J5	AAA
50,000,000	Sallie Mae 3.97, 3/28/03	3.88	49,991,654	50,076,000	86387SBF6	AAA
20,000,000	Sallie Mae 3.97, 3/28/03	3.88	19,996,661	20,030,400	86387SBF6	AAA
$242,000,000	**TOTAL**		**$241,931,212**	**$242,333,840**		
CORPORATE NOTES (5.32% of total investments)						
$22,170,000	Centex Home Mortgage 4.50, 7/2/01	4.50	$22,167,229	$22,167,229	1523AS008	A-1+
25,000,000	Centex Home Mortgage 4.50, 7/2/01	4.50	24,996,875	24,996,875	1523AS008	A-1+
6,680,000	Harwood Street Funding 4.50, 7/2/01	4.50	6,679,165	6,679,165	41801EO01	A-1+
30,000,000	Principal Residential Mortgage 4.30, 8/21/01	4.33	29,817,250	29,817,250	74253V001	A-1+
50,000,000	Principal Residential Mortgage 4.30, 8/21/01	4.33	49,695,417	49,695,417	74253V001	A-1+
50,000,000	Principal Residential Mortgage 4.30, 8/21/01	4.33	49,695,417	49,695,417	74253V001	A-1+
60,000,000	Principal Residential Mortgage 4.36, 8/21/01	4.39	59,629,400	59,629,400	74253V005	A-1+
$243,850,000	**TOTAL**		**$242,680,752**	**$242,680,752**		
LIQUIDITY MANAGEMENT CONTROL SYSTEM (0.00% of total investments)						
$321	LMCS		$321	$321	536991003	A-1
$321	**TOTAL**		**$321**	**$321**		
$4,570,189,321	**TOTAL INVESTMENT IN SECURITIES**		**$4,558,496,679**	**$4,560,538,005**		

Investment Policy

As adopted August 21, 1996

A. Background

The Treasurer's Short-Term Investment Fund (STIF) is an investment pool of high-quality, short-term money market instruments for state and local governments. Operating since 1972 in a manner similar to a money market mutual fund, STIF's purpose is to provide a safe, liquid and effective investment vehicle for the operating cash of the State Treasury, state agencies and authorities, municipalities, and other political subdivisions of the state.

All State, local and political subdivisions of the State are authorized to invest in STIF by (CGS) 3-27a and 3-27b.

B. Purpose

The purpose of this document is to specify the policies and guidelines that provide for the systematic management of STIF and the prudent and productive investment of funds.

C. Investment Objectives

STIF seeks as high a level of current income as is consistent with, first, the safety of principal invested by the State, municipalities and others, and, second, the provision of liquidity to meet participants' daily cash flow requirements.

D. Safety of Principal

Safety of principal, STIF's primary objective, shall be pursued in a number of ways.

1. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio by protecting against credit risks (from security defaults) and the erosion of market prices (from rising interest rates).
2. The Fund's investments shall be made in conformance with prudent guidelines for allowable instruments, credit quality and maturities. See Section H.
3. STIF shall maintain adequate diversification of instruments, issuers, industries and maturities to protect against significant losses from credit risks and market changes. See Section H.
4. All securities shall be held by a third-party custodian.
5. All transactions shall be handled on the basis of delivery vs. payment to a custodian bank.
6. All repurchase agreements shall be fully collateralized, with a custodian bank receiving delivery of the collateral.
7. Reverse repurchase agreements may be used only to meet temporary liquidity requirements of the Fund and may not exceed five percent of total Fund assets. See Section H.
8. STIF shall maintain a designated surplus reserve to provide an added layer of security. For the period June through November 1996 a pro-rated allocation to the reserve will be paid from investment returns that will equal, on an annualized basis, one-tenth of one percent of the fund's total investments until the reserve equals one percent of investments. Effective December 1, 1996, daily allocations to the designated surplus reserve will be paid from investment returns and will equal, on an annualized basis, one-tenth of one percent of the fund's investments until the reserve equals one percent of investments. If net losses significant to the aggregate portfolio are realized, they shall be charged against the designated surplus reserve, as discussed in Section Q. This reserve has never been drawn upon in STIF's 24-year history.

While STIF — which consists predominantly of funds for which the Treasurer is sole trustee — is managed diligently to protect against losses from credit and market changes, and though deposits are backed by high-quality and highly-liquid short-term securities, the Fund is not insured or guaranteed by any government and the maintenance of capital cannot be fully assured.

E. Liquidity

The portfolio shall be structured through sufficient investments in overnight and highly-marketable securities to allow complete liquidity for participants. In addition, reverse repurchase agreements totaling up to five percent of Fund assets may be used to meet temporary liquidity requirements.

Participants have full and quick access to all of their funds. Participants may make same-day (up to 10:30 a.m.) deposits and withdrawals of any size. Withdrawals generally are sent via Fed wire, thus funds are available for use on the day of withdrawal.

In addition, deposits and withdrawals may be made through the ACH system on a next-day basis, deposits may be made by check through the mail, and withdrawals may be made by check. No transaction fees are charged on deposits or withdrawals by wire or ACH. Withdrawals by check are charged a fee, as specified in the participant manual.

F. Yield

STIF's investment portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account investment risk constraints and the liquidity requirements of the Fund.

The portfolio shall be managed with the objective of exceeding the average of three-month U.S. Treasury Bill rates for the equivalent period. This index is considered a benchmark for near-riskless investment transactions and, therefore, comprises a minimum standard for the portfolio's rate of return. The investment program shall seek to augment returns above this threshold, consistent with stated risk limitations and prudent investment principles.

While STIF shall not make investments for the purpose of trading or speculating as the dominant criterion, STIF shall seek to enhance total portfolio return through active portfolio management. The prohibition on speculative investments precludes pursuit of gain or profit through unusual risk. Trading in response to changes in market value or market direction, however, is warranted under active portfolio management.

G. Prudence

Investments shall be made with the care, skill, prudence, and diligence — under circumstances then prevailing — that prudent persons acting in like capacities and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by STIF's investment officials shall be the "prudent expert" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion in writing and appropriate action is taken to control adverse developments.

H. Investment Guidelines

All investments must be made in instruments authorized by CGS 3-27c - 3-27e. In addition, the Treasurer has adopted the investment guidelines that follow. Unless otherwise indicated, references to credit ratings are to those of Standard & Poor's.

1. STIF may invest in the following securities:

    a. U.S. government and federal agency securities.

b. Certificates of deposit of commercial banks in the United States whose short-term debt is rated at least A-1 and TBW-1 (by Thomson Bank Watch) and whose long-term debt is rated at least A- and C (by Thomson Bank Watch).

c. Certificates of deposit of U.S. branches of foreign banks with short-term debt ratings of at least A-1 and TBW-1 and long-term debt ratings of at least A and B/C (by Thomson Bank Watch).

d. Bankers' acceptances of those banks meeting the criteria in b. and c. above.

e. Fully-collateralized repurchase agreements with primary dealers of the Federal Reserve with short-term debt ratings of at least A-1, or qualified domestic commercial banks meeting the criteria in b. above, with possession of collateral by a custodian bank.

f. Commercial paper of companies that have short-term debt rated at least A-1 and P-1 (by Moody's) and long-term debt rated at least AA- and Aa3 (by Moody's).

g. Corporate or asset-backed securities rated at least A-1/P-1 and AA-/Aa3.

h. Asset-backed securities with maturities of under one year rated at least A-1/P-1.

i. Money market mutual funds or similar investment pools, comprised of securities permitted under this investment policy and managed to maintain a constant share value, rated AAAm.

j. A line of credit of up to $100 million with the Connecticut Student Loan Foundation. Any resulting loans shall be fully collateralized (at 102 percent) by student loans with interest and principal 98 percent federally guaranteed.

k. The portfolio currently includes securities issued by the State of Israel, which mature in less than six years, and which, in the aggregate, total less than .5 percent of the portfolio value. These notes' interest rates are reset semi-annually at the prime rate minus 50 basis points. These securities, as currently structured, will not be purchased in the future.

2. Reverse repurchase agreements, in the aggregate, may not exceed five percent of net assets at the time of execution. While any reverse repurchase agreement is outstanding, new investments must match the maturity of the shortest-term outstanding reverse repurchase agreement. Reverse repurchase agreements are to be used only to meet temporary liquidity requirements of the Fund.

3. No investments may be made in "derivative" securities such as futures, swaps, options, interest-only and principal-only mortgage-backed securities, inverse floaters, CMT floaters, leveraged floaters, dual index floaters, COFI floaters, and range floaters. These types of securities can experience high price volatility with changing market conditions, and their market values may not return to par even at the time of an interest rate adjustment.

Investments may be made in adjustable rate securities whose interest rates move in the same direction and in the same amount as standard short-term money market interest rate benchmarks, such as Fed Funds, LIBOR, Treasury bills, one-month CDs, one-month commercial paper and the prime rate, and conform with STIF's other credit and maturity standards. Interest rate reset periods may not exceed six months. The values of these securities tend to return to par upon the scheduled adjustment of interest rates. Some parties in the financial services industry consider these types of adjustable rate securities to be derivatives, others do not.

U.S. Treasury Separate Trading of Registered Interest and Principal Securities ("STRIPS") are not considered derivatives and may be purchased. These instruments are subject to the same interest rate risks as U.S. Treasury securities of the same duration. STRIPS are fundamentally different from mortgage-backed and other interest-only or principal-only securities that are subject to unscheduled prepayments of principal.

4. All investments must be made in U.S. dollar-denominated securities.
5. The dollar-weighted average portfolio maturity (including interest rate reset periods) may not exceed 90 days. Individual maturities may not exceed five years.
6. STIF shall diversify its investments to avoid incurring unreasonable risks inherent in overinvesting in specific instruments, industry segments, individual issuers or maturities. Diversification strategies shall include:
   a. At the time of purchase, no more than five percent of the overall portfolio may be invested in an individual security, other than overnight or two-business-day repurchase agreements and U.S. government and agency securities.
   b. At the time of purchase, no more than 10 percent of the overall portfolio may be invested in securities of a single bank or corporation, other than overnight or two-business-day repurchase agreements and U.S. government and agency securities.
   c. There is no limitation on the percentage of assets that may be invested in securities of the United States government, its agencies or instrumentalities, or in overnight or two-business-day repurchase agreements.
   d. At the time of purchase, no more than 25 percent of the overall portfolio may be invested in any industry other than the financial services industry.
   e. At the time of purchase, no more than 50 percent of the overall portfolio may be invested in the combined total of commercial paper and non-asset-backed corporate notes.
   f. At the time of purchase, no more than 20 percent of the overall portfolio may be invested in floating rate securities with final maturities in excess of two years.
   g. At the time of purchase, no more than five percent of the overall portfolio may be invested in an individual money market mutual fund or similar investment pool.
   h. At the time of purchase, no more than 10 percent of the overall portfolio may be invested in money market mutual funds and similar investment pools.
   i. At the time of purchase, investments in securities that are not readily marketable, other than securities that mature within seven days, may not exceed 10 percent of the fund's overall portfolio.
   j. At least 75 percent of the overall portfolio shall be invested in securities rated A-1+ or in overnight repurchase agreements with dealers or banks rated A-1.
7. The Treasurer intends to operate STIF in such a manner as to maintain its AAAm credit rating from Standard & Poor's, or a similar rating from another nationally-recognized credit rating service recognized by the State Banking Commissioner.
8. Investment decisions shall be based on the relative and varying yields and risks of individual securities and the Fund's liquidity requirements.

I. Interest Payments

Until December 1, 1996:

STIF pays interest quarterly based on monthly guaranteed rates that are set on or before the first day of each month by the Treasury based on STIF's portfolio and market conditions. In addition, participants will be paid a bonus distribution — based on actual earnings less guaranteed interest payments, expenses and the payment to the reserve for losses – for the period of June through November. All rates are calculated and quoted on the basis of the actual number of days in a year (an "actual-over-actual" basis).

Effective December 1, 1996:

STIF declares and accrues investor interest daily based on actual STIF earnings (including gains and losses), less expenses and transfers to the designated surplus reserve. Interest is paid monthly through direct distribution or reinvestment. Earned rates are available on a next-day basis. All rates are calculated and quoted on the basis of the actual number of days in a year (an "actual-over-actual" basis) and reported in accordance with guidelines of the Association for Investment Management and Research (AIMR).

J. Administrative Costs

STIF is provided to participants without sales or management fees. Administrative costs are paid from investment earnings, and all STIF participants (including the state and local entities) share in covering the Fund's expenses in proportion to the size of their investments. Costs have run at between two and three basis points (or $2-3 per $10,000 invested).

K. Delegation of Authority

The Short-Term Investment Unit within the Treasury's Cash Management Division manages STIF's investments. Deposits, withdrawals, participant record-keeping and the distribution of interest are handled by State Street Bank and Trust under the supervision of the STIF Administration Unit within the Treasury's Cash Management Division.

L. Daily Confirmations

Confirmations of daily deposits and withdrawals are sent the day after the transaction.

M. Monthly Statements

Monthly statements of balances, account activity, and paid interest are mailed to participants by the 10th day of each month.

N. Reports

Quarterly and annual reports describing STIF's yields, performance relative to its primary benchmark (IBC First Tier Institutions-Only Rated Money Fund Index), and investments shall be provided to all participants. A detailed portfolio listing, data on 90-day Treasury bills and 90-day certificates of deposit, and commentary on economic conditions shall be provided with each report. The reports are available on the World Wide Web at: http://www.state.ct.us/ott

O. Participant Manual

A manual describing STIF's operating procedures, instructions for opening and closing accounts and making deposits and withdrawals, and methods of distributing interest, is provided to all participants. There currently are no restrictions on the size or number of accounts or transactions.

P. Audit

The Auditors of Public Accounts audit STIF's financial statements and operating procedures annually. Copies of audit opinions and reports will be provided to all participants.

Q. Portfolio Valuation

STIF's values and yields are accounted for on an amortized-cost basis. Market values of all securities, except for those securities listed in Sections H.1.j and H.1.k, above, are calculated on a weekly basis. Significant deviations of market values to amortized costs shall be reported as follows:

1. First Level Notification. If the market value of the overall investment portfolio, based on reports from the custodian, drops below 99.75 percent of the amortized cost value of the overall investment portfolio, or if the ratio of the market value of the overall portfolio to the outstanding participant units drops below 100.50 percent, the Principal Investment Officer would notify the Assistant Treasurer for Cash Management, the Assistant Treasurer for Pension Funds Management, and the Treasurer's Investment Committee at the first weekly meeting following such determination.

2. Second Level Notification. If the market value of the overall investment portfolio, based on reports from the custodian, drops below 99.50 percent of the amortized cost value of the overall investment portfolio, or if the ratio of the market value of the overall portfolio to the outstanding participant units drops below 100.25 percent, the Principal Investment Officer would notify, as soon as practical, the Treasurer, Deputy Treasurer, Assistant Treasurer - Chief of Staff, Assistant Treasurer for Cash Management, Assistant Treasurer for Pension Funds Management, and the Treasurer's Investment Committee. The Treasurer's Investment Committee would then meet in special session to review the circumstances surrounding the fall in one or both ratios, and it would review every security held by the fund. If this second level notification resulted from a significant increase in fund size that resulted in a proportionate decrease in the relative size of the designated surplus reserve, then portfolio or other changes may not be required. If this second level notification resulted from the decline in market values of securities, then the Investment Committee would consider selling securities that had fallen in value and making use of the designated surplus reserve.

3. Investor Notification. If the ratio of the market value of the overall portfolio to the outstanding participant units drops below 99.75 percent, the Treasurer would notify all STIF investors of the situation and the actions being undertaken to protect against further reductions.

R. Internal Controls

The Treasury shall establish and maintain a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by the Auditors of Public Accounts. The controls shall be designed to prevent and control losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees and officers.

S. Cash Management Advisory Board

STIF's investment practices and performance, including the documentation discussed in Section N, shall be reviewed on a quarterly basis by the Treasurer's Cash Management Advisory Board.

T. Financial Dealers and Institutions

The STIF Investment Officer shall develop criteria for selecting brokers and dealers. All repurchase agreement transactions will be conducted through primary dealers of the Federal Reserve Bank of New York rated at least A-1 and qualified banks (as defined in Sections H.1.b and H.1.c) which have executed master repurchase agreements with the Treasury.

U. Ethics

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose in writing to the Treasurer, or the Treasurer's compliance officer, any material financial interests in financial institutions that conduct business with STIF, and they shall further disclose any large personal financial/investment positions that could be related to the performance of STIF's portfolio, particularly with regard to the time of purchases and sales.

V. Bond Proceeds

Bond proceeds may be deposited in STIF. Accounting and arbitrage rebate calculations are the responsibility of participants. STIF's investment program is not designed to restrict yield in order to avoid arbitrage rebates.

W. Conformance with Guidelines

A nationally-recognized credit rating service recognized by the State Banking Commissioner shall monitor the STIF portfolio on a weekly basis to determine compliance with this policy. The Auditors of Public Accounts review compliance annually.

X. Conformance with National Standards

These guidelines, together with the participant manual, were designed to meet the July 1995 guidelines of the National Association of State Treasurers for local government investment pools.

Y. Investment Guideline Revisions

These guidelines may be revised by the Treasurer due to market changes or regulatory, legislative or internal administrative initiatives. Attempts will be made to provide all STIF investors with at least 30 days of notice before any changes to the investment policy become effective.

The Treasurer reserves the right to make changes immediately to respond to market conditions. In such circumstances, revisions will be sent to all STIF investors within two business days of the revision.

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS
STATE CAPITOL
210 CAPITOL AVENUE
HARTFORD, CONNECTICUT 06106-1559

KEVIN P. JOHNSTON

ROBERT G. JAEKLE

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statement of net assets of the Short-Term Investment Fund, including the list of investments, as of June 30, 2001, and the statements of changes in net assets for the fiscal years ended June 30, 2001, and 2000. These financial statements are the responsibility of the management of the State Treasury. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

Our procedures included confirmation of securities owned as of June 30, 2001, by correspondence with the custodian. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Short-Term Investment Fund as of June 30, 2001, and the results of its operations and changes in net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the financial statements of the Short-Term Investment Fund taken as a whole. The Statistical Section contained herein is presented for purposes of additional analysis and is not a required part of the financial statements of the Short-Term Investment Fund. Except as noted below, such information has been subjected to the auditing procedures applied in the audit of the financial statements of the Short-Term Investment Fund and, in our opinion, is fairly presented in all material respects in relation to the financial statements of the Short-Term Investment Fund taken as a whole. We did not audit the information contained in the Introductory and Investment Sections of this Short-Term Investment Fund annual report, or the Schedules of Rates of Return contained in the Statistical Section.

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

October 15, 2001
State Capitol
Hartford, Connecticut

STATEMENT OF NET ASSETS

JUNE 30, 2001

	June 30, 2001
ASSETS	
Investment in Securities, at Amortized Cost (Note 8)	$ 4,558,496,679
Accrued Interest and Other Receivables	6,906,773
Prepaid Assets	50,090
TOTAL ASSETS	4,565,453,542
LIABILITIES	
Distribution Payable	14,741,778
Payable to Transfer Agent (Note 6)	577,176
Interest Payable	8,058
Other Liabilities	13,022
TOTAL LIABILITIES	15,340,034
NET ASSETS	$ 4,550,113,508
NET ASSETS CONSIST OF:	
Participant Units Outstanding($1.00 Par)	$ 4,512,477,061
Designated Surplus Reserve (Note 2)	37,636,447
TOTAL NET ASSETS	$ 4,550,113,508
Participant Net Asset Value, Offering Price and Redemption Price per share ($4,512,477,061 in Net Assets divided by 4,512,477,061 shares)	$ 1.00

See accompanying Notes to the Financial Statements.

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEARS ENDED JUNE 30, 2001 AND JUNE 30, 2000

	For the Year Ended June 30, 2001	2000
Operations		
Interest Income	$ 255,114,298	$ 213,761,049
Interest Expense on Reverse Repurchase Agreements	(65,611)	-
Operating Expenses	(934,013)	(951,648)
Net Investment Income	254,114,674	212,809,401
Net Realized Gains	249,860	493,776
Net Increase in Net Assets Resulting from Operations	254,364,534	213,303,177
Distribution to Participants (Notes 2 & 7)		
Distributions to Participants	(250,388,829)	(210,142,470)
Total Distributions Paid and Payable	(250,388,829)	(210,142,470)
Share Transactions at Net Asset Value of $1.00 per Share		
Purchase of Units	12,278,364,281	10,664,235,963
Redemption of Units	(11,415,815,952)	(10,615,616,297)
Net Increase in Net Assets and Shares Resulting from Share Transactions	862,548,329	48,619,666
Total Increase in Net Assets	866,524,034	51,780,373
Net Assets		
Beginning of Year	3,683,589,474	3,631,809,101
End of Year	$ 4,550,113,508	$ 3,683,589,474

See accompanying Notes to the Financial Statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1: Introduction and Basis of Presentation

The Short-Term Investment Fund ("STIF" or the "Fund") is a money market investment pool managed by the Treasurer of the State of Connecticut. Sec. 3-27 of the Connecticut General Statutes (CGS) created STIF. Pursuant to CGS 3-27a - 3-27f, the State, municipal entities, and political subdivisions of the State are eligible to invest in the Fund. The State Treasurer is authorized to invest monies of STIF in United States government and agency obligations, certificates of deposit, commercial paper, corporate bonds, saving accounts, bankers' acceptances, repurchase agreements, asset-backed securities, and student loans. STIF is authorized to issue an unlimited number of units.

For State of Connecticut financial reporting purposes, STIF is considered to be a mixed investment pool – a pool having external and internal portions. The internal portion (i.e., the portion that belongs to participants that are part of the State's financial reporting entity) is not displayed in the State's combined financial statements. Instead, each fund type's investment in STIF is reported as "cash equivalents" in the combined balance sheet. The external portion (i.e., the portion that belongs to participants which are not part of the State's financial reporting entity) is recorded in an investment trust fund in the combined financial statements.

The Fund is considered a "2a7-like" pool and, as such, reports its investments at amortized cost (which approximates fair value). A 2a7-like pool is not necessarily registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940 that allows money market mutual funds to use amortized cost to report net assets.

Related Party Transactions.

STIF had no related party transactions during the fiscal year with the State of Connecticut and it's component units including leasing arrangements, the performance of administrative services and the execution of securities transactions.

Note 2: Summary of Significant Accounting Policies:

Financial Reporting Entity.

The Fund is a proprietary fund type. A proprietary fund is used to account for governmental activities that are similar to those found in the private sector where the determination of net income is necessary or useful to sound financial administration. The generally accepted accounting principles ("GAAP") used for proprietary funds are generally those applicable to similar businesses in the private sector. The Fund uses the accrual basis of accounting.

In accordance with Government Accounting Standards Board ("GASB") Statement Number 20 "Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting", the Treasurer has elected to apply all GASB pronouncements as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB's), except those that conflict with GASB pronouncements. During fiscal year 1998, the Fund adopted the financial statement presentation and disclosure requirements of GASB 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools".

Security Valuation of Financial Instruments.

The assets of the Fund are carried at amortized cost (which approximates fair value). All premiums and discounts on securities are amortized or accreted on a straight line basis.

Security Transactions.

Purchases and sales of investments are recorded on a trade date basis. Gains and losses on investments are realized at the time of the sales and are calculated on the basis of an identified block or blocks of securities having an identified amortized cost. Bond cost is determined by identified lot.

NOTES TO FINANCIAL STATEMENTS (Continued)

Interest Income.

Interest income, which includes amortization of premiums and accretion of discounts, is accrued as earned.

Expenses.

Operating and interest expenses of STIF are accrued as incurred.

Fiscal Year.

The fiscal year of STIF ends on June 30. Prior to fiscal year 1997, STIF's fiscal year ended on May 31.

Distributions to Participants.

Distributions to participants are earned on units outstanding from date of purchase to date of redemption. Income is calculated daily based upon the actual earnings of the Fund net of administrative expenses and, if applicable, an allocation to the Designated Surplus Reserve. Distributions are paid monthly within two business days of the end of the month, and are based upon actual number of days in a year. Shares are sold and redeemed at a constant $1.00 net asset value per share, which is consistent with the per share net asset value of the Fund, excluding the Designated Surplus Reserve. Prior to December 1, 1996 distributions were based upon the actual number of days in the year at an interest rate established by the Treasurer on or before the first date of the month ("the guaranteed rate"). The interest distributions earned by participants were distributed within fifteen business days after the close of the periods ending on the last day of August and November.

Earnings Subject to Special Distribution.

In December 1996, a special distribution was paid to participants based upon net earnings of STIF less previously distributed quarterly payments and an allocation to the Designated Surplus Reserve. This special distribution was paid out in proportion to the total interest paid on the guaranteed rates since June 1, 1996. Following this special distribution, the method for computing distributions to participants after November 30, 1996 was changed, thereby eliminating future special distributions.

Designated Surplus Reserve.

While STIF is managed prudently to protect against losses from credit and market changes, the Fund is not insured or guaranteed by any government. Therefore, the maintenance of capital cannot be fully assured. In order to provide some protection to the shareholders of STIF from potential credit and market risks, the Treasurer has designated that a portion of each day's net earnings be transferred to the Designated Surplus Reserve (Reserve). Such amounts are restricted in nature and are not available for distribution to shareholders. In December 1996, a transfer was made to the Designated Surplus Reserve at the annualized rate of 0.1 percent of the average month-end investment balances for June through November 1996. Beginning December 1, 1996, the amount transferred daily to the Designated Surplus Reserve is equal to 0.1 percent of end of day investment balance divided by the actual number of days in the year. No transfer is to be made if the reserve account is equal to or greater than 1.0 percent of the daily investment balance. If net losses significant to the aggregate portfolio are realized, the Treasurer is authorized to transfer funds from the Reserve to Participant Units Outstanding.

As of June 30, 2001, the balance in the Designated Surplus Reserve was $37,636,446, an increase of $3,975,705 from the June 30, 2000 balance of $33,660,741.

Estimates.

The preparation of the financial statements in conformity with (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities in the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting Pronouncements.

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. As issued, SFAS No. 133 was effective for fiscal years beginning after June 15, 1999. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. STIF does not designate a derivative as a hedging instrument and recognizes gains in the earnings period of change.

Although the effective implementation date of SFAS No. 133 was deferred by SFAS No. 137 until fiscal years beginning after June 15, 2000, and was again amended in June 2000 by the FASB issuing SFAS No. 138, STIF continues to meet the compliance requirement.

NOTE 3: INVESTMENT RISK CLASSIFICATION

STIF's investment practice is to invest all cash balances; as such, there was no uninvested cash at June 30, 2001. All certificates of deposit within the portfolio are considered negotiable instruments. The certificates of deposit and all other securities of STIF are registered under the State Street Bank nominee name, Pond, Tide & Co., for the State of Connecticut nominee name, Conn. STIF & Co., and held by a designated agent of the State.

All investments of STIF are classified in category 1 of the custodial credit risk defined by GASB Statement No. 3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements". Classification in category 1 means that the exposure of deposits or investments to potential custodial credit risk is low.

Category 1 includes investments which are insured or registered or for which the Treasurer or his agent in the Treasurer's name holds securities.

NOTE 4: CUSTODIAN

State Street Bank was appointed as custodian for STIF effective February 1, 1996. STIF pays fees to the custodian for transactions and accounting services at a fixed annual rate of $43,000.

NOTE 5: ADMINISTRATION

STIF is managed and administered by employees of the State of Connecticut Treasury. Salaries and fringe benefit costs as well as operating expenses are charged directly to the Fund.

NOTE 6: RECEIVABLE FROM OR PAYABLE TO TRANSFER AGENT

In an effort to invest all cash balances each day, estimates of participant purchase and sale activity are made. Occasionally, the timing of cash movements by participants may not exactly match the net activity of purchases and sales, resulting in a difference between investments held in securities relative to participants' net account value. As of June 30, 2001, STIF recorded a liability of $577,176, payable to the transfer agent, for investments purchased which did not match actual movements of cash by participants into the Fund.

NOTE 7: DISTRIBUTIONS TO PARTICIPANTS

The components of the distributions to participants are as follows for the income earned during the twelve months ended June 30:

Distributions:	2001	2000
July	$ 21,068,172	$ 15,369,550
August	25,325,394	18,626,337
September	24,965,829	18,327,219
October	24,109,511	17,962,446
November	20,453,180	16,080,280
December	19,429,983	16,350,536
January	22,627,719	17,113,994
February	20,656,552	18,204,877
March	20,629,174	18,276,157
April	18,723,246	17,371,981

May	17,658,291	18,674,115
June (Payable at June 30)	14,741,778	17,784,978
Total Distribution Paid & Payable	**$250,388,829**	**$210,142,470**

NOTE 8: INVESTMENTS IN SECURITIES

The following is a summary of investments in securities, at amortized cost and fair value as of June 30, 2001:

Investment	*Amortized Cost*	*Fair Value*
Securities-Backed Commercial Paper	$1,714,097,782	$1,714,848,555
Fully Supported Commercial Paper	969,851,020	970,335,068
Bank Notes	409,706,637	410,110,511
Certificates of Deposit	400,001,815	400,001,815
Receivable-Backed Commercial Paper	375,158,558	375,158,558
Corporate Notes	242,680,752	242,680,752
Federal Agency Securities	241,931,212	242,333,840
Multi-Backed Commercial Paper	187,306,547	187,306,547
Bankers Acceptances	9,839,667	9,839,670
Loan-Backed Commercial Paper	7,922,368	7,922,368
Liquidity Management Control System	321	321
TOTAL	$4,558,496,679	$4,560,538,005

Repurchase agreements are agreements to purchase securities from an entity for a specified amount of cash and to resell the securities to the entity at an agreed upon price and time. They are used to enhance returns with minimal risk on overnight cash deposits of the Fund. Such transactions are only entered into with primary government securities dealers who report directly to the Federal Reserve Bank of New York and commercial banks that meet certain quality standards. All repurchase agreements are collateralized at between 100 percent and 102 percent of the securities' value.

GASB Technical Bulletin Number 94-1 "Disclosures about Derivatives and Similar Debt and Investment Transactions" states that derivatives are generally defined as contracts whose value depends on, or derives from, the value of an underlying asset, reference rate, or index. At June 30, 2001, STIF held adjustable-rate federal agency, and bank notes whose interest rates vary directly with short-term money market indices and are reset daily, weekly, monthly, quarterly or semi-annually. According to GASB Technical Bulletin Number 94-1, these securities are derivatives. Such securities allow the Fund to earn higher interest rates as market rates increase, thereby increasing fund yields and protecting against the erosion of market values from rising interest rates. The adjustable-rate federal agency securities are rated AAA by a nationally-recognized credit rating agency. The bank notes are rated either A-1+ or A-1. All of the adjustable rate securities have similar exposures to credit and legal risks as fixed-rate securities from the same issuers.

NOTE 9: CREDIT RATING OF THE FUND

Throughout the year ended June 30, 2001, STIF was rated AAAm, its highest rating, by Standard and Poor's Corporation ("S&P"). In December 2000, following a review of the portfolio and STIF's investment policies, management and procedures, S&P reaffirmed STIF's AAAm rating. In order to maintain an AAAm rating, STIF adheres to the following guidelines:

- Weekly portfolio and market value calculations;
- Maintenance of credit quality standards for portfolio securities with at least 75% of such securities rated A-1+ or invested in overnight repurchase agreements with dealers or banks rated A-1;
- Ensuring adequate portfolio diversification standards with no more than 5% of the portfolio invested in an individual security and no more than 10% invested in an individual issuer, excluding one and two day repurchase agreements and U.S. government agency securities; and
- A limit on the overall portfolio weighted average maturity, (currently no more than 60 days).

It is the Treasurer's intention to take any and all such actions as are needed from time to time to maintain the AAAm rating.

STATE OF CONNECTICUT

QUI TRANSTULIT SUSTINET

TREASURER'S OFFICE

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INDEPENDENT ACCOUNTANTS' REPORT

Treasurer of the State of Connecticut
Hartford, Connecticut

We have examined the accompanying Schedules of Rates of Return for the Connecticut State Treasurer's Short-Term Investment Fund (the "Schedules") appearing on pages 36 to 39 of the State of Connecticut Fiscal Year 2001 Short-Term Investment Fund Comprehensive Annual Financial Report managed by the Treasurer of the State of Connecticut for each of the quarterly and annual investment periods from July 1, 1992 through June 30, 2001. The Schedules are the responsibility of the Connecticut State Treasurer's Short-Term Investment Fund's management. Our responsibility is to express an opinion on the Schedules based on our examinations.

Our examinations were conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining on a test basis, evidence supporting the Schedules and performing such other procedures as we considered necessary in the circumstances (for a Level II verification as defined under the AIMR-PPS). We believe that our examinations provide a reasonable basis for our opinion.

In our opinion, such Schedules present fairly the rates of return for the composite of the Connecticut State Treasurer's Short-Term Investment Fund managed by the Treasurer of the State of Connecticut for each of the quarterly and annual investment periods from July 1, 1992 to June 30, 2001, in all material respects, in accordance with the measurement and disclosure criteria set forth in Notes 2 and 3 to the Schedules.

We did not examine the rates of return for the Connecticut State Treasurer's Short-Term Investment Fund for each of the quarterly and annual investment period from July 1, 1991 to June 30, 1992, which are included in the Schedules and, accordingly, we express no opinion or any other form of assurance on them.

Deloitte + Touche LLP

September 24, 2001

Deloitte
Touche
Tohmatsu

SCHEDULE OF ANNUAL RATES OF RETURN

	Year Ended June 30,									
	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992*
STIF Total Rate of Return (%)	6.11	6.01	5.37	5.82	5.66	5.95	5.62	3.63	3.95	5.74
IBC First Tier Institutions-Only Money Fund Report Index (%) (1)	5.74	5.58	5.04	5.49	5.27	5.44	5.31	3.08	3.03	4.62
Total Assets in STIF, End of Period ($ - Millions)	4,565	3.701	3,646	3,190	2,527	2,014	1,495	1,830	1,787	1,835
Percent of Firm Assets	71	71	71	70	73	68	58	67	66	73
Number of Participant Accounts in Composite, End of Year	897	800	782	654	644	590	563	510	424	390

* Rates of return for fiscal years ended June 30, 1992 have not been examined by Deloitte & Touche LLP.

(1)Represents IBC First Tier Institutions-Only Money Fund Report Index prior to December 31, 1995 and IBC First Tier Institutions-Only Rated Money Fund Report Index for the period January 1, 1996 through June 30, 2001. These Index rates have been taken from published sources and have not been examined by Deloitte & Touche LLP.

See Notes to Schedules of Rates of Return.

SCHEDULE OF QUARTERLY RATES OF RETURN

FISCAL YEAR	Rate of Return(%)	IBC First Tier Institutions-Only Rated Money Fund Report Index(%)(1)
2001		
Sep-00	1.69	1.58
Dec-00	1.70	1.58
Mar-01	1.45	1.39
Jun-01	1.14	1.06
YEAR	**6.11**	**5.74**
2000		
Sep-99	1.33	1.23
Dec-99	1.46	1.33
Mar-00	1.48	1.40
Jun-00	1.60	1.51
YEAR	**6.01**	**5.58**
1999		
Sep-98	1.42	1.34
Dec-98	1.37	1.26
Mar-99	1.24	1.19
Jun-99	1.23	1.16
YEAR	**5.37**	**5.04**
1998		
Sep-97	1.43	1.34
Dec-97	1.45	1.36
Mar-98	1.41	1.35
Jun-98	1.40	1.34
YEAR	**5.82**	**5.49**
1997		
Sep-96	1.40	1.28
Dec-96	1.36	1.28
Mar-97	1.37	1.28
Jun-97	1.40	1.33
YEAR	**5.66**	**5.27**

FISCAL YEAR	Rate of Return(%)	IBC First Tier Institutions-Only Rated Money Fund Report Index(%)(1)
1996		
Sep-95	1.54	1.40
Dec-95	1.54	1.38
Mar-96	1.42	1.29
Jun-96(2)	1.33	1.26
YEAR	**5.95**	**5.44**
1995		
Sep-94	1.16	1.07
Dec-94	1.31	1.25
Mar-95	1.58	1.43
Jun-95(2)	1.46	1.46
YEAR	**5.62**	**5.31**
1994		
Sep-93	0.86	0.71
Dec-93	0.90	0.72
Mar-94	0.95	0.74
Jun-94(2)	0.87	0.88
YEAR	**3.63**	**3.08**
1993		
Sep-92	1.09	0.81
Dec-92	0.97	0.75
Mar-93	0.96	0.73
Jun-93(2)	0.87	0.70
YEAR	**3.95**	**3.03**
1992*		
Sep-91	1.62	1.37
Dec-91	1.60	1.23
Mar-92	1.23	1.01
Jun-92(2)	1.17	0.93
YEAR	**5.74**	**4.62**

* Rates of return for the fiscal year ended June 30, 1992 have not been examined by Deloitte & Touche LLP.

(1) Represents IBC First Tier Institutions-Only Money Fund Report Index prior to December 31, 1995 and IBC First Tier Institutions-Only Rated Money Fund Report Index for the period January 1, 1996 through June 30, 2001. These Index rates have been taken from published sources and have not been examined by Deloitte & Touche LLP.

(2) Includes the annual allocation to the Designated Surplus Reserve (See Note 4).

See the accompanying Notes to the Schedules of Rates of Return.

NOTES TO SCHEDULES OF RATES OF RETURN
FOR THE 10 YEAR INVESTMENT PERIOD JULY 1, 1991 THROUGH JUNE 30, 2001

NOTE 1: ORGANIZATION

The Connecticut State Treasury Short-Term Investment Fund ("STIF" or the "Fund") was created by Sec. 3-27 of the Connecticut General Statutes as an investment vehicle restricted for use by the State, State agencies and authorities, State municipalities and other political subdivisions of the State only. STIF is a fully discretionary money market investment pool managed by the Connecticut State Treasury ("Treasury") as a single composite. STIF's objective is to provide as high a level of current income as is consistent with safety of principal and liquidity to meet participants' daily cash flow requirements. During the 2001 fiscal year, STIF's portfolio averaged $4.3 billion.

NOTE 2: PERFORMANCE RESULTS

STIF has prepared and presented this report in compliance with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS) for the period July 1, 1991 through June 30, 2001. AIMR has not been involved with the preparation or review of this report. The performance presentation for the period July 1, 1992 through June 30, 2001 has been subject to a Level II verification in accordance with AIMR standards by an independent public accounting firm whose report is included herein. The performance presentation for all other periods presented is not included within the scope of the independent accountants' report. For the purposes of compliance with AIMR performance presentation standards, the Treasury has defined the "Firm" as the funds under the control of the State Treasurer, State agencies and State authorities for which the Treasury has direct investment management responsibilities.

Results are net of all operating expenses, and as STIF is managed by employees of the Treasury, no advisory fees are paid.

NOTE 3: CALCULATION OF RATES OF RETURN

STIF uses a time-weighted linked rate of return formula to calculate rates of return. This method is in accordance with the acceptable methods set forth by the Association for Investment Management and Research. Other methods may produce different results and the results for individual participants and different periods may vary. The current rates of return may not be indicative of future rates of return.

The time-weighted linked rate of return formula used by STIF is as follows: After December 1, 1996 monthly returns were calculated by taking the sum of daily income earned on an accrual basis, after deduction for all operating expenses and a transfer to the Designated Surplus Reserve, divided by the average daily participant balance for the month. From July through November 1996, monthly income earned on an accrual basis, after deduction for all operating expenses, was divided by the average daily participant balance for the month multiplied by the actual number of days in the year divided by the actual number of days in the month. In addition, income reported in November was reduced by a transfer to the Designated Surplus Reserve which impacted November's monthly return. The monthly returns for the entire quarter and fiscal year were linked to calculate the respective rates of return.

Prior to July 1, 1996, the same methodology as described for July through November 1996 was used with the exception of the transfer to the Designated Surplus Reserve, which affected May returns. Prior to fiscal year ended June 30, 1995, 360 days rather than actual days in the year was used. Each of the monthly composite rates of returns were then linked to compute the quarterly rate of return and the quarterly rates of return were linked to calculate the annual rate of return.

The changes, as described above, had no significant impact on the quarterly and annual rates of return reported herein.

The rates of return presented herein are those earned by the Fund during the periods presented as described above. Actual distributions to participants through November 30, 1996 were made on a quarterly basis based upon specific guaranteed rates as periodically determined by the Treasury. Any excess earnings over the previously distributed amounts and the required allocation to the Designated Surplus

NOTES TO SCHEDULES OF RATES OF RETURN (Continued)
FOR THE 10 YEAR INVESTMENT PERIOD JULY 1, 1991 THROUGH JUNE 30, 2001

Reserve were distributed as a special distribution (See Earnings Subject to Special Distribution in STIF Notes to Financial Statements).

NOTE 4: DESIGNATED SURPLUS RESERVE

In order to provide some protection to the shareholders of STIF from potential credit and market risks, the Treasurer has designated that a portion of each day's net earnings be transferred to the Designated Surplus Reserve (Reserve). Such amounts are restricted in nature and are not available for current distribution to shareholders. In December 1996, a transfer was made to the Designated Surplus Reserve at the annualized rate of 0.1 percent of the average month-end investment balances for June through November 1996. Beginning December 1, 1996, the amount transferred daily to the Designated Surplus Reserve is equal to 0.1 percent of end of day investment balance divided by the actual number of days in the year. As of June 30, 2001, the balance in the Designated Surplus Reserve was $37,636,446, an increase of $3,975,705 from the June 30, 2000 balance of $33,660,741.

No transfer is to be made if the reserve account is equal to or greater than 1.0 percent of the daily investment balance. If net losses significant to the aggregate portfolio are realized, the Treasurer is authorized to transfer funds from the Reserve to Participant Units Outstanding. There have been no charges against this reserve during the 29 year history of the Fund.

NOTE 5: ADDITIONAL DISCLOSURES

These results solely reflect the performance of STIF. The Fund's principal investment officer has been the portfolio manager since 1983 encompassing the entire investment period presented.

Benchmark information presented in the Schedules of Rates of Return was obtained from published sources which are believed to be reliable. Such information is supplemental and is not covered by the independent accountants' report.

STIF does not make significant use of leverage. The only leverage employed by the Fund is the occasional use of reverse repurchase agreements. These agreements, which are limited by policy to no more than 5 percent of total Fund assets, are used only to meet temporary liquidity requirements of the Fund.

STIF had accounted for security purchases and sales on a settlement date basis for periods prior to February 1, 1996. Since that date, the Fund has accounted for all security purchases and sales on a trade date basis. Because the Fund purchases short term investments whose market values do not fluctuate significantly and since all investments are accounted for on an amortized cost basis, the difference between the trade and settlement date bases has no significant impact on the performance reported herein.

GROWTH OF PARTICIPANT UNITS UNDER MANAGEMENT

Date	Municipal	State	Total	Annual Growth
6/2001	$1,294,266,155	$3,218,210,906	$4,512,477,061	23.63%
6/2000	1,041,887,596	2,608,041,137	3,649,928,733	1.35
6/1999	856,142,725	2,745,166,342	3,601,309,067	14.43
6/1998	934,295,960	2,213,009,736	3,147,305,696	26.34
6/1997	683,631,474	1,807,440,011	2,491,071,485	25.56
6/1996	647,150,970	1,336,757,530	1,983,908,500	35.19
6/1995	533,141,029	934,316,358	1,467,457,387	-12.10
6/1994	453,442,000	1,215,968,463	1,669,410,463	-5.50
6/1993	389,000,000	1,377,523,963	1,766,523,963	4.60
6/1992	371,586,000	1,317,309,451	1,688,895,451	60.54
6/1991	207,000,000	845,036,474	1,052,036,474	-10.55

MONTHLY COMPARATIVE YIELDS

	STIF	Benchmarks (b)		
	Earned Rate (a)	IBC First Tier Inst Only	Fed. Reserve Three Mo. T-Bill	Fed. Reserve Three Mo. CD
6/2001	4.16%	3.85%	3.55%	3.73%
5/2001	4.44	4.15	3.69	4.00
4/2001	5.04	4.72	3.96	4.56
3/2001	5.45	5.09	4.53	4.89
2/2001	5.73	5.52	5.01	5.25
1/2001	6.31	6.01	5.32	5.64
12/2000	6.77	6.30	5.90	6.43
11/2000	6.77	6.29	6.35	6.65
10/2000	6.59	6.29	6.28	6.66
9/2000	6.64	6.30	6.17	6.58
8/2000	6.64	6.31	6.27	6.61
7/2000	6.77	6.30	6.13	6.67
6/2000	6.71	6.25	5.84	6.72

ANNUAL COMPARATIVE YIELDS

	STIF	Benchmarks (b)		
	Earned Rate (a)	IBC First Tier Inst Only	Fed. Reserve Three Mo. T-Bill	Fed. Reserve Three Mo. CD
2001	6.11%	5.74%	5.26%	5.64%
2000	6.01	5.58	5.37	5.99
1999	5.37	5.04	4.59	5.16
1998	5.82	5.49	5.17	5.62
1997	5.66	5.27	5.17	5.51
1996	5.95	5.44	5.29	5.55
1995	5.62	5.31	5.41	5.72
1994	3.63	3.08	3.39	3.60
1993	3.95	3.03	3.08	3.31
1992	5.74	4.62	4.49	4.71

(a) Actual earnings less expenses.
(b) IBC First Tier Institutions-Only Index, prior to December 31, 1995 and IBC First Tier Institutions-Only Rated Index through June 30, 2001, Federal Reserve Three-Month CD, and Federal Reserve Three-Month T-Bill.

ANNUAL INVESTMENT INCOME [1]

2001	$254,364,534
2000	213,303,177
1999	197,527,014
1998	174,202,633
1997	145,052,967
1996	115,912,522
1995	100,970,869
1994	72,886,245
1993	76,542,800
1992	96,031,346
1991	81,029,948

(1) Investment income, including net realized gains, less Fund operating expenses.

SUMMARY OF OPERATIONS

($ in 000s)	6/30/01	6/30/00	6/30/99	6/30/98	6/30/97	6/30/96	6/30/95	6/30/94	6/30/93	6/30/92
Interest Income	$255,114.3	$213,761.0	$198,420.9	$175,111.4	$145,044.9	$116,374.7	$101,555.3	$73,856.9	$76,714.0	$96,215.0
Expenses:										
Operating Expenses	934.0	951.6	812.6	986.6	520.0	553.1	478.2	496.5	546.3	486.9
Interest on Reverse Repurchase Agreements	65.6	0.0	141.0	0.0	0.0	0.0	432.9	922.2	1,142.5	2,354.5
Total Expenses	999.6	951.6	953.6	986.6	520.0	553.1	911.1	1,418.7	1,688.8	2,841.4
Net Investment Income	254,114.7	212,809.4	197,467.3	174,124.8	144,524.9	115,821.6	100,644.2	72,438.2	75,025.2	93,373.6
Net Realized Gains	249.8	493.8	59.7	77.8	528.1	90.9	326.7	448.0	1,517.6	2,657.7
Net Increase in Net Assets from Operations	$254,364.5	$213,303.2	$197,527.0	$174,202.6	$145,053.0	$115,912.5	$100,970.9	$72,886.2	$76,542.8	$96,031.3

DISTRIBUTIONS TO PARTICIPANTS

Distributions:	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
July	$21,068,172	$15,369,550	$14,869,926	$11,627,464						
August	25,325,394	18,626,337	17,980,323	14,766,430	$28,640,118	$23,352,411	$18,507,496	$15,116,790	$17,645,385	$17,915,220
Elimination for Month of June					(8,128,594)	(7,076,062)	(5,651,963)	(4,244,974)	(5,618,495)	(5,127,294)
September	24,965,829	18,327,219	17,448,280	15,326,081		8,128,594	7,076,062	5,651,963	4,244,974	5,618,495
October	24,109,511	17,962,446	17,360,524	14,524,350						
November	20,453,180	16,080,280	16,212,546	13,355,190	33,745,391	28,253,412	23,137,816	17,872,513	16,607,883	22,501,407
Special Distribution (November 30 and May 31)					3,557,194	4,781,490	5,033,033	4,351,354	13,373,583	13,289,943
December	19,429,983	16,350,536	15,438,709	12,869,933	11,076,907					
January	22,627,719	17,113,994	16,389,685	14,211,351	12,001,405					
February	20,656,552	18,204,877	16,298,605	14,531,780	12,199,283	27,823,064	23,297,281	14,621,989	15,416,786	19,157,236
March	20,629,174	18,276,157	16,745,275	15,109,256	12,896,596					
April	18,723,246	17,371,981	15,542,275	15,048,742	12,687,061					
May	17,658,291	18,674,115	15,817,450	15,931,207	12,900,761	28,430,144	26,680,419	17,797,713	14,361,196	19,300,016
June	14,741,778	17,784,976	13,688,661	14,138,433	11,467,608					
Total Distribution to Participants	$250,388,829	$210,142,470	$193,792,259	$171,440,217	$143,043,730	$113,693,053	$98,080,144	$71,167,348	$76,031,312	$92,655,023

GLOSSARY OF TERMS

Agency Securities - Securities issued by U.S. Government agencies, such as the Federal Home Loan Bank. These securities have high credit ratings but are not backed by the full faith and credit of the U.S. Government.

Asset Backed Notes - Financial instruments collateralized by one or more types of assets including real property, mortgages, and receivables.

Banker's Acceptance (BA) - A high-quality, short-term negotiable discount note, drawn on and accepted by banks which are obligated to pay the face amount at maturity.

Basis Point (bp) - The smallest measure used in quoting yields or returns. One basis point is 0.01% of yield, 100 basis points equals 1%. A yield that changed from 8.75% to 9.50% increased by 75 basis points.

Benchmark - A standard unit used as the basis of comparison; a universal unit that is identified with sufficient detail so that other similar classifications can be compared as being above, below, or comparable to the benchmark.

Capital Gain - Also known as capital appreciation, capital gain measures the increase in value of an asset over time.

Certificates of Deposit (CDs) - A debt instrument issued by banks, usually paying interest, with maturities ranging from seven days to several years.

Commercial Paper - Short-term obligations with maturities ranging from 1 to 270 days. They are issued by banks, corporations, and other borrowers to investors with temporarily idle cash.

Compounded Annual Total Return - Compounded annual total return measures the implicit annual percentage change in value of an investment, assuming reinvestment of dividends, interest, and realized capital gains, including those attributable to currency fluctuations. In effect, compounded annual total return "smoothes" fluctuations in long-term investment returns to derive an implied year-to-year annual return.

Consumer Price Index (CPI) - A measure of change in consumer prices, as determined by a monthly survey of the U.S. Bureau of Labor Statistics. Components of the CPI include housing costs, food, transportation, electricity, etc.

Cumulative Rate of Return - A measure of the total return earned for a particular time period. This calculation measures the absolute percentage change in value of an investment over a specified period, assuming reinvestment of dividends, interest income, and realized capital gains. For example, if a $100 investment grew to $120 in a two-year period, the cumulative rate of return would be 20%.

Derivative - Derivatives are generally defined as contracts whose value depends on, or derives from, the value of an underlying asset, reference rate, or index. For example, an option is a derivative instrument because its value derives from an underlying stock, stock index, or future.

Discount Rate - The interest rate that the Federal Reserve charges banks for loans, using government securities or eligible paper as collateral.

Expense Ratio - The amount, expressed as a percentage of total investment, that shareholders pay for mutual fund operating expenses and management fees.

Federal Funds Rate - The interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. The federal funds rate is one of the most sensitive indicators of the direction of interest rates since it is set daily by the market.

Federal Reserve Board - The governing body of the Federal Reserve System (12 regional Federal banks monitoring the commercial and savings banks in their regions). The board establishes FRS policies on such key matters as reserve requirements and other regulations, sets the discount rate, and tightens or loosens the availability of credit in the economy.

GLOSSARY OF TERMS

Gross Domestic Product - Total final value of goods and services produced in the United States over a particular period or time, usually one year. The GDP growth rate is the primary indicator of the health of the economy.

IBC Index (IBC/Donoghue First Tier Institutions-Only Rated Money Fund Report Index) - An index which represents an average of the returns of institutional money market mutual funds rated AAA or AA that invest primarily in first-tier (securities rated A-1, P-1) taxable securities.

Index - A benchmark used in executing investment strategy which is viewed as an independent representation of market performance. An index implicitly assumes cost-free transactions; some assume reinvestment of income. Example: S&P 500 index.

Inflation - A measure of the rise in price of goods and services, as happens when spending increases relative to the supply of goods on the market, i.e. too much money chasing too few goods.

Investment Income - The equity dividends, bond interest, and/or cash interest paid on an investment.

Liability - The claim on the assets of a company or individual - excluding ownership equity. The obligation to make a payment to another.

Market Value - The price at which buyers and sellers trade similar items in an open marketplace. Stocks are considered liquid and are therefore valued at a market price. Real estate is illiquid and valued on an appraised basis.

Master Custodian - An entity, usually a bank, used as a place for safekeeping of securities. The bank is also responsible for many other functions which include accounting, performance, and securities lending.

Maturity Date - The date on which the principal amount of a bond or other debt instrument becomes payable or due.

Money Market Fund - An open-ended mutual fund that invests in commercial paper, bankers' acceptances, repurchase agreements, government securities, certificates of deposit, and other highly liquid and safe securities and pays money market rates of interest. The fund's net asset value remains a constant $1 per share - only the interest rate goes up or down.

Moody's (Moody's Investors Service) - A financial services company which is one of the best known bond rating agencies in the country. Moody's investment grade ratings are assigned to certain municipal short-term debt securities, classified as MIG-1, 2, 3, and 4 to signify best, high, favorable, and adequate quality, respectively. All four are investment grade or bank quality.

Net Asset Value (NAV) - The total assets minus liabilities, including any gains or losses on investments or currencies, and any accrued income or expense. NAV is similar to Shareholders' Equity.

Par Value - The stated or face value of a stock or bond. It has little significance for common stocks, however, for bonds it specifies the payment amount at maturity.

Principal - Face value of an obligation, such as a bond or a loan, that must be repaid at maturity.

Prudent Expert Rule - The standard adopted by some entities to guide those fiduciaries with responsibility for investing money of others. Such fiduciaries must act as a prudent expert would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investment. This is a higher standard than the "prudent person" rule.

Realized Gain (Loss) - A gain (loss) that has occurred financially. The difference between the principal amount received and the cost basis after the sale of an asset.

Relative Volatility - A ratio of the standard deviation of the Fund to the standard deviation of its selected benchmark. A relative volatility greater than 1.0 suggests comparatively more volatility in Fund returns than those of the benchmark.

GLOSSARY OF TERMS

Repurchase Agreements ("Repos") - An agreement to purchase securities from an entity for a specified amount of cash and to resell the securities to the entity at an agreed upon price and time. Repos are widely used as a money market instrument.

Reverse Repurchase Agreements ("Reverse Repos") - An agreement to sell securities to an entity for a specified amount of cash and to repurchase the securities from the entity at an agreed upon price and time.

S&P Ratings -

AAA - Debt having the highest rating assigned by Standard & Poor's. It has the highest capacity to pay interest and its ability to repay principal is extremely strong.

AA - Debt having a very strong capacity to pay interest and repay principal. AA rated debt differs from the higher rated issues by only a small degree.

A - Debt which has a strong capacity to pay interest and repay principal although it is somewhat more susceptible to the adverse effects of change in circumstances and economic conditions than debt in higher rated categories.

BBB - Debt regarded as having an adequate capacity to pay interest and repay principal. BBB is the lowest rating assignable to investment grade securities. Although debt rated BBB normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to weakened capacity to pay interest and repay principal for debt in this category than in higher rated categories.

BB, B, CCC, and CC - These ratings are regarded, on balance, as predominantly speculative with respect to capacity to pay interest and repay principal in accordance to the terms of the obligation.

C - These ratings are reserved for income bonds on which no interest is being paid.

D - These ratings are for debt which is in default. No interest or repayment of principal is being paid.

Soft Dollars - The value of research or other services that brokerage houses and other service entities provide to a client "free of charge" in exchange for the client's business.

Standard Deviation - A statistical measure showing the deviation of an individual value in a probability distributed from the mean (average) of the distribution. The greater the degree of dispersion from the mean rate of return, the higher the standard deviation; therefore, the higher the risk.

Treasury Bill (T-Bill) - Short-term, highly liquid government securities issued at a discount from the face value and returning the face amount at maturity.

Treasury Bond or Note - Debt obligations of the Federal government that make semiannual coupon payments and are sold at or near par value in denominations of $1,000 or more.

Turnover - The minimum of security purchases or sales divided by the fiscal year's beginning and ending market values for a given portfolio.

Unrealized Gain (Loss) - A profit (loss) that has not been realized through the sale of a security. The gain (loss) is realized when a security or futures contract is actually sold or settled.

Variable Rate Note - Floating rate notes with a coupon rate adjusted at set intervals, such as daily, weekly, or monthly, based on different interest rate indices, such as LIBOR, Fed Funds, and Treasury Bills.

Volatility - A statistical measure of the tendency of a market price or yield to vary over time. Volatility is said to be high if the price, yield, or return typically changes dramatically in a short period of time.

Yield - The return on an investor's capital investment.